

All interested stakeholders

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Open letter: Review into the treatment of National Grid Gas Transmission's capacity obligation at Fleetwood under the RIIO-T1 price controls

In our Final Proposals for the RIIO-T1 price controls, we included an amount of £268.3m¹ in National Grid Gas Transmission's (NGGT) allowances in connection with the entry capacity obligation at the Fleetwood Aggregate System Entry Point (ASEP). Approximately £210.6m of this is due to be added to NGGT's Regulatory Asset Value (RAV) on 1 April 2017, with the rest due to be added in April 2018 and April 2019.²

We are commencing a review into how the RIIO-T1 price controls treat NGGT's obligation to offer entry capacity at the Fleetwood ASEP.

Context

NGGT is required by its licence to offer 650 GWh/day of entry capacity at the Fleetwood ASEP.

This obligation was initially created following bids made at the September 2006 Quarterly System Entry Capacity (QSEC) auctions.³ The bids received were sufficient to pass National Grid's test for release of incremental capacity, and we funded the incremental capacity under the price control arrangements applicable at the time.⁴ The shipper that originally triggered the release of this capacity defaulted on its payment obligations and has lost its right to the capacity. National Grid has since offered the entry capacity at auctions to other parties, and a shipper has successfully bid for 350 GWh/day of entry capacity at the Fleetwood ASEP for one quarter in 2025.

In our Final Proposals document⁵, we said:

"We will continue to monitor the situation and should circumstances require Ofgem to take action to protect the interests of consumers, we will take the appropriate steps to ensure an economic and efficient outcome is achieved (which might affect the treatment of capacity at Fleetwood). This may have implications for

¹ All allowances are expressed in 2009/10 prices.

² This refers to additions to NGGT's RAV. The impact on NGGT's annual revenue is approximately £10m a year (in current prices), to reflect financing costs and regulatory depreciation over 45 years.

³ Details of the entry capacity auction mechanisms are available on National Grid's [website](#).

⁴ The third Transmission Price Control Review (TPCR3), 2007-2012.

⁵ Please see the "Cost Assessment and Uncertainty" supporting document to our Final Proposals for the RIIO-T1 price controls, available [here](#).

base revenue and represents how we would expect to act in any similar situation, as we will generally consider taking steps in accordance with our principal objective to protect the interests of consumers.”

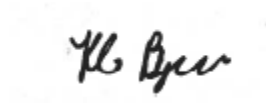
We are now commencing a review in line with this statement. The scope of the review includes the scheduled additions to NGGT’s RAV and the appropriate treatment under the RIIO T1 price controls of any expenditure incurred by NGGT so far, and may be incurred in the future, in connection with the entry capacity obligation at the Fleetwood ASEP.

Timing and next steps

We intend to publish a consultation document by March 2017 seeking stakeholders’ views on any changes to NGGT’s licence, including the RIIO T1 GT Price Control Financial Model (PCFM). We are looking to make a decision in early summer 2017, so that any changes to NGGT’s licence, including the PCFM, can take effect before 1 April 2018.

We ask that any stakeholders with relevant information who wish to engage with us on this issue ahead of our consultation please contact Pete Wightman (Pete.Wightman@ofgem.gov.uk).

Yours sincerely



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