



National Grid Gas and other interested parties

Promoting choice and value for all gas and electricity customers

Your Ref:
Our Ref:
Direct Dial: 0207 901 7165
Email: hannah.nixon@ofgem.gov.uk

Date: 12 November 2010

Dear Colleague

Statutory consultation on proposed modification of the special conditions of National Grid Gas plc's gas transporter licence

National Grid Gas plc (NGG) is the holder of the Gas Transporter Licence (the licence) in respect of the National Transmission System (the NTS). Under the licence, NGG has an obligation¹ to submit for approval by the Authority both an exit capacity substitution methodology statement and an exit capacity revision methodology statement².

Exit capacity is the capacity which NGG is required to make available at exit points to allow users to take gas from the NTS. The exit capacity substitution and revision methodologies (the methodologies) aim to describe how unsold baseline exit capacity can be substituted between NTS exit points to meet signals for new capacity. The intent of these methodologies is to improve the efficiency of the NTS and help to reduce the costs of providing capacity to customers.

NGG is required to use reasonable endeavours to apply the methodologies³ from the earlier of either: the date of receipt of a notice from the Authority approving each methodology statement, or two months after the statements are submitted by NGG to the Authority. However, in the event that the Authority decides that it is necessary to conduct an impact assessment, two months does not provide sufficient time to consult and give proper consideration to responses. Therefore, we propose to modify the licence such that if the Authority decides to conduct an impact assessment, the methodology implementation date is extended to allow enough time for consultation. Providing the Authority with a period of three months to make its decision would bring Special Condition C8E into line with other similar conditions, eg Special Condition C8D relating to the entry capacity substitution methodology.

Ofgem has indicated its intention to conduct an impact assessment on NGG's proposals at the exit capacity substitution and revision workshops held by NGG throughout 2010 and

¹ Under paragraphs 4(b)(i) and 4(c)(i) of Special Condition C8E of the licence

² The methodologies have to be submitted by 4 January 2011 (Direction issued 23 February 2009).

³ Under paragraphs 4(b)(ii) and 4(c)(ii) of Special Condition C8E of the licence

this position is broadly welcomed by industry. In light of that, the statutory consultation will run for a period of 28 days.

The statutory consultation on the proposed licence modification opens today and a Notice under Section 23(3) of the Gas Act has been published on our website. The Notice includes an Annex with the licence drafting of the proposed modification. Any representations or objections may be made in writing on or before 10 December 2010 and addressed to:

Lewis Hodgart
Senior Manager - Transmission
Ofgem
107 West Regent Street
Glasgow
G2 2BA

or by email to: lewis.hodgart@ofgem.gov.uk

If you have any questions or comments on this letter, please contact Lewis Hodgart on +44 141 331 6005 or lewis.hodgart@ofgem.gov.uk in the first instance.

Yours sincerely

Hannah Nixon
Partner, Transmission and RPI-X@20

NOTICE OF PROPOSED MODIFICATION OF THE SPECIAL CONDITIONS OF NATIONAL GRID GAS PLC'S GAS TRANSPORTER LICENCE IN RESPECT OF ITS NATIONAL TRANSMISSION SYSTEM UNDER SECTION 23(3) OF THE GAS ACT 1986

1. National Grid Gas plc ("NGG") holds a gas transporter licence (the "Licence") in respect of its National Transmission System ("NTS") granted or treated as granted pursuant to section 7 of the Gas Act 1986 ("the Act").

2. In accordance with section 23(4) and (4) of the Act, the Gas and Electricity Markets Authority (the "Authority") gives notice that it proposes to modify Part C of Special Condition C8E(4) (Statements required from the licensee) of the Licence in the manner set out in Annex A to this Notice.

3. The effects of the proposed licence modification and the reasons why the Authority proposes to make the licence modification are as follows:

- a. to provide the Authority with an additional month to consider the exit capacity substitution methodology statement submitted by NGG pursuant to paragraph 4(b)(i) of Special Condition C8E, if it decides to conduct an impact assessment. This proposed modification provides the Authority with sufficient time to conduct an impact assessment on the submission of the first exit capacity substitution methodology statement submitted by NGG pursuant to paragraph 4(b)(i) and is in line with other similar licence conditions.
- b. to provide the Authority with an additional month to consider the exit capacity revision methodology statement submitted by NGG pursuant to paragraph 4(c)(i) of Special Condition C8E, if it decides to conduct an impact assessment. This proposed modification provides the Authority with sufficient time to conduct an impact assessment on the submission of the first exit capacity revision methodology statement submitted by NGG pursuant to paragraph 4(c)(i) and is in line with other similar licence conditions.

4. A copy of the proposed modification and other documents referred to in this Notice are available (free of charge) from the Ofgem Research and Information Centre, 9 Millbank, London SW1P 3GE or on the Ofgem website (www.ofgem.gov.uk).

5. Any representations or objections to the proposed licence modification may be made in writing on or before 10 December 2010 and sent to:

Lewis Hodgart
Senior Manager - Transmission
Ofgem
107 West Regent Street
Glasgow
G2 2BA

or by email to: lewis.hodgart@ofgem.gov.uk

6. All responses will normally be published on Ofgem's website and held in the Research and Information Centre. However, if a respondent does not wish its response to be published on the Ofgem website, the response should be clearly marked as not for publication.

Hannah Nixon, Partner, Transmission and RPI-X@20
Duly authorised on behalf of the Gas and Electricity Markets Authority
12 November 2010

Annex A: Modification of Special Condition C8E Paragraphs (4)(b) and (4)(c)

(b) Exit substitution methodology statement

- (i) The licensee shall, on or before 1 April 2008 or such later date as the Authority may direct in writing, prepare and submit for approval by the Authority an exit capacity substitution methodology statement, setting out the exit capacity substitution methodology which it shall use to substitute NTS exit capacity.
- (ii) Unless the Authority otherwise directs (such direction to be made within two months of the receipt by the Authority of a statement prepared pursuant to paragraph 4(b)(i) of this condition, **or within three months if the Authority intends to undertake an impact assessment, the intention of which the Authority shall notify the licensee in writing within a reasonable time after receiving that statement**) the licensee shall, when substituting NTS exit capacity, use reasonable endeavours to apply the methodology set out in that statement, from the earlier of:
 - (aa) the date of receipt of a notice from the Authority approving the statement; or
 - (bb) the date being two months after the statement was submitted to the Authority **or three months after the statement was submitted if the Authority indicates its intention to undertake an impact assessment.**
- (iii) The licensee shall if so directed by the Authority and in any event at least once a year, review the exit capacity substitution methodology prepared pursuant to paragraph 4(b)(i) of this condition in consultation with relevant shippers, DN operators and interested parties and seek to make such modifications as it considers reasonably necessary to better meet the objectives (the "exit capacity substitution objectives") set out below:
 - (aa) ensuring that exit capacity substitution is effected in a manner which is compatible with the physical capability of the pipeline system to which this licence relates;
 - (bb) avoiding material increases in the costs (including NTS exit constraint management costs in respect of NTS exit capacity previously allocated by the licensee to relevant shippers or DN operators) that are reasonably expected to be incurred by the licensee as a result of substituting NTS exit capacity; and

- (cc) in so far as is consistent with (aa) and (bb) above, facilitating effective competition between relevant shippers.
- (iv) Except where the Authority directs otherwise, before submitting the exit capacity substitution methodology statement prepared pursuant to paragraph 4(b)(i) of this condition or before modifying its exit capacity substitution methodology statement, the licensee shall:
 - (aa) when modifying its exit capacity substitution methodology statement, send a copy of the proposed modifications to the Authority and to any person who asks for one;
 - (bb) consult relevant shippers, DN operators and interested parties and allow them a period of not less than 28 days in which to make representations;
 - (cc) within 14 days of the close of the consultation referred to in paragraph 4(b)(iv)(bb) of this condition submit to the Authority a report setting out:
 - (A) the modifications originally proposed (if any);
 - (B) the representations made by relevant shippers, DN operators and interested parties (if any) to the licensee and not withdrawn; and
 - (C) any changes to the modifications proposed as a result of such representations;
 - (dd) where the Authority directs that sub-paragraphs (aa), (bb) and (cc) of paragraph 4(b)(iv) of this condition or any of them shall not apply, comply with such other reasonable requirements as are specified in that direction.
- (v) The licensee shall be entitled to modify its exit capacity substitution methodology statement at any time pursuant to paragraph 4(b)(iii) of this condition, save that it shall not modify such statement:
 - (aa) if within 28 days (or 3 months if the Authority intends to undertake an impact assessment, the intention of which the Authority shall notify the licensee in writing within a reasonable time after receiving the report referred to in paragraph 4(b)(iv)(cc) of this condition) from the date on which the Authority receives the report referred to in

paragraph 4(b)(iv)(cc) of this condition the Authority directs the licensee not to make the modification; or

(bb) where there is no such direction, until the expiry of 28 days (or 3 months if the Authority intends to undertake an impact assessment the intention of which the Authority shall notify the licensee in writing within a reasonable time after receiving the report referred to in paragraph 4(b)(iv)(cc) of this condition) from the date on which the Authority receives the report referred to in paragraph 4(b)(iv)(cc) of this condition; or

(cc) where paragraph 4(b)(iv)(dd) in this condition applies, before the day as agreed with the licensee and specified in any direction made pursuant to that paragraph.

(vii) The licensee shall make the exit capacity substitution methodology statement from time to time applicable to the pipeline system to which this licence relates available on its website (and in such other manner as appears to the licensee to be appropriate).

(c) Exit revision methodology statement

(i) The licensee shall, on or before 1 April 2008 or such later date as the Authority may direct in writing, prepare and submit for approval by the Authority an exit capacity revision methodology statement, setting out the exit capacity revision methodology which it shall use to revise the level of NTS baseline exit flat capacity as a result of its obligations set out in paragraphs 3(c)(ii) and 3(c)(iii) of this condition.

(ii) Unless the Authority otherwise directs (such direction to be made within two months of the receipt by the Authority of a statement prepared pursuant to paragraph 4(c)(i) of this condition **or within three months if the Authority intends to undertake an impact assessment, the intention of which the Authority shall notify the licensee in writing within a reasonable time after receiving that statement**) the licensee shall, when revising the level of NTS baseline exit flat capacity, use reasonable endeavours to apply the methodology set out in that statement, from the earlier of:

(aa) the date of receipt of a notice from the Authority approving the statement; or

- (bb) the date being two months after the statement was submitted to the Authority **or three months after the statement was submitted if the Authority indicates its intention to undertake an impact assessment.**
- (iii) The licensee shall, if so directed by the Authority, and in any event at least once a year, review the exit capacity revision methodology set out in the statement prepared pursuant to paragraph 4(c)(i) of this condition in consultation with relevant shippers, DN operators and interested parties and seek to make such modifications as it considers reasonably necessary to better meet the exit capacity revision objectives (the “exit capacity revision objectives”) set out below:
 - (aa) ensuring that exit capacity revision is effected in a manner which is compatible with the physical capability of the pipeline system to which this licence relates;
 - (bb) avoiding material increases in the costs (including NTS exit capacity constraint management costs in respect of NTS exit capacity previously allocated by the licensee to relevant shippers or DN operators) that are reasonably expected to be incurred by the licensee as a result of revising the level of NTS baseline exit capacity; and
 - (cc) in so far as is consistent with (aa) and (bb) above, facilitating effective competition between relevant shippers.
- (iv) Except where the Authority directs otherwise, before submitting the exit capacity revision methodology statement pursuant to paragraph 4(c)(i) of this condition or before modifying its exit capacity revision methodology statement, the licensee shall:
 - (aa) when modifying its exit capacity revision methodology statement, send a copy of the proposed modifications to the Authority and to any person who asks for one;
 - (bb) consult relevant shippers, DN operators and interested parties and allow them a period of not less than 28 days in which to make representations;
 - (cc) within 14 days of the close of the consultation referred to in paragraph 4(c)(iv)(bb) of this condition submit to the Authority a report setting out:

- (A) the modifications originally proposed (if any);
 - (B) the representations made by relevant shippers, DN operators and interested parties (if any) to the licensee and not withdrawn; and
 - (C) any changes to the modifications proposed as a result of such representations;
- (dd) where the Authority directs that sub-paragraphs (aa), (bb) and (cc) of this paragraph or any of them shall not apply, comply with such other reasonable requirements as are specified in that direction.
- (v) The licensee shall be entitled to modify its exit capacity revision methodology statement at any time pursuant to paragraph 4(c)(iii) of this condition, save that it shall not modify such statement:
- (aa) if within 28 days (or 3 months if the Authority intends to undertake an impact assessment the intention of which the Authority shall notify the licensee in writing within a reasonable time after receiving the report referred to in paragraph 4(c)(iv)(cc) of this condition) from the date on which the Authority receives the report referred to in paragraph 4(c)(iv)(cc) of this condition the Authority directs the licensee not to make the modification; or
 - (bb) where there is no such direction, until the expiry of 28 days (or 3 months if the Authority intends to undertake an impact assessment the intention of which the Authority shall notify the licensee in writing within a reasonable time after receiving the report referred to in paragraph 4(c)(iv)(cc) of this condition) from the date on which the Authority receives the report referred to in paragraph 4(c)(iv)(cc) of this condition; or
 - (cc) where paragraph 4(c)(iv)(dd) in this condition applies, before the day as agreed with the licensee and specified in any direction made pursuant to that paragraph.
- (vii) The licensee shall make the exit capacity revision methodology statement from time to time applicable to the pipeline system to which this licence relates available on its website (and in such other manner as appears to the licensee to be appropriate)