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*Promoting choice and value for  
all gas and electricity customers*

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Date: 28 September 2012

Dear Andrew,

**NTS Exit Capacity Release Methodology Statement (the "ExCR") in respect of the Transitional and Enduring Periods**

On 11 September 2012, National Grid Gas (NGG) submitted to Ofgem<sup>1</sup> the National Transmission System (NTS) Exit Capacity Release Methodology Statement (the "Statement") in respect of the Transitional and Enduring Exit Periods. This was submitted pursuant to Special Condition C18 of NGG's gas transporter licence (the "Licence").

Having regard to our principal objectives and statutory duties, we have decided to approve the Statement for the reasons set out below. This letter also reaffirms our previous direction<sup>2</sup> that, pursuant to paragraph 2 of Special Condition C18, the next statement, due in 2013, must be accompanied by a statement from suitable auditors.

**Background**

In January 2009, we directed the implementation of Uniform Network Code (UNC) modification 195AV<sup>3</sup> which introduced reform of the booking arrangements for NTS exit capacity. These exit arrangements apply to capacity from 1 October 2012. This means there are two phases for the release of exit capacity:

- the transitional exit period for capacity reserved or allocated to users in the period up to and including 30 September 2012; and
- the enduring exit period which applies to capacity reserved or allocated in the period commencing 1 October 2012.

The statement describes the methodology you employ to release exit capacity in both periods. Special Condition C18 states that you must submit a copy of the statement for approval before 1 April in each formula year. Before submitting the Statement to us, you must also ensure that gas shippers are consulted and have a period of not less than 28 days to make representations about the Statement unless otherwise directed.

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<sup>1</sup> Ofgem is the Office of the Gas and Electricity and Markets Authority. The terms 'Ofgem', 'the Authority', and 'we' are used interchangeably in this document.

<sup>2</sup> Andy Burgess, Ofgem, to Andrew Fox, NGG, NTS Exit Capacity Release Methodology Statement in respect of the Transitional and Enduring Periods 29 May 2012

<sup>3</sup> UNC 195AV: Reform of the enduring NTS capacity arrangements, 19 January 2009. A copy of the decision letter can be found on the Joint Office of Gas Transporters website: <http://www.gasgovernance.co.uk>

On 21 August 2012 you initiated a consultation on proposed changes to the 2012 Statement through an adhoc revision. The version of the Statement submitted to us on 11 September 2012 took account of the issues raised during the consultation. You propose that the new statement be applied from 13 July 2012.

In the sections below we summarise the major changes proposed to the Statement, respondents' views and our views on the changes.

## **Proposed changes to the Statement**

### *Changes to Part A*

Part A of the Statement outlines the arrangements and methodology NGG employs to release exit capacity in the transitional exit period. The transitional exit period ends on 30 September 2012.

There are no changes to Part A of the Statement.

### *Changes to Part B*

Part B of the Statement sets out the arrangements and methodology for the release of exit capacity in the enduring exit period.

Changes proposed take into account the approval of UNC modification proposal 417S<sup>4</sup> (Mod 417S). Mod 417S removes the 14 months' notice that applies to reductions in Enduring Annual NTS Exit (Flat) Capacity at July application windows, where the User Commitment Amount (UCA) has been satisfied in advance.

Mod 417S was approved on 21 June 2012 and implemented on 13 July 2012.

## **Respondents' views**

There were two respondents to your consultation.

One respondent agreed that the proposed changes to the document were appropriate.

The other respondent agreed that the proposed changes were appropriate but thought that improvements could be made to the structure of the changes. The respondent also expressed concern regarding the relationship between the UNC and ExCR especially in regards to User Commitment rules.

## **Our views**

We consider the Statement meets the requirements of Special Condition C18 and have decided to approve the Statement. Below we give our views on issues raised by the respondents to NGG's consultation and the changes proposed.

### *Comments on the consultation response*

We note the respondent's comments about the relationship between the UNC and ExCR especially with regards to the user commitment rules. We are aware that changes to one document could necessitate changes in the other and the entry into force of the two changes needs to be aligned. We are currently considering this issue, and whether there is a need to better address this in the future.

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<sup>4</sup> UNC 417S: Notice for Enduring Exit Capacity Reduction Applications was implemented on 13 July 2012. A copy of the decision letter can be found on the Joint Office of Gas Transporters website: <http://www.gasgovernance.co.uk>

### *Comments on the Statement*

We consider it appropriate for NGG to have made the changes to Part B to take account of Mod 417S. We are content that the proposed text reflects the changes in the UNC through Mod 417S. However, we note as a result of changes made through consultation, paragraph 72 now references paragraph 72 when it should instead be referencing paragraph 71. This should be corrected.

One consultee considered that a change to paragraph 86(c) would be beneficial and would clarify the intent of the ExCR. We agree and would like to see this change made to reflect Mod 417S.

### **Retrospective Application**

You have been acting in accordance with Mod 417S since it was enacted on July 13 2012. You have proposed that the ExCR be retrospectively applied from this date. We do not consider that a retrospective application is appropriate in this situation. It is for NGG to manage the alignment of changes in the UNC and the ExCR so that it remains in compliance with Condition SLC C18.

The revised ExCR should be effective from the date after you have made any of the changes suggested within this letter.

### **Audit of the statement**

As previously directed<sup>2</sup> the next Exit Capacity Release Methodology Statement, due in 2013, will be accompanied by a statement from suitable auditors, confirming they have carried out an assessment and giving their opinion as to the extent to which the proposed methodology is in line with these duties. As indicated previously<sup>5</sup>, we would have no objection to you engaging with auditors other than PWC with a suitable level of expertise and independence to undertake the 2013 ExCR audit and to give their opinion as to the extent to which the licensee has developed a methodology that is in line with the licensee's duties under the Act, and the Standard, Standard Special and Special Conditions. If NGG were to do so, we would not take enforcement action for failure to use the "appropriate auditors", particularly as we are planning to modify the licence to address this.

### **Authority's decision**

Following consideration of the documentation provided by NGG pursuant to Special Condition C18 and having regard to the Authority's principal objective and statutory duties, the Authority approves the NTS Exit Capacity Release Methodology Statement.

Yours sincerely



Andy Burgess

**Associate Partner, Transmission and Distribution Policy**

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<sup>5</sup> Andy Burgess, Ofgem, to Alison Kay, NGG, Licence Conditions C15 and C18: Audits in respect of the Incremental Entry Capacity Release and Exit Capacity Release Methodology Statements, 8 August 2012