



Consumers and their
representatives, gas
transporters, gas shippers, gas
suppliers and other interested
parties

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value for all customers*

Your Ref:
Our Ref:
Direct Dial: 020 7901 7430
Email: Steve.smith@ofgem.gov.uk

Date: 12 August 2009

Dear Colleague

Informal consultation on Special Condition C8D of National Grid Gas's National Transmission System (NTS) Gas Transporter licence with respect to the Entry Capacity Substitution obligation

(Responses requested by 10 September 2009)

The obligation for National Grid Gas (NGG) to implement NTS entry capacity substitution was introduced as part of the Transmission Price Control Review Final Proposals on 4 December 2006 and is set out in NGG's Gas Transporter Licence¹.

On 1 July 2009 we published an informal consultation on proposed changes to the licence in relation to entry capacity substitution. When we published our initial informal consultation on these proposed licence changes we explained their purpose and the reasons for considering those changes. We do not consider that the existing drafting should have led to confusion, however, we listened to the views expressed and believed that there would be merit in amending NGG's licence to improve the clarity of the Objectives that the licensee is required to achieve, that will be assessed by the Authority in reaching its decision on whether to approve or veto an application for substitution. In particular we have sought to clarify how the duty to develop and maintain an economic and efficient pipeline system should be viewed, in relation to the obligations in the licence.

We received a total of seven responses to our informal consultation and these are published on our website. We have carefully considered the responses and have made some additional changes. We believe that the additional changes to the licence will improve the clarity of the objectives and serve to remove any doubt which may have remained about the manner in which account should be taken of future capacity requirements by the licensee in developing a methodology for the implementation of substitution.

Some suggested changes to the text have not been adopted because the requirements described are already covered by other clauses in the licence, or because the suggested changes would not fit with the redrafted text.

¹ NGG Gas Transporter licence Special Condition C8D paragraph 10

The proposed changes to the licence text do not fundamentally change the policy aims and objectives of substitution nor its intent, but we consider that the changes made further to our earlier consultation do help to clarify the principles which should be followed when deciding whether to substitute entry capacity or not, and in particular to the need for future capacity requirements to be underpinned by some form of user commitment, with appropriate credit arrangements.

We have also taken the opportunity of bringing the licence into line with other similar conditions, which allow for a longer time period (three months rather than two) for Ofgem to approve or veto a methodology, from the date it is submitted to us, in the event that it is decided to carry out an impact assessment.

The proposed licence changes are shown in Schedule A: the relevant parts of the licence are contained in Special Condition C8D: Part C, sections 8 and 10.

Ofgem would be interested in receiving comments from interested parties on the proposed changes and any omissions we might have made. Responses should be sent to:

Stuart Cook
Director of Transmission
Ofgem
9 Millbank
London SW1P 3GE

Email responses should be sent to:

gas.transmissionresponse@ofgem.gov.uk

We are asking for responses by **Thursday 10 September 2009**. Any respondent who does not wish their response or part of it to be made public should clearly mark the response or the relevant part of the response as not for publication.

If you have any comments or questions on this letter, please contact Bogdan Kowalewicz on +44 20 7901 7293 or gas.transmissionresponse@ofgem.gov.uk in the first instance.

Yours sincerely

Steve Smith,
Managing Director, Networks