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for energy consumers

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Date: 28 May 2013

Dear Andrew

### **NTS Exit Capacity Release Methodology Statement**

On 28 March 2013, National Grid Gas Transmission (NGGT) submitted to Ofgem<sup>1</sup> the National Transmission System (NTS) Exit Capacity Release Methodology Statement (the "Statement"). This was submitted pursuant to Special Condition C18 of your then gas transporter licence (the "Licence")<sup>2</sup>.

Having regard to our principal objective and statutory duties, we have decided to approve the Statement for the reasons set out below.

### **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. The transitional arrangements for this reform ended on 30 September 2012 and the enduring exit period started thereafter.

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

On 20 February 2013 you initiated your consultation on proposed changes to the 2013 Statement. The version of the Statement submitted to us on 28 March 2013 took account of the issues raised during the consultation.

Special Condition C18 also states that we may direct you to have the NTS exit capacity release methodology audited by appropriate auditors to demonstrate that it has been developed in line with relevant Gas Act and Licence duties. On 29 May 2012 we directed you to conduct an audit of the methodology as set out in the Statement due to be submitted in 2013.

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

<sup>2</sup> From the 1 April 2013 the requirements for the Statement fall under Special Condition 9B of the Licence.

<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>

In the sections below we outline the proposed changes to the Statement and respondents' views expressed in response to your consultation.

## **Proposed changes to the Statement**

For continuity, you have retained Parts A and B which relate to the transitional and enduring exit periods respectively.

### *Changes to Part A*

All text in Part A has been removed, save a sentence indicating that the transitional period has now ended.

### *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. The terminology has been updated to accord with the current licence.

The text addresses changes in the calculation of revenue drivers. It states that in the event that no generic revenue driver methodology is established then these may be set on a case by case basis subject to our agreement.

The Statement has been revised to make reference to the Planning and Consents Agreements (PCAs). These are voluntary bilateral agreements between you and users or reservation parties applying for capacity.

You also propose to add text to allow for the potential approval and implementation of UNC modification 439<sup>4</sup>. UNC 439 would remove the requirement for 14 months' notice to apply for reductions in Enduring Annual NTS Exit (Flat) Capacity at July application windows where the User Commitment has been or will be satisfied. At the time of writing no decision has been taken on this modification.

Paragraph 89 of the Statement details rules which allow satisfaction of User Commitment when the increase request was made in the Transitional Exit Period.

There have been several other changes that clarify particular issues but do not change the substance of the methodology. These include the definition of a Remaining User Commitment Amount and the signposting of the Short Term Access to System Flexibility Statement.

## **Respondents' views**

There were two responses to your consultation. One respondent suggested that the potential to include the methodology within the UNC should be investigated and implemented at the earliest opportunity. The other respondent submitted that as the majority of the rules exist in the UNC the requirement for the methodology should be reconsidered by us, and that the introduction of new booking arrangements would be a good opportunity for this. They indicated that in their view the length and complexity of the current document does not make it easily accessible.

The respondents supported the changes proposed to enable transitional bookings to satisfy the User Commitment Amount.

One respondent highlighted that the methodology contains many references to PCAs. They construed that without a PCA the incremental capacity may not be available. They also saw this as reinforcing the case for the methodology to be contained within the UNC.

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<sup>4</sup> Notice for Enduring Annual Exit (Flat) Capacity Reduction Applications. <http://www.gasgovernance.co.uk/0439>

Both respondents indicated support for UNC 439.

Clarification was sought by one respondent on the rules about substitution, permits and the treatment of existing revenue drivers.

### **Audit statement**

On 29 May 2012 we directed you to conduct an audit of the methodology as set out in the Statement. We received details of the proposed audit scope on 24 October 2012 and, following discussions, approved this on 21 December 2012. The audit sought to:

1. Provide an independent informal opinion that the ExCR is in line with specific duties arising from the Gas Act and Licence, and including reference to the Uniform Network Code as appropriate.
2. Provide an audit of high level governance/testing procedures to confirm whether the system reflects the requirements of the ExCR.
3. Run appropriately designed samples through the relevant live environments to check the accuracy of actual data flow.

An audit statement was submitted to us on 28 March 2013. The auditors consider that the ExCR is in line with its requirements under the Gas Act, Licence and UNC. They were satisfied that the IT system had been developed to reflect the intentions of the ExCR and that it had been implemented accurately to reflect the different elements of the ExCR.

### **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 your consultation, the audit statement and the proposed changes.

#### *Comments on the consultation response*

We welcome the comments of the respondents on the need for the methodology. We agree there may be a case for the methodology to be included within the UNC. However, we also recognise that it is less than a year since the start of the enduring regime. Moreover, ways of accessing the system that we anticipated would be in place for the start of the RIIO period are still in development. Until these changes are fully understood and implemented we consider that it would be premature to consider moving the methodology into the UNC. Once capacity release arrangements are more established the merits and arguments for doing this can be considered on a more secure footing.

We consider that the concerns expressed with respect to PCAs have substance. Although NGGT has clarified that they are not mandatory we would wish to see further clarity in any subsequent revisions for users that this is the case.

We value users' views on the length, complexity and readability of the document. There are opportunities to improve the Statement in this respect, but we consider that as the substance of the methodology has not changed it still fulfils its function.

#### *Comments on the audit statement*

The audit statement indicates the auditor considers that the ExCR is in line with your duties. It has not identified any significant concerns with the development of the IT systems or processes you have used to release exit capacity. This provides reassurance to users that the methodology is fit for purpose.

The auditor observed that in the event of multiple requests for Annual NTS Exit Flat capacity in the same Application Window at the same exit point by different users, a pro rata allocation mechanism is used. They suggest that this would fail an efficiency test. This has not been identified previously as an issue by respondents but you may wish to consider if this is a material problem.

The auditor also suggested changes to the Transmission Planning Code to enhance transparency in terms of network modelling and the processes for the release of Enduring NTS Exit (Flat) Capacity.

### *Comments on the Statement*

We agree that the text in Part A relating to the transitional period is no longer required. We also note that the methodology in Part B is largely unchanged in substance. However, the licence terms and numbering of conditions that now apply have been updated. We view these as routine and non-material changes.

We have considered the text relating to PCAs and while the purpose of the PCA is clear, there is limited description of what the PCA is. A more complete definition (as in the Transmission Planning Code) should be provided in Appendix B2.

Last year a footnote was added to take account of UNC modification 376S<sup>5</sup> and this is now referenced in paragraph 47. We asked you to place the footnote text in the main body of the report as soon as practicable after implementation. On 16 May 2013 the Panel agreed that this modification proposal is to be implemented from 1 June, so this change should now be made.

The section on revenue drivers has been updated to indicate that where a revenue driver may be required, it will be calculated in accordance with Special Condition 9C. Special Condition 9C places an obligation on you to develop a "generic exit methodology". The Statement indicates that in the absence of this methodology, revenue drivers will be agreed on a case by case basis, though your consultation conclusion response clarifies that relevant values listed in the Licence will continue to apply.

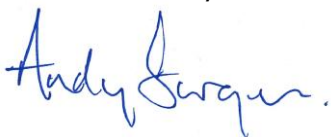
We are content that the changes which allow the User Commitment Amount to be satisfied after four years from when the capacity increase request originated in the transitional period, as this will remove an apparent anomaly.

We note that in the consultation response you indicate that you will review whether the Statement can be simplified. We recognise the work that is progressing on capacity and connection processes and we look forward to receiving a clear methodology that reflects the new arrangements in due course.

### **Authority's decision**

Following consideration of the documentation provided by NGGT 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> UNC 376S: Increased choice when applying for NTS exit capacity was approved on 19 January 2012. A copy of the decision letter can be found on the Joint Office of Gas Transporters website: <http://www.gasgovernance.co.uk>