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### **Statutory Consultation on Changes to National Grid Gas plc's gas transporter licence to reduce the Fleetwood entry capacity obligation**

This letter seeks your views on our<sup>1</sup> statutory consultation proposal to amend National Grid Gas plc's (NGG's) gas transporter licence (the "Licence") to reduce the amount of entry capacity they are obliged to provide at the Fleetwood National Transmission System (NTS) point. These changes will enable our decision published on 4 August 2017<sup>2</sup> to reduce the amount of entry capacity NGG is obligated to release at Fleetwood from 650 GWh/day to 350 GWh/day.

The proposed modifications are set out in the Notice that accompanies this letter and explained below. We are interested in your views on the drafting of the proposed licence amendment, which you can find in Annex A of the Notice. Comments on these proposed changes should be sent to the contact details contained in the Notice and this letter before 26 September 2017.

Note we have not undertaken an informal pre-statutory consultation on these changes for the reasons also explained below.

### **Background**

On 4 August 2017, we published a decision letter which stated we will reduce the amount of entry capacity NGG is obliged to provide at Fleetwood from 650 GWh/day to 350 GWh/day. Full background for the reasons for this decision can be found in that letter.

In summary, NGG currently has an obligation to provide 650 GWh/day of entry capacity at Fleetwood. This capacity was created when a storage developer purchased it in 2006. However, the project did not proceed and the capacity remains largely unsold. To protect consumers from undue cost risk, we are reducing NGG's capacity obligation to 350 GWh/day because there is a low risk to consumers of incurring costs to provide this level of capacity.

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

<sup>2</sup> A copy of this decision letter can be found on the Ofgem website: <https://www.ofgem.gov.uk/publications-and-updates/decision-fleetwood-entry-point-gas-transmission>

In order to enable this decision to reduce the capacity obligation, we have to make changes to NGG's Licence.

## Licence changes

We are proposing to modify Special Condition 5F of the Licence. These modifications have been discussed with NGG and will make sure the Licence reflects our decision to reduce the entry capacity obligation at Fleetwood.

### Special Condition 5F. Determination of Incremental Obligated Entry Capacity volumes and the appropriate revenue drivers to apply

Special Condition 5F contains the capacity volumes NGG is obliged to release at each NTS entry point. In particular, Table 6 shows the volumes of 'Legacy TO Entry Capacity' NGG must release at specific points at certain dates. Legacy TO Entry Capacity is capacity that was signalled for and passed successfully the Economic Test<sup>3</sup> at these entry points before the start of the RIIO-T1 price control period.<sup>4</sup>

Table 6 contains a row for Fleetwood which sets out that 650 GWh/day of Legacy TO Entry Capacity should be released from April 2017. We are proposing to include an end date of November 2017 for the release of this volume of capacity. The end date will terminate the obligation to release 650 GWh/day on 30 November 2017.

We are also including an applicable date of December 2017 for the release of 350 GWh/day of capacity. This will oblige NGG to release 350 GWh/day from 1 December 2017. This change will make sure that the new Fleetwood capacity obligation starts before NGG issue notices in advance of the 2018 QSEC auction.<sup>5</sup>

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

## Consultation process and contact details

We have decided not to undertake an informal pre-statutory consultation on these changes. This is because the treatment of the capacity obligation at Fleetwood has already been consulted on with stakeholders and a final decision published on 4 August 2017. This proposed licence change only enacts this decision.

NGG was 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 26 September 2017. Comments should be sent to James Thomson, Office of Gas and Electricity Markets, Commonwealth House, 32 Albion Street, Glasgow, G1 1LH or by email to [james.thomson@ofgem.gov.uk](mailto:james.thomson@ofgem.gov.uk).

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<sup>3</sup> This is commonly known as the 'NPV test' and is described in the Entry Capacity Release Methodology Statement. A copy can be found on NGG's website: <http://www2.nationalgrid.com/uk/industry-information/gas-capacity-methodologies/entry-capacity-release-methodology-statement/>

<sup>4</sup> RIIO-T1 applies between 1 April 2013 until 31 March 2021.

<sup>5</sup> This auction will take place in March 2018. Notices related to the Entry Capacity Retainer Window and auction invite letter are issued several months in advance of the auction.

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**