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*Promoting choice and
value for all customers*

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23 February 2009

Dear Martin,

Re: Request to Delay Provision of the Exit Capacity Substitution and Exit Capacity Revision Methodology Statements

I am writing in response to your letter of 17 December 2008, which made a formal application to the Authority to be relieved of the obligation to submit Exit Capacity Substitution and Exit Capacity Revision Methodology Statements for approval by 1 April 2009. The submission of these statements is pursuant to paragraphs 4(b)(i) and 4(c)(i) of Special Condition C8E of the Gas Transporter Licence in respect of the National Transmission System (NTS).

As you note, Special Condition C8E requires NGG NTS, on or before 1 April 2009 (or such later date as the Authority may otherwise direct in writing) to prepare and submit for approval by the Authority:

- an exit capacity substitution methodology statement, setting out the exit capacity substitution methodology which NGG NTS shall use to substitute NTS exit capacity (paragraph 4(b)(i)); and
- an exit capacity revision methodology, setting out the exit capacity revision methodology which NGG NTS shall use to revise the level of NTS baseline exit capacity or NTS baseline flow flexibility (paragraph 4(c)(i)).

We note your comments with respect to the relationship of the entry substitution and exit substitution methodologies and agree both that industry should be given sufficient time to develop the exit substitution regime and that Ofgem should have sufficient time to appraise the ensuing methodology. We are also mindful of the current workload on industry participants in relation to entry substitution and the implementation of the enduring offtake regime.

NGG is currently due to deliver an entry capacity substitution methodology to Ofgem for approval by 7 September 2009, to allow Ofgem to conclude its consideration of the methodology by 7 December 2009 (assuming a licence change to allow for a three month assessment period). In light of the complexity of the issues involved, I concur with your view that it would be better to start work on the exit methodology when the entry methodology has been agreed. Additionally, it is appropriate for the industry to have sufficient time to develop a robust exit capacity substitution methodology. In the light of

these facts, it would be impractical for an exit capacity substitution methodology to be in place for the July 2010 Application window. Accordingly, our decision is that the obligations under paragraphs 4(b)(i) and 4(c)(i) should be deferred until 4 January 2011. This would allow for Ofgem to complete its assessment by 4 April 2011 so that a methodology is in place to be implemented from the July 2011 Application window.

It is important for all concerned to have certainty about the new timetable for the introduction of exit capacity substitution. We therefore intend to monitor progress routinely throughout the process and as a further measure, require NGG to:

- publish a timetable of planned exit substitution workshops on or before 3 December 2009 and to inform the transmission workstream accordingly; and
- submit interim reports to Ofgem, no later than 30 April 2010 and 31 August 2010, setting out the progress to date together with NGG's assessment of their ability to ensure that implementation can be achieved as set out in the direction.

Please find the Direction attached to this letter. If you have any queries regarding this letter, please contact Paul O'Donovan on 020 7901 7414.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Stuart Cook', with a long horizontal line extending from the end of the signature.

Stuart Cook
Director - Transmission