



Making a positive difference
for energy consumers

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Dear Steve

Capacity Methodology Statements: Independent Examiner Report

Thank you for your letter dated 22 August 2016 which asked us¹ to consent to you not providing a statement from an Independent Examiner to accompany the modifications that you propose to make to the Entry Capacity Substitution Methodology and Exit Capacity Substitution and Revision Methodology Statements ("the Statements") in accordance with Special Condition 9A.7² of your Gas Transporter's Licence³ ("the Licence").

We have decided to grant the consent requested for the reasons explained below and set out in the notice of consent attached.

Background

Capacity substitution is the process of moving unsold National Transmission System (NTS) capacity⁴ from one NTS point to meet demand for additional capacity at another NTS point. The Statements set out methodologies you employ to determine if substitution can be used to meet demand for capacity, and the process that you will follow if capacity is substituted.

Your letter explains that you will review both Statements in order to reduce the lead times to substitute capacity to NTS users. Currently, capacity can only be substituted to NTS users from 1 October in Year Y+4 after the request has been made through a Planning and Advanced Reservation of Capacity Agreement (PARCA) or one of the long term entry and exit capacity allocation mechanisms.⁵

Special Condition 9A of the Licence sets out the provisions that must be complied with if you wish to make changes to the Statements. Condition 9A.7 requires that modifications to the Statements must be accompanied by a statement from an Independent Examiner giving an opinion as to the extent you have developed a methodology that is consistent with your duties under the Gas Act 1986 and the Licence.

This condition does however enable us to give consent in writing to the Statements being submitted unaccompanied by an Independent Examiner's statement.

¹ The terms "the Authority", "Ofgem", "we", "our" and "us" are used interchangeably in this letter. The Authority is the Gas and Electricity Markets Authority. Ofgem is the office of the Authority.

² Special Condition 9A. Entry Capacity and Exit Capacity Obligations and Methodology Statements

³ National Grid Gas Plc (NTS) Gas Transporter Licence

⁴ Non-incremental Obligated Entry or Exit Capacity

⁵ The Quarterly System Entry Capacity (QSEC) auction and July Exit Capacity Application Window.

Proposed changes

You state that you have received requests from NTS users to review the entry and exit capacity substitution lead times. In your view, no material changes will be required to the Statements in order to review the lead times. As a result, you conclude that little or no benefit would be gained from carrying out an independent examination.

We note that you plan to review the Statements in quarter four 2016. This will give you sufficient time to consult on and propose changes to the lead times (if you decide to do so) before a further review of the Statements in 2017. This second review is to make sure the Statements are compliant with the Capacity Allocation Mechanism European Network Code.⁶

Our decision

Since its implementation, capacity substitution has been used to meet demand for additional entry and exit capacity. This has benefited consumers by avoiding the need for new NTS investment.

We are content for the Statements to be reviewed this year to make sure they allow the capacity substitution processes to operate as efficiently as possible. Changes successfully proposed to the Statements would then apply to any capacity requests made through PARCAs or the long term allocation mechanisms.

We understand that proposals to amend the lead times should not require substantial structural or text changes to the Statements. On this basis we agree that little additional benefit would be gained from receiving a statement from an Independent Examiner at this time.

We therefore consent to the proposed modifications to the substitution lead times described in your letter being submitted unaccompanied by a statement from an Independent Examiner, in accordance with Special Condition 9A.7 of the Licence. Please find the consent attached to this letter, which contains the reasons for our decision. Note that should circumstances change in the future we may reconsider our consent, in particular if the proposed modifications to the Statements actually submitted contain additional and unanticipated changes beyond those to the substitution lead times.

Please also note that this consent does not fetter our discretion to determine any changes proposed to the Statements in accordance with our powers set out in Special Condition 9A of the Licence. That determination will be made in the light of all relevant facts and circumstances including the feedback received through the consultation processes outlined in Special Condition 9A.

Both documents have been made available on our website. You can contact James Thomson at james.thomson@ofgem.gov.uk or 0141 331 6012 if you have any questions about this decision.

Yours sincerely

Frances Warburton

Partner, Energy Systems Integration

⁶ Commission Regulation (EU) No 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.