



Review of the NTS Exit Capacity Release Methodology Statement

Consultation Conclusions Report

28th March 2013

Executive Summary

Introduction

Special Condition C18 of National Grid's ("NG NTS") Gas Transporter Licence in respect of the NTS (the "Licence") sets out obligations to prepare and submit for approval by the Authority an NTS Exit Capacity Release (ExCR) Methodology Statement setting out the methodology by which NG NTS will determine whether to release NTS Exit Capacity to gas shippers or DN operators. In addition, NG NTS is obliged to review the statement on an annual basis in consultation with gas shippers and other interested persons.

The Authority ("the Gas and Electricity Market Authority") decision to implement UNC modification proposal 195AV "Introduction of Enduring NTS Exit Capacity Arrangements" introduced reform of NTS offtake arrangements. The timing of the introduction of these new arrangements created two phases for release of NTS Exit Capacity:

- The "Transitional Exit Period" for capacity reserved or allocated to Users commencing no later than 30th September 2012; and
- The "Enduring Exit Period" in respect of capacity reserved or allocated commencing no earlier than 1st October 2012.

The proposed version of the ExCR (version 8.4) will, if approved, be the first to apply solely to the Enduring Exit Period. Part A related to capacity released in the Transitional Exit Period which ended on 30th September 2012. Capacity can no longer be released in this period so as a result Part A has been deleted completely.

On 20th February 2013 NG NTS initiated its consultation as part of the annual review of the ExCR. Although the proposed ExCR is submitted under the existing TPCR4 Licence, we acknowledge that it will become effective under the RIIO-T1 Licence period. Hence the proposed ExCR has been drafted consistent with the RIIO-T1 Licence terminology and obligations. Due to the extent of the proposed revisions we detailed the changes to each paragraph in an appendix to our consultation cover letter. However, the principle changes to the current approved ExCR (version 8.3) can be summarised as:

- terminology and reference changes to align the ExCR to the RIIO-T1 final proposals;
- deletion of Part A and other updates for the passing of time;
- increased emphasis on the need to agree a PCA to meet capacity delivery dates;
- changes to facilitate the implementation of UNC Modification 0439. As this modification has not yet been approved for implementation, alternative drafting has been provided in the proposal to avoid the need to re-consult on a further revision to the ExCR if/when Modification 0439 is implemented; and
- a proposed change to the way that User Commitment can be satisfied in a specific circumstance where a capacity increases in the Transitional Exit Period was not initialised. Hence, a separate, but identical increase request was necessary for the Enduring Exit Period. This increase triggered a new four year User Commitment starting October 2012 which we believe is unreasonable. We specifically encouraged comments on this proposed change.

NG NTS invited views in respect of the proposed revised ExCR to be made by 21st March 2013.

This document sets out NG NTS' conclusions on its consultation on the proposed ExCR (version 8.4). It provides a summary of the representations received, NG NTS' response and an indication of whether, as a result of such representations, any changes have been made to the proposed revised statement.

Responses

Representations were received from two respondents listed below.

- InterGen UK INT
- Energy UK EUK

The more substantive issues raised relate to:

- The increased emphasis on the role of the Planning and Consent Agreement (PCA) and the potential for this to be considered regulatory 'creep' outside of due process, reinforcing the view of one respondent that this framework should be included within the UNC.
- Support has been offered by both respondents for the changes which were incorporated to facilitate the implementation of UNC Modification 0439.
- Support has been offered by both respondents for the changes to the satisfaction of User Commitment where the increase request was first made during the Transitional Exit Period.

Detailed comments from respondent and NG NTS' responses are provided in the following table.

Party	Issue	Response Quotes	NG NTS Response	Proposed changes
1 – General				
1.1 INT	UNC	Whilst simplifying the document [the ExCR] to relate solely to the Enduring Exit Period, by deletion of Part A following the end of the Transitional Exit Period, reduces the complexity and improves understanding, the industry would be better served by the incorporation of the document in to the rules of the Unified Network Code (UNC). InterGen recommends this suggestion be investigated and implemented at the earliest opportunity.	NG NTS acknowledges that there is much repetition of the Uniform Network Code (UNC) within the ExCR, this is intended to put the ExCR into context. The ExCR also contains other elements such as the rules for User Commitment which is required to underpin investment and hence supports the level of funding that NG NTS receives. As envisaged by the Licence, this is a regulatory matter and sits in a separate document from the UNC. However, NG NTS will review again whether the Statement can be simplified.	None
1.2 EUK	Part A	Energy UK welcomes the updating of the methodology statement now that the Enduring Exit Period has begun, including the deletion of Part A.	NG NTS note your support on this subject.	None
1.3 EUK	Obligation to produce the Methodology Statement	We note that the document has been updated to reflect the new RIIO terminology and whilst we support this as being necessary, the divergence between licence and UNC terminology makes the document itself become ever more challenging to read. Our understanding was that this statement was supposed to be a document that explained how Exit Capacity would be released, but its length and complexity does not make it an easy read nor easily accessible for parties wishing to connect to the NTS and reserve capacity, potentially as new entrants. As the majority of the rules here are already contained in the UNC we would like to reiterate our view that the requirement for this Statement should be reconsidered by Ofgem and that the introduction of new capacity booking arrangements potentially from April 14 would be the ideal opportunity to do that.	Broadly, we would support a narrowing of the obligation to produce the Methodology Statements. However, there will remain a need for a document that would capture some elements (e.g. User Commitment) which belong outside of UNC (see 1.1). This is a decision primarily for Ofgem; noting that it also applies to the Entry Capacity Release Methodology Statement. We agree that the changes being considered for April 2014 presents an opportunity for changes beyond the UNC Modification proposal. This includes the ExCR, and we will consider how it can be simplified when updated for the “Cap/Con” proposals.	None

2 – Mod 0439				
2.1 INT	Mod 0439	We welcome the inclusion of text to provide for the implementation of UNC Modification 439, if approved. It is InterGen's position that the modification improves competitiveness within the industry and its approval and implementation is required to enable Users to respond appropriately to changing market conditions.	NG NTS note your support on this subject.	None
2.2 EUK	Mod 0439	We welcome the inclusion of text to support the potential implementation of Modification 439 <i>Notice for Enduring Annual Exit (Flat) Capacity Reduction Applications</i> ; this is a helpful and transparent way of addressing this issue and avoiding the need for a further consultation, should the modification be approved.	NG NTS note your support on this subject.	None
3 – User Commitment				
3.1 INT	Increases in the Transitional Exit Period	The proposed change to the way that User Commitment can be satisfied in specific circumstance as detailed in paragraph 89 is fully supported by InterGen. The current arrangement is overly onerous on Users who made increases to their Exit Capacity during the Transitional Exit Period and were required to submit an identical increase request for the start of the Enduring Exit Period, thereby triggering a User Commitment from 1st October 2012. This amounts to an effective User Commitment period of up to 7 years (depending on when within the Transitional Exit Period the request was granted) rather than the 4 years usually required. The proposed change addresses this disparity and removes the onerous burden which exists purely due to administrative purposes as the regimes progress from Transitional arrangements to the Enduring Exit Period.	NG NTS note your support on this subject.	None
3.2 EUK	Increases in the Transitional Exit Period	We welcome the introduction of Paragraph 89 which will allow for capacity holdings during the transitional period to count towards satisfying the User Commitment Amount. Whilst this is likely to affect only a few system points it ensures that those points are not subject to a more onerous User Commitment regime simply through the timing of their incremental capacity booking and the introduction of new arrangements. This is also supported since it provides for more flexibility in Exit Capacity holdings where the user commitment is satisfied, similar to Modification 417 and 439 (if implemented).	NG NTS note your support on this subject.	None
4 – Miscellaneous				
4.1 EUK	PCAs	We note that there are many references to Planning and Construction Agreements (PCAs) which have been amended to suggest this is at the discretion of the User or developer rather than a requirement imposed by National Grid. However, we consider there should be more explanation and clarity over the fact that if there is no PCA then the incremental capacity may not be made available. We consider that, even if this reflects the practical reality of the current arrangements that, this is an example of regulatory 'creep' outside of due process with no consideration of whether this furthers the relevant objectives or not. Our view is that	If there is no Planning and Consents Agreement (PCA) in place then National Grid NTS would still be obliged to release capacity in accordance with UNC rules. Whilst commercial rights may be obtained in the absence of a PCA the physical infrastructure may not be in place to support those rights. This means that it is	None

		<p>this further reinforces our position that this framework should be included within the UNC to provide appropriate governance arrangements for changes, minimise duplication and the administrative burden of the annual review. We anticipate that the proposed Planning and Reservation of Capacity Agreements (PARCAs) will add clarity and certainty to the incremental capacity reservation process and this alongside existing UNC rules will provide for industry confidence in the exit capacity release arrangements.</p>	<p>likely that National Grid NTS would seek to extend the lead times (as described in paragraph 42). As you acknowledge, these points merely clarify the practical reality of the current situation pending the anticipated industry change that would introduce more robust processes as a permanent solution.</p> <p>If a PCA has not been agreed, and there are no permits available, then the lead time cannot be extended. Capacity will still be released, if consistent with UNC, but there will be an increased likelihood of constraints occurring and associated constraint management actions being taken.</p>	
4.2 EUK	Revenue Drivers	<p>Paragraph 37 – there are a number of revenue drivers already in the licence which have not necessarily been calculated in accordance with the methodology produced in accordance with the methodology in Special Condition 9C. Does this imply that National Grid intends to recalculate those revenue drivers?</p>	<p>If the proposed Generic Revenue Driver Methodology (GRDM) is NOT approved, then the values stated in the Licence continue to apply.</p> <p>If the GRDM is approved and implemented, the existing values will only be reviewed where certain criteria are met. These criteria will be stated in the GRDM.</p>	None
4.3 EUK	Substitution	<p>Paragraph 81 – we would like to seek clarification as to when capacity can be substituted? Footnote 26 refers to Y+4, whilst our understanding is that under RIIO, Funded Incremental Obligated Exit Capacity cannot be substituted until Y+5.</p>	<p>Substitution will not apply, for any capacity type, in advance of Oct Y+4. Funded Incremental Obligated Exit Capacity (FIOExC) will not be defined as “substitutable capacity” until Y+5 when it is reclassified as baseline capacity. Other capacity (i.e. not FIOExC) can be substituted earlier, i.e. at Y+4. This is explained in greater detail in the ExCS.</p>	None
4.4 EUK	Permits	<p>Paragraph 114 – we would also like some clarification here regarding permits. We believe that a value has only been set for year 1 for RIIO-T1, which ends in March 14, whereas the next review of this statement is not due to take effect until June 14, if for whatever reason the new PARCA arrangements were delayed.</p>	<p>We are currently considering undertaking the next annual review slightly earlier so as to get it in place for April (alongside the PARCA Modification). Irrespective of this, in the Final Proposals Ofgem provided for the permit arrangements to be extended, however this would require a Licence modification. If necessary, the ExCR will be updated in parallel.</p>	None