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Date: 19 January 2017

Dear Jenny

Capacity Release Methodology Statements and Capacity Methodology Statements: derogation request

Thank you for your letter dated 22 November 2016 which asked us to consent to you not providing a statement from an Independent Examiner to accompany modifications to the capacity methodology statements (the "Statements") listed below. A statement from an Independent Examiner must accompany any changes you propose to make to these Statements in accordance with Special Conditions (SCs) 9A and 9B of your Gas Transporter Licence ("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

SCs 9A and 9B require you to have in place a number of methodology statements which explain how capacity is released, offered for sale and substituted across the National Transmission System (NTS). These Statements are:

- the Entry Capacity Release Methodology Statement (the "ECR")
- the Exit Capacity Release Methodology Statement (the "ExCR")
- the Entry Capacity Substitution Methodology Statement (the "ECS")
- the Exit Capacity Substitution and Exit Capacity Revision Methodology Statements (combined as one statement, the "ExCS")
- the Entry Capacity Transfer and Entry Capacity Trade Methodology Statements (combined as one statement, the "ECTT").

The SCs require you to review the Statements at least once in every two years. If you plan to modify the Statements, the SCs also explain the consultation arrangements you must follow before submitting revised Statements to us for a decision.

SCs 9A.7 and 9B.9 require 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. The conditions do, however, enable us to give consent in writing to the Statements being submitted unaccompanied by an Independent Examiner's statement.

Your request

You consider the Statements listed above need to be modified to take account of the Capacity Allocation Mechanism Network Code (CAM NC). You have requested our consent to submit the Statements without an accompanying Independent Examiner statement. The letter submitted on the 22 November 2016 explained your reasoning for this request. In response to a request from us for more information, you also submitted an email to us on 9 December 2016 which explained the broad changes required to each Statement to make them compliant with the CAM NC.

Your letter states you do not believe the changes required to the Statements are substantive. They are primarily to align the Statements with changes to the Uniform Network Code (UNC) as a result of the CAM NC rather than fundamental changes to the principles set out in the methodologies.

The letter and email you submitted also explain the changes that may be required to be made to each Statement. These include:

ECR and ExCR

- minor changes to reflect incremental capacity can be released at Interconnection Points (IPs)
- new paragraphs setting out the new UNC processes for the release of incremental capacity at IPs
- minor changes to reflect the CAM NC auction timetable
- removing out of date text about transitional capacity arrangements at the Bacton Aggregated System Entry Point (ASEP)

ECS and EXCS

- changes that explain requests for additional Technical Interconnection Point Capacity made using a Planning and Advanced Reservation of Capacity Agreement (PARCA) can trigger capacity substitution processes
- changes that explain Technical Interconnection Point Capacity reserved through a PARCA is not available for capacity substitution

ECTT

- removing out of date transitional arrangements relating to the Bacton ASEP.

Our decision

We consent to you submitting modifications to the Statements without an accompanying report for an Independent Examiner.

We understand the Statements need to be reviewed to be compliant with the incremental capacity allocation mechanisms introduced by the CAM NC. A number of changes are currently being developed¹ for the UNC which will implement the CAM requirements.²

The changes you propose to the Statements will make sure they are in line with the UNC revisions.³ Based on the information you submitted, these changes will not materially change the principles set out in the methodologies. Instead, they will simply amend the methodologies to take account of the new UNC processes being developed in tandem with interested NTS users.

We note that some existing sections of the methodologies will be deleted. This text will refer to arrangements that will be out of date once the CAM NC requirements are in place.

¹ UNC 597 'Rules for the release of incremental capacity at Interconnection Points' and UNC 598 'Amendments to the Capacity Allocation Mechanisms to comply with EU Capacity Regulations.'

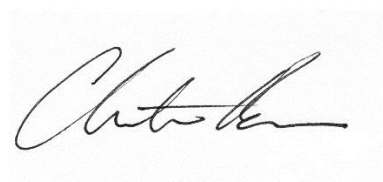
² We note that the changes to the methodology statements will only be submitted once the UNC revisions are implemented.

³ UNC 597 may be subject to Authority approval before it can be implemented. UNC 598 is currently designated a self-governance modification.

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 SCs 9A and 9B 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 both Special Conditions.

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

A handwritten signature in black ink, appearing to read 'Chris Brown', is centered on the page. The signature is fluid and cursive.

Chris Brown
Head of Gas Systems Integration