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Dear Chris,

Proposal to release incremental obligated entry capacity at Burton Agnes (Caythorpe) and variation to the lead time for delivery of incremental obligated entry capacity

Summary

The Gas and Electricity Markets Authority (the "Authority")¹ has considered the proposal submitted by National Grid Gas NTS (NGG NTS) on 9 October 2008 for additional firm entry capacity at Burton Agnes (Caythorpe) to be treated as incremental obligated entry capacity (the "Proposal") pursuant to Special Condition C8D(9)(f) of NGG NTS's gas transporter licence (the "Licence"). For the reasons set out in this letter the Authority has decided not to notify NGG NTS to suspend implementation of the Proposal and not to direct NGG NTS not to implement the Proposal pursuant to Special Condition C8D(9)(k)(i) and (ii).

This letter outlines the background to the Proposal and the Authority's reasons for its decision.

Furthermore, Ofgem notes the submission of an additional proposal by NGG NTS to vary the lead time for delivery of incremental obligated entry capacity, pursuant to paragraph 3(g) of Special Condition C8D of the Licence. The variation of lead time would bring forward the release of capacity at Isle of Grain and Burton Agnes (Caythorpe). The Licence states that consent from the Authority is deemed to be granted if the contractual lead time for delivery is reduced from the default of 42 months, which in this case it has.

Background

On 11 July 2008 the Authority approved NGG NTS's Incremental Entry Capacity Release (IECR) methodology². This methodology, required by Special Condition C15 of the Licence, describes the process by which NGG NTS determines whether to make incremental entry capacity available for sale to gas shippers.

Between 15 and 16 September 2008 NGG NTS conducted the Quarterly System Entry Capacity (QSEC) auctions whereby it invited shippers to bid for entry capacity to the National Transmission System (NTS) at a number of Aggregate System Entry Points (ASEPs).

¹ The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this letter. Ofgem is the Office of the Gas and Electricity Markets Authority.

² Version 8.0

NGG NTS uses the information from the QSEC auction to allocate entry capacity to shippers and for planning purposes. The IECR methodology is applied to the results of the QSEC auction for the planning purposes of determining whether or not to allocate obligated incremental entry capacity rights to users.

The IECR methodology allows for a Net Present Value (NPV) test to be conducted if at any ASEP a minimum quantity of incremental capacity is demanded i.e. demand exceeds supply. The NPV test assesses whether the revenue from a quantity of incremental entry capacity equals at least 50% of the 'estimated project value' and if it does then NGG NTS proposes to the Authority that the quantity of incremental entry capacity be treated as incremental obligated entry capacity as defined in the Licence.

NGG NTS's Proposals

On 9 October 2008 NGG NTS submitted a proposal pursuant to Special Condition C8D(9)(f) of the Licence for additional firm entry capacity at Burton Agnes (Caythorpe) to be treated as funded incremental obligated entry capacity. This is for the release of 90 GWh/day of incremental obligated entry capacity at Burton Agnes (Caythorpe) from 1 October 2011.

NGG NTS submitted further information to the Authority on 14 October 2008 for considering the application made by NGG NTS. This information related to how the bid data from the QSEC auction triggered an NPV test at Burton Agnes (Caythorpe) and the NPV test calculation itself.

Ofgem's view

The information submitted by NGG NTS on 9 and 14 October provided the Authority with sufficient information to determine whether the relevant criteria of the IECR methodology had been met.

Ofgem reviewed the information submitted by NGG NTS and considered that the relevant criteria in the IECR methodology had been met.

For the avoidance of doubt, not using the powers in the Licence to notify NGG NTS to suspend implementation of the Proposal or direct NGG NTS not to implement the Proposal does not fetter the discretion of the Authority on other issues leading up to the submission of the Proposal, arising out of the Proposal or required for the successful implementation of the Proposal. This includes but is not limited to Ofgem not approving or disapproving the particular investments that NGG NTS will make in order to offer for sale the incremental obligated entry capacity outlined in the Proposal, as these investments will be assessed at a subsequent Transmission Price Control Review.

Variation to the lead time for delivery of incremental obligated entry capacity

Paragraph 3(g) of Special Condition C8D of the Licence states that NGG NTS may vary the lead time for contractual delivery of incremental obligated entry capacity from the default of 42 months subject to receiving consent from the Authority. It also states that consent will be deemed to have been granted if NGG NTS is proposing to reduce the lead time to a period of less than 42 months then.

Paragraph 3(h) of Special Condition C8D of the Licence states that the NGG NTS will notify the Authority in writing where it varies the lead time for contractual delivery of incremental obligated entry capacity specifying the NTS entry point affected and the volume of capacity for each one month period for which the contractual delivery date is being brought forward.

On 9 October 2008 NGG NTS also submitted notice to the Authority that it is reducing the lead time for delivery of incremental obligated entry capacity at Isle of Grain and Burton

Agnes (Caythorpe) to 36 months pursuant to paragraph 3(h) of Special Condition C8D of the Licence.

The variation of lead time would bring forward the release of a total volume of capacity of 1477 GWh³ at Isle of Grain from April 2011 to October 2010 (which resulted from the 2007 QSEC auction) and 540 GWh of capacity at Burton Agnes (Caythorpe) from April 2012 to October 2011.

The Authority's decision

The Authority has carefully considered the Proposal submitted by NGG NTS pursuant to Special Condition C8D(9)(f) of the Licence. The Authority has decided that NGG NTS should implement the proposal, and in the circumstances the Authority has decided not to:

- (i) notify NGG NTS to suspend implementation of the Proposal, pursuant to Special Condition C8D(9)(k)(i) of the Licence, or
- (ii) direct NGG NTS not to implement the Proposal, pursuant to Special Condition C8D(9)(k)(ii) of the Licence

The Authority notes receipt of NGG NTS's written notification of reducing the lead time for delivery of incremental obligated entry capacity at Isle of Grain and Burton Agnes (Caythorpe), pursuant to paragraph 3(h) of Special Condition C8D of the Licence. The Licence states that consent from the Authority, which is required to vary the lead times, is deemed to be granted if the contractual lead time for delivery is reduced from the default of 42 months, which in this case it has.



Stuart Cook
Director, Transmission
Duly authorised on behalf of the Authority

³ Total volume is calculated by summing the GWh/day of capacity for each month across the period of the lead time variation in accordance with paragraph 3(h) of Special Condition C8D.