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Exit Capacity Substitution and Revision Methodology Workshop

27 January 2010

What is exit capacity substitution?

- Mechanism which allows exit capacity to be transferred from exit points with unsold or unallocated capacity to exit points where incremental capacity is required.
- Represents a permanent shift of capacity from the donor(s) to the recipient(s), with baseline capacity revision required to reassess system impact

Background and context

- Capacity substitution as a means of reallocating entry and exit capacity baselines formally introduced as a concept in 2006 as part of TPCR4 settlement – originally due for implementation in 2007
- Given the work on entry substitution and offtake reform we have twice provided a derogation extending the timeline. On 23 Feb 2009 we extended the submission date to 4 January 2011
- Now entry substitution decision made and offtake reform under way, time to progress exit substitution

NGG exit capacity substitution licence obligations

- Special condition C8E paragraph 3 - reasonable endeavours obligation to substitute unsold NTS baseline exit flat capacity between NTS exit points.
- Special condition C8E paragraphs 4b & 4c obliged to prepare and submit for approval an exit capacity substitution and exit capacity revision methodology.

Special condition C8E paragraphs 4b & 4c

- Methodologies should facilitate following objectives:
 - Ensure that substitution and revision are effected in a manner consistent with physical capability of the pipeline system
 - Avoid material increases in the costs incurred as a result of substitution
 - As far as consistent with the above, facilitate effective competition between shippers.

Exit capacity substitution: policy objectives

- Efficient use of network assets – to the benefit of consumers and the environment
- Intention is to avoid both capacity sterilisation and unnecessary infrastructure investment while being responsive to changing offtake needs.
- NGG to make consistent and transparent decisions regards how incremental capacity requirements are met

Exit capacity substitution: policy principles

- User commitment – securing capacity should carry financial commitment
- Efficiency - surplus or unsecured capacity must be considered for substitution (within the physical limitations of the system) where incremental capacity requirements are signalled.
- Transparency – robust methodology to be applied on open and consistent basis.

Issues for consideration

- What lessons are there from the industry development of the Entry Capacity Substitution Methodology? To what extent would differences between entry and exit capacity justify differences between the two substitution methodologies?
- In 2009 we modified the GT licence to further clarify the objectives applying to the Entry Capacity Substitution Methodology. Would a similar licence definition be appropriate for exit capacity substitution methodology objectives?



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