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for energy consumers

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Date: 12 October 2015

Dear Mr Dyke,

Approval of Generic Entry and Exit Revenue Driver Methodology Statement

On 20 August 2015, you submitted National Grid Gas¹ Generic Entry and Exit Revenue Driver Methodology Statement (the "GRDM Statement") for our² approval. The submission was pursuant to Special Condition 9C of the gas transporter licence (the "Licence") of National Grid Gas Plc (the "Licensee"). Having regard to our principal objective and statutory duties³, we have decided to approve the GRDM Statement.

This letter contains the reasons for our decision, and notes aspects to be addressed at the next iteration of the GRDM Statement.

Background

Under the terms of the Licence, you are required to respond to users' signals for capacity in excess of the required baseline levels – ie to provide Incremental Obligated Entry and Exit Capacity.⁴ Since February 2015 the commercial arrangements for reserving incremental obligated capacity are the Planning and Advanced Reservation of Capacity Agreements (PARCA).⁵

Where you accept an incremental capacity obligation, you calculate the corresponding increase required in your allowed revenue – known as a *Revenue Driver*. The increased revenue provides the funding for a range of activities necessary to deliver additional system capability. Revenue Drivers are defined in the Licence as "Additional Totex allowances in respect of the release of Funded Incremental Obligated Entry Capacity" and "Additional Totex allowances in respect of the release of Funded Incremental Obligated Exit Capacity".

Prior to RIIO-T1, we set specific individual Revenue Drivers for all existing and anticipated entry/exit points at the beginning of the price control period. Under RIIO-T1 we agreed that it would be more efficient, consistent and transparent to have a *generic methodology* for determining Revenue Drivers – in other words a methodology describing the formula used to calculate the specific Revenue Driver for a new entry/exit point. Special condition 9C was added to your Licence placing an obligation on you to publish a GRDM Statement, which must be approved by us and reviewed every two years.

¹ 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 Specific obligations in respect of the release of incremental Obligated Entry and Exit Capacity are set out in Special Condition 5F and 5G of Gas Transporter Licence.

⁵ <https://www.ofgem.gov.uk/publications-and-updates/decision-licence-changes-implement-planning-and-advanced-reservation-capacity-agreements>

We approved the first GRDM Statement in October 2013, and which came into force on 1 November 2013.⁶ In our approval letter we pointed out some areas that would benefit from further attention in subsequent reviews of the methodology. These were:

- relocating the references to Constraint Management in the GRDM Statement (paragraph 42 and 63) into the relevant Entry/Exit Capacity Release Methodology Statements.⁷ This aligns better with our consideration of formal requests for Constraint Management target adjustments alongside the allocation of capacity;
- clarifying the timing of Revenue Driver Calculation (paragraph 31);
- clarifying the gas year used in network analysis (paragraph 49);
- clarifying that Revenue Driver costs can decrease as well as increase should new analysis show that the funding previously agreed is in excess of project requirements (paragraph 77).

These clarifications have been made in the GRDM Statement you submitted to us on 20 August 2015, except the relocation of paragraph 63 (now paragraph 62) and the clarification in paragraph 77 (now paragraph 76). We still consider that it would be beneficial to users to make these outstanding amends to the GRDM Statement in the next iteration.

The Authority's decision

We have carefully considered the GRDM Statement you submitted to us on 20 August 2015. In our view, the GRDM Statement is consistent with your obligations under Special Condition 9C of your Licence and your statutory duties.

Therefore having regard to our principal objective and statutory duties, we approve the GRDM Statement. This document also constitutes notice for the purposes of section 38A of the Gas Act 1986 of the reasons for our decision.

If you have any queries in relation to the issues raised in this letter, please contact Alice Mitchell on 0141 341 3997 or via email at alice.mitchell@ofgem.gov.uk.

Yours sincerely

Rob Mills

Head of Gas Transmission, Gas Networks

Signed on behalf of the Authority and authorised for that purpose

⁶ Our approval of the first GRDM Statement in October 2013
https://www.ofgem.gov.uk/sites/default/files/docs/2013/10/generic_revenue_driver_methodology_approval_october_2013_0.pdf

⁷ <http://www2.nationalgrid.com/uk/industry-information/gas-capacity-methodologies/>