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To all interested parties and
stakeholders

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Statutory Consultation on Changes to National Grid Gas plc's gas transporter licence

This letter seeks your views on our statutory consultation proposal to amend National Grid Gas plc's gas transporter licence. We¹ are proposing changes to National Grid Gas plc's (NGG's) gas transporter licence (the "Licence") to make sure it reflects arrangements to release incremental capacity at Interconnector Points (IPs). The changes are set out in the Notice that accompanies this letter and explained below. Note we have not undertaken an informal pre-statutory consultation on these changes for the reasons explained below.

We are interested in getting your views on the drafting of the proposed licence amendments, which you can find in Annex A of this document. Such comments on these proposed changes should be sent to the contact details contained in the Notice before 29 August 2017.

Background

On 17 March 2017, the Capacity Allocation Mechanism (CAM) Network Code came into force with new arrangements to allocate incremental capacity at IPs. NGG identified a number of changes would need to be made to the Uniform Network Code (UNC), gas capacity methodology statements, and the Licence in order to implement these arrangements into the Great British (GB) commercial arrangements and ensure compliance with EU law.

Earlier this year we approved a UNC modification² which implemented the process to allocate incremental IP capacity. This made changes to the European Interconnection Document (EID) section of the UNC to include the rules for users to signal demand for capacity, NGG to assess the level of demand and determine how the capacity can be delivered, and requirements for the Authority to approve the proposals to deliver capacity.

The UNC changes also set out that an alternative allocation mechanism would be used to allocate the capacity. The UNC modification final report explained that the allocation mechanism would be based on Planning and Advanced Reservation of Capacity Agreements (PARCAs) used to reserve and allocate National Transmission System (NTS) capacity.

¹ The terms "the Authority", "Ofgem", "we", "us" and "our" are used interchangeably in this letter.

² UNC 597 - Rules for the release of incremental capacity at Interconnection Points. A copy of the modification and decision letter can be found on www.gasgovernance.co.uk

We approved changes to the Entry and Exit Capacity Release, Entry and Exit Capacity Revision, and Entry Capacity Transfer and Trade Methodology Statements on 4 July 2017.³ The changes to the Methodology Statements set out the arrangements to reserve and allocate capacity using an IP PARCA, the capacity substitution arrangements that apply at IPs, and the Economic Test used to determine capacity release, amongst other things.

The Licence amendments described below are required to align the changes to the UNC and Methodology Statements. They will also make sure the GB arrangements are fully compliant with the incremental capacity arrangements set out in the CAM Network Code.

Licence changes

We are proposing to make changes to Special Condition 1A and Special Condition 11C of the Licence. These changes have been discussed with NGG and will make sure the Licence is aligned with the capacity allocation processes for IPs contained in the UNC EID.

Special Condition 1A. Definitions

Special Condition 1A contains defined words and expressions used in the Special Conditions and gives their definitions. We are proposing to change the definitions for 'PARCA' and 'PARCA Applicant' (the "PARCA definitions").

The PARCA definitions define terms used in Special Condition 2A – this condition sets out how PARCA Termination Costs are calculated. Both definitions state that the terms have the meaning given to them in the UNC. Cross referencing the UNC in this manner minimises the need to amend the Licence should the PARCA process (including the definitions of these terms) be amended in the UNC.

Both definitions were included in the Licence when the PARCA process only applied at NTS points. This is no longer the case and the PARCA process will now be used as the basis to allocate incremental capacity at IPs. As a result, we are proposing changes to the PARCA definitions in Special Condition 1A so that they now also refer to the UNC EID. This section of the UNC sets out how capacity is allocated at IPs.

We welcome your comments on whether you agree with the proposed wording of the licence amendments.

Special Condition 11C. Services treated as Excluded Services

Special Condition 11C sets out the services NGG provide which are not funded through Transportation Owner or System Operator base revenues.⁴ This means charges or fees NGGT collect by delivering an Excluded Service does not count towards the collection of their allowed revenue as determined by the price control. One of the Excluded Services relates to PARCA activities.

Users making a PARCA application are required to pay a PARCA Application Fee⁵ to cover the costs of the initial investigations and assessment of technical options to provide additional capacity – these activities are carried out in phase one of the PARCA process.⁶ This fee is currently set at £120,000 and reconciled against the actual costs incurred by NGG during phase one of the PARCA process.⁷

³ A copy of the decision letter can be found on the Ofgem website: www.ofgem.gov.uk

⁴ The services are excluded from the MR_t term defined in Special Condition 2A (Restriction of NTS Transportation Owner Revenue) and SOMR_t term defined in Special Condition 3A (Restriction of NTS System Operation Revenue).

⁵ This is also known as the Phase 1 PARCA Fee

⁶ A description of the PARCA processes can be found on NGG's website: <http://www2.nationalgrid.com/UK/Services/Gas-transmission-connections/PARCA-Framework/>

⁷ The level of the fee is set out in The Statement for Gas Transmission Connection Charging available on National Grid Gas's website: <http://www2.nationalgrid.com/UK/Services/Gas-transmission-connections/Connect/Application-to-offer/>

When the PARCA Application Fee was implemented it was included as an Excluded Service on the basis that a user triggering the PARCA process should be wholly liable to pay for the initial costs of determining how the capacity can be delivered.

As part of the process to allocate incremental capacity at IPs, users will be required to pay a Demand Indication Application Fee (DIAF).⁸ The DIAF is required for demand indications submitted by users to achieve competency. It covers the costs NGG incur during the design phase to determine how capacity can be delivered to the user. The UNC states the DIAF will replace the PARCA Application Fee (for incremental capacity applications at IPs) but shall be equivalent in value to it.

As both the DIAF and PARCA Application Fee are analogous to each other, changes are proposed to Special Condition 11C so that revenue collected through DIAFs will be treated in the same manner as existing PARCA charges. This will make sure the PARCA process can be applied consistently at both NTS points and IPs.

We welcome your comments on whether you agree with the proposed wording of the licence amendments.

Consultation process and contact details

We have decided not to undertake an informal pre-statutory consultation on these changes. We made this decision on the basis the proposed changes are immaterial and do not amend existing policy. Their main effect is to revise the licence conditions to reflect processes introduced by the UNC and gas capacity methodology statement changes consulted on and approved earlier this year. This will make sure we are compliant with the CAM Network Code.

NGG were also involved in helping us identify and draft the appropriate licence changes. The involvement of the licence holder has given us confidence the licence changes should not be unexpected and identify correctly the amendments which are required.

The section 23 statutory consultation notice accompanying this letter contains the Licence changes we propose to implement. We welcome comments on the proposed wording of the licence amendments until 29 August 2017. Contact details to send comments to can be found in the Notice.

Providing no significant issues are raised in response to the section 23 consultation, we will then publish a final licence change notice. The final licence change notice will implement the changes 56 days after it is published.

Yours sincerely

Chris Brown
Head of Gas Systems

⁸ The DIAF is explained in UNC EID Section E paragraph 6