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Proposed licence modification of Special Licence Conditions 1A, 2A, 5F, 5G and 11C of National Grid Gas Transmission's Licence to implement Planning and Advanced Reservation of Capacity Agreements

Dear James

Thank you for the opportunity to respond to your statutory consultation, pursuant to section 23 of the Gas Act 1986, on the proposed modification to National Grid Gas Transmission's licence to implement Planning and Advanced Reservation of Capacity Agreements (PARCAs) and for detailing your views on the responses to your August 2014 consultation. This response is made on behalf of National Grid Gas' Transmission business (NGG).

Our role as the owner and operator of the GB Gas Transmission System is to ensure the safe, economic and efficient development, operation and maintenance of the National Transmission System.

We support the implementation of either UNC Modification 0452v (raised by ourselves) or 0465v (raised by Scottish and Southern Energy) to introduce PARCAs into UNC. We also broadly support the proposed modification to the licence, as detailed in Ofgem's statutory consultation, subject to Ofgem approving either of the aforementioned UNC Modifications.

We have detailed our position on Ofgem's views to the August 2014 consultation responses and the proposed licence modification below:

Ofgem's views on consultation responses

Entry and Exit capacity lead time definitions.

We support your view that a lead time of 24 months would not in itself prevent NGG from delivering capacity ahead of a 24 month timescale. In addition, under the RIIO T1 framework, incentive arrangements (for example, revenues from the sale of non-obligated capacity) are in place that encourage balanced decisions to be taken in respect of early capacity release.

We welcome the confirmation from Ofgem that they would be content for NGG or other parties to suggest changes to the lead time definition in due course should we, or other parties, consider different lead times would be more suitable.

Proposed changes to Special Conditions 5F and 5G of NGGT's licence

As we detailed in our response to your August 2014 consultation, we proposed that sub paragraphs 5F.10(h) and 5G.10(h) should not be removed and we welcome your agreement to our proposal. We support your view that consideration should be given to the removal of those paragraphs as part of the ongoing work by Ofgem regarding the permit arrangements in the gas transporters licence.

The timing of Ofgem decision on capacity substitution

We welcome the additional clarity you have provided in detailing your view on the likelihood of a veto of capacity substitution and agree that the additional licence publishing obligations proposed allow early challenge to substitution proposals if required.

In the interest of certainty, our preference would be for the formal point of veto for PARCAs substitution proposals to be shortly after phase 1 of the PARCA at the point of reserving capacity. This would also complement our proposed changes to the substitution methodology statements which, for a PARCA, apply the current substitution lead times from the point of capacity reservation to help ensure timely delivery of capacity rights under a PARCA.

However, we recognise that substitution proposals can be challenged by Ofgem or other parties at any time regardless of the formal point of veto. We also consider the risk of an Ofgem veto due to NGG incorrectly applying the relevant methodology to be small.

Pass through of PARCA termination costs

As you are aware, we agreed with your previous consideration that "Calculations with this complexity might better sit within the Price Control Financial Model (PCFM) than the licence itself. This approach could allow for more straightforward handling of costs should PARCAs be terminated", we therefore also agree with your view that "moving the formulas to the PCFM could offer significant benefits in terms (of) maintaining a clear and transparent gas transporter licence".

We understand Ofgem's position to not move the formulas and text contained in the initial consultation to the PCFM in order to prevent further delays to the potential implementation of the PARCA proposals. Should the PARCA proposals be implemented, we recommend that the required PCFM changes are consulted on to allow the necessary changes to be in place in time for the Annual Iteration Process in November 2015 and will support Ofgem in this change process.

Next Steps

We note Ofgem's proposal that if Ofgem decide to implement the changes to the special conditions of NGGT's licence that "they would come into effect at the end of the minimum statutory period for implementation. This means NGGT would need to ensure it was compliant with the new arrangements from the date the licence modifications become effective, which we are proposing would be 56 days after the day our decision is published".

We would like to point out that the effective date of the licence changes is dependent on the effective date of the PARCA UNC changes that would be introduced through the potential

approval of UNC Modification 0452v or 0465v. In addition, our compliance with the new arrangements will only be possible if the changes needed to the following capacity methodology statements are approved by Ofgem:

- Entry Capacity Release Methodology Statement (“ECR”)
- Exit Capacity Release Methodology Statement (“ExCR”)
- Entry Capacity Substitution Methodology Statement (“ECS”)
- Exit Capacity Substitution Methodology Statement (“ExCS”).

As such, we are not able to support Ofgem’s view that “NGGT would need to ensure it was compliant with the new arrangements from the date the licence modifications become effective, which we are proposing would be 56 days after the day our decision is published” given that full compliance will only be possible from the date that the PARCA UNC changes, licence modifications and methodology statements are all effective.

Incremental Capacity

We agree with the references to “incremental capacity” within your consultation letter, but would like to point out that the PARCA arrangements also allow users to reserve long term “non-incremental” capacity through, for example, potential substitution from another location.

Licence drafting observations

We have the following minor suggested changes to the proposed licence text:

In Special Condition 2A, paragraph 2A.12:

- the formula for REV_{t-2} should include PTV_{t-2} (for example between $OPTC_{t-2}$ and PA_{t-2}) as the calculation of PTV_t uses the estimated RPI term, RPIF, so the corresponding true up should include that term to be consistent.
- PTV_{t-2} would also need to be included in the list of terms under that same paragraph, with a definition consistent with that for PTV_t as detailed under paragraph 2A.6.

In Special Condition 2A paragraph 2A.16:

- A blank line can be deleted underneath the word “where:” that is below the main formula.
- The definition explaining “means the sum for all PARCAs j in the population” should be indented to be consistent with the other definitions.
- Where “means the product of all PVF terms from the year that costs were incurred (s) to $t-2$ inclusive” wraps onto a second line, that second line should be indented.
- All references to “formula year” should be capitalised.
- Full stops should be inserted after each of the definitions.
- The reference to “year” should be “Formula Year” under the 4th definition.
- Under the definition of TR_t , the reference to “Relevant Year” should be “Formula Year” as Relevant Year isn’t a defined term.

In Special Condition 5G, paragraph 5G.23

- Although not amended under the PARCA arrangements, we believe the reference to Table 5 is an error and it should reference Table 6.

Should Ofgem wish to discuss any of the points raised in this response, please contact Mike Wassell at mike.wassell@nationalgrid.com (01926 654167).

Yours sincerely



Helen Campbell