



Making a positive difference
for energy consumers

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Dear Steve

Approval of the Entry Capacity Substitution Methodology Statement

On 12 September 2013, National Grid Gas¹ submitted the Entry Capacity Substitution Methodology Statement (the "Statement") for our² approval. The submission was pursuant to Special Condition 9A (the "Condition") of your gas transporter licence (the "Licence"). Having regard to the Entry Capacity Substitution (ECS) objectives set out in the Condition, and to our principal objective and statutory duties³, we have decided to approve the Statement.

The reasons for our approval are set out below. The approval is subject to the terms of this letter.

Background

ECS is the process by which unsold baseline National Transmission System (NTS) entry capacity⁴ is permanently transferred from one or more NTS entry points (donor entry points) to meet customer demand for new entry capacity at another entry point (recipient entry point). ECS can avoid or defer the need for new investment to meet incremental capacity needs, and so help reduce the costs of gas transportation for gas customers.

The arrangements governing the ECS process are contained in the ECS Methodology Statement. You have a licence obligation to have in place and apply capacity methodologies which facilitate the achievement of the capacity objectives set out in the Licence. As part of this obligation you must submit the Statement to us for our approval and review the methodologies and the Statement at least once every two years.

On 2 August 2013, you published (on your website) a consultation on the methodology to be applied from 2 January 2014. The consultation closed on 30 August 2013. Representations were received from three respondents, Interconnector UK (IUK), BBL Company (BBL) and EDF Energy. The version of the Statement submitted to us on

¹ National Grid Gas is the owner and operator of the NTS. The terms 'you' and 'National Grid Gas' are used interchangeably in this document.

² 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.

³ Set out in section 4AA of the Gas Act 1986, as amended.

⁴ NGG's capacity release obligations are defined in Part A of Special Condition 9B. Baseline entry capacity is the amount of capacity which the licensee is required to offer for sale at an NTS entry point.

12 September 2013 has been revised to take account of the issues raised in the consultation (as described in your Consultation Report⁵).

In the section below we summarise the changes proposed by you, and in the subsequent sections we set out the respondent's views and our own views on those changes.

Proposed Changes to the Statement

The changes to the Statement you consulted on in August were limited to terminology and reference changes, needed in order to align the Statement with RIIO-T1 final proposals.

We also understand from your submission cover letter that, in light of consultation responses, an additional paragraph has been added to the Statement on substitution and potential interactions with EU legislative requirements. The Statement sent to us for approval includes the new paragraph (discussed in more detail below).

Respondents' Views

You received consultation responses from three stakeholders: IUK, BBL and EDF Energy.

IUK and BBL expressed a concern that, the level of capacity currently categorised as "available for substitution" at the Bacton entry point⁶ will no longer be appropriate once the Capacity Allocations Mechanism Network Code (CAM)⁷ is implemented in November 2015. CAM would place a requirement on you to make available a certain level of bundled capacity to network users. IUK and BBL argue that this level should be matched with the level of technical capacity available at the two gas interconnector pipelines, the IUK pipeline and the BBL pipeline.

The level of "substitutable capacity", according to IUK and BBL is currently set too high, with the residual available capacity below the "technical level" the interconnector operators expect to be available to them under CAM. IUK considered that the high level of substitutable capacity at Bacton would reduce the ability of shippers to source gas from key exporting countries such as Norway and Belgium, with subsequent adverse effects on diversification and security of supply. IUK expressed a view that the treatment of substitutable capacity under the ECS should align with that for Exit Capacity Substitution (ExCS). This would mean that, entry capacity at Interconnector Points should be exempt from substitution⁸.

You amended the ECS in response to these concerns by setting out how⁹, in practical terms, you intend to approach an ECS request where there may be interactions with CAM implementation. You propose that, when submitting an ECS request¹⁰ for our approval you will discuss with us whether the request should be vetoed on the grounds that it may conflict with EU Regulations.

EDF Energy welcomed your proposed changes to terminology and Licence referencing. It also suggested a number of minor clarifications to aspects of the Statement, which you addressed in the version submitted for our approval.

⁵ A copy of this report is available on NGG's website.

⁶ Entry points are often referred to as Aggregated System Entry Points (ASEPs). They are points on the NTS where gas enters the network and will usually take on gas from several off-shore pipelines.

⁷ Commission Regulation 984/2013 of 14 October 2013 establishing a Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems and supplementing Regulation (EC) No 715/2009 of the European Parliament and of the Council

⁸ We approved the Exit Capacity Substitution Methodology Statement (ExCS) on 16 May 2013. The most recent version of the ExCS has been in force since 1 June 2013. A copy is available on the website.

⁹ This is described in paragraph 87 of your Statement.

¹⁰ Substitution requests are submitted under Special Condition 5F (Determination of Incremental Obligated Entry Capacity volumes and the appropriate revenue drivers to apply)

Our View

We have carefully considered the Statement you submitted on 12 September 2013, as well as the Formal Consultation Conclusions Report. In our view, the Statement is consistent with your obligations under Special Condition 9A of your Licence.

Levels of substitutable capacity at Bacton

We note that two respondents are concerned about the levels of substitutable capacity available at Bacton. The requirements under CAM for bundled capacity at interconnectors will only become legally binding once CAM is in force and applies, which is due by 1 November 2015. We are consulting on actions required on the implementation of CAM. You will have to review the Statement and make any modifications as are necessary in line with your obligations under the Licence and submit the proposed modifications to us.

We think it is appropriate for the ECS and ExCS to treat capacity which may affect interconnectors differently. This is because substitutable capacity at exit points which connect to interconnectors can only be used by interconnectors – at Moffat and Bacton. However there are several off-shore pipelines, in addition to IUK and BBL, which use the available entry capacity. As a result, any capacity at Bacton does not solely exist for the use of interconnectors and can be used by shippers for any of the pipelines that connect to it on a non-discriminatory basis. Suspending capacity from being substituted at exit interconnection points only affects interconnectors. Doing so for entry capacity at Bacton would not give the same benefits to interconnectors as any shipper would continue to have access to it. As a result, we consider it would be inappropriate to treat Bacton entry capacity in the same manner as exit capacity.

All requests for entry capacity substitution have to be submitted to us. We will then consider approving or rejecting them in line with our duties and obligations. This includes considering the potential impact on security of supply, and compliance with any binding European legislation.

Clarifications made to the Statement

We agree with the proposed changes to the terminology and Licence referencing, and other minor clarifications highlighted in your submission.

The Authority's decision

Following consideration of the documentation you provided pursuant to Special Condition 9A of the Licence, and having regard to our principal objective and statutory duties, we approve the Entry Capacity Substitution Methodology Statement as submitted on 12 September 2013. The approval is subject to the terms of this letter.

Yours sincerely

Andy Burgess
Associate Partner, Transmission and Distribution Policy