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Dear Chris,

Proposal to release incremental obligated entry capacity at Hole House Farm 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 (NGG) on 9 October 2009 for additional firm entry capacity at Hole House Farm to be treated as incremental obligated entry capacity (the "Proposal") pursuant to Special Condition C8D(9)(f) of NGG's gas transporter licence (the "Licence"). For the reasons set out in this letter the Authority has decided that NGG should implement the proposal.

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

Background

On 15 July 2009, the Authority approved NGG's Incremental Entry Capacity Release (IECR) methodology². This methodology, required by Special Condition C15 of the Licence, describes the process by which NGG determines whether to make incremental entry capacity available for sale to gas shippers.

Between 14 September 2009 and 15 September 2009 NGG 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).

NGG 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 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 NPV of revenue from the bids of incremental

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 9.0

entry capacity over a period of 8 years equals at least 50% of the 'estimated project value'. 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 2009 NGG submitted a proposal pursuant to Special Condition C8D(9)(f) of the Licence for additional firm entry capacity at Hole House Farm to be treated as funded incremental obligated entry capacity. This is for the release of 165 GWh/day of incremental obligated entry capacity at Hole House Farm from 1 October 2011.

Ofgem's view

The information submitted by NGG on 9 October 2009 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 and considered that the relevant criteria in the IECR methodology had been met.

For the avoidance of doubt, by not using the powers in the Licence to notify NGG to suspend implementation of the Proposal, or the absence of a direction to NGG 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 disallowing the particular investments that NGG 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 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 is proposing to reduce the lead time to a period of less than 42 months.

Paragraph 3(h) of Special Condition C8D of the Licence states that the NGG 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 2009 NGG also submitted notice to the Authority that it is reducing the lead time for delivery of incremental obligated entry capacity at Hole House Farm to 24 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 2970 GWh³ at Hole House Farm from April 2013 to October 2011 (which resulted from the 2009 QSEC auction).

The Authority's decision

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

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.

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

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

Stuart Cook
Acting Senior Partner, Transmission and Governance
Duly authorised on behalf of the Authority