national gas transmission

Preliminary Consultation

Capacity methodology statements

June 2026

Executive Summary

This preliminary consultation is to gather views from industry on potential options to propose amendment to the Entry Capacity and Exit capacity methodology Statements. This is a result of feedback received from industry directly and through 0901R review group[1].

NGT have obligations contained within our Licence to publish and periodically review our Capacity methodology statements:

- Entry Capacity Release (ECR)
- Exit Capacity Release (ExCR)
- Entry Capacity Substitution (ECS)
- Exit Capacity Substitution and revision (ExCS)
- Entry Capacity Transfer and Trade (ECTT)

These statements are published here: Capacity methodology statements | National Gas

The statements relate to capacity on the National Transmission System (NTS).

This preliminary consultation will shape the forthcoming review of the Capacity methodology Statements and in particular the Entry Capacity Release (ECR) methodology in which the following areas have been considered:

- Net Present value test
- Requirement to buy unsold baseline capacity to trigger an incremental signal
- Overall commitment from PARCA applicants who are reserving capacity on the NTS.

This pre-liminary consultation will be open from 12th June to 10th July 2026, ahead of any formal consultation required by our Gas Transporter Licence.

Context

As set out in the Government's recent 'Gas System in Transition: Security of Supply' consultation, gas will continue to play an important role in our energy system in the years to come while our energy system transforms and it is critical to maintain security of supply for the future. Whilst annual gas demand will decline under all transition scenarios, the pace at which peak demand falls is a lot slower. At the same time then UK continental shelf supply is in structural decline, and GB reliance on imports is increasing. Thus, even as gas demand declines it is important to sustain in place suitable commercial arrangements that facilitate new supply capability to offset the decline in existing supply capability. Similarly, while net gas demand reduces, there may be individual site increases in demand as gas continues to support the peak requirements of the power sector and potentially supports data centre build out across the UK.

This review of the Capacity methodology statements is one piece of work which is happening within this broader context. It builds on work already completed through UNC0901R, which

[1] UNC request 0901R: Review of the arrangements for reservation of NTS Capacity | Joint Office of Gas Transporters - Gas Governance

reviewed the process for reserving capacity through the Planning and Advanced Reservation of Capacity Application (PARCA) process.

We have experience of PARCA termination due to significant financial barriers to Entry and also projects which have been unable to secure capacity effectively due to the financial commitments required being excessive. Part of the reason for this that has been identified, is the lack of existing long term capacity bookings against the current baseline from users, despite the fact that nearer to real time high volumes of capacity is purchased. Under the current rules then all baseline capacity must be sold long term before an incremental signal can be given, resulting in PARCA applicants needing to buy existing baseline capacity that is far in excess of their individual project requirements.

Ensuring the PARCA process remains suitable for new sources of supply, particularly with regards to the user financial commitment aspect, can support the attractiveness to invest in GB and would be beneficial to GB Gas Security of supply.

0901R Review of the arrangements for reservation of NTS Capacity

This review was focused on the reservation of capacity and was triggered by industry feedback specifically in relation to Entry Capacity. This was a request workgroup which began in November 2024 and concluded in October 2025 with a workgroup report.

Following 0901R, National Gas has raised 2 UNC Modifications resulting from the review so far which have been progressed:

- 0912s: PARCA Quarterly NTS Entry Capacity minimum duration quantity

  This modification reduced the Planning and Advance Reservation of Capacity Agreement (PARCA) commitment by amending the minimum duration quantity required for Quarterly NTS Entry Capacity, where no NPV test is required. This was Implemented on 12th December 2025.

- 0920: PARCA Security Amount

  This UNC modification proposes a change to the methodology for determining the Total PARCA Security Amount required to be placed by PARCA applicants on signing a PARCA. This is out at consultation which closes on 19th June and is still in the modification process.

During 0901R review feedback was also captured about the wider context and scope for review beyond 0901R. This can be summarised as relating to 3 main drivers for change:

- A change in market conditions
- Price of capacity
- Strategic planning and Security of supply

The change in market meaning that the current financial commitment expected from applicants is disproportionately high given current market dynamics. Gas supply patterns have changed over time and were previously larger projects expected to flow over a long duration. Supplies are now, and need to be, a lot more flexible. There is also less incentive to book any long-term capacity due to current capacity prices and future uncertainty relating to gas transition.

In addition, it was noted that there is a broader strategic issue of ensuring sufficient entry capacity is available, under the right terms, to attract gas to GB. Developers cannot be expected to make long-term commitments amid significant uncertainty around the future gas demand in the context of the wider energy market and decarbonisation. Further it was discussed that from a centrally planned perspective, the goal should be to ensure adequate capacity is available to enable baseload flows on a continuous basis and for higher gas imports when needed. This point was summarised as a question of ‘insurance’ for security of supply. The ability to land gas from diverse sources is essential and the challenge lies in determining how the benefit that is realised by achieving this should be funded – i.e. whether the cost of ensuring this flexibility and additional capacity should be borne by individual market participants or socialised across the system.

The full Workgroup report can be viewed here: Request Workgroup Report 0901R

Introduction

National Gas Transmission (NGT) is required to review our published Capacity methodology statements at least every 2 years as a requirement of our Gas Transporter Licence.

The Capacity methodology statements required to be reviewed are as follows:

- Entry Capacity Release (ECR)
- Exit Capacity Release (ExCR)
- Entry Capacity Substitution (ECS)
- Exit Capacity Substitution and revision (ExCS)
- Entry Capacity Transfer and Trade (ECTT)

These statements are published here: Capacity methodology statements | National Gas

Following feedback received we have been reviewing the methodology statements particularly in relation to Entry Capacity. The majority of the feedback received has been in relation to Entry Capacity so far, however we acknowledge that there are potential emerging energy sectors requiring exit capacity and we are keen to ensure that barriers to the reservation of capacity on our network are limited for all customers.

We have considered the feedback received and have been working up options for change. This consultation provides an update on those potential options and an opportunity to input further into this review, ahead of any formal proposals and formal consultation process required under our licence.

Outline plan:

This Preliminary Consultation	12th June to 10th July 2026
Formal Consultation	Autumn 2026
Independent examination	Autumn 2026
Report to Ofgem	Q4 2026
Ofgem Decision expectation	Q1 2027

We are seeking views from any stakeholders with an interest in our Capacity methodology statements. We intend to provide updates to industry on progress at Transmission Workgroup [2] as an AOB item in addition to publications on our website.

[2] Transmission | Joint Office of Gas Transporters - Gas Governance

Aim and Objectives

The aim of this consultation is to gather further industry views at this stage on the potential options for change to the Capacity methodology statements. In particular, this relates to the Entry Capacity Release methodology in response to feedback.

During request group 0901R industry views were sought and through workgroup engagement discussed and concluded into the 0901R workgroup report. Working with this and in discussion with industry stakeholders we have developed some options to address these issues. It would be helpful to now get further industry input into this thinking at this stage before making formal proposals for change.

Scope

The scope of this review of Capacity methodology statements is to review all 5 Capacity methodologies.

It is envisaged that based on industry feedback changes to the following statements will be limited to required housekeeping changes since the last update.

- Exit Capacity Release (ExCR)
- Entry Capacity Substitution (ECS)
- Exit Capacity Substitution and revision (ExCS)
- Entry Capacity Transfer and Trade (ECTT)

As well as any required housekeeping updates, changes to the Entry Capacity Release (ECR) methodology will propose more material changes based on feedback received and the following sections in this document discuss these areas in more detail.

Housekeeping updates proposed

- Appendix Review - In all 5 Capacity methodology Statements we are reviewing when Appendix documents contain data which is provided and kept updated elsewhere to reference and link to this rather than duplicate within the Statements in order to minimise out of date information and make the review process more efficient. For example, in the ECS the obligated capacity amounts.

- Licence updates - For all statements, references to our Licence will be updated to align to any changes in our new RIIO-GT3 Licence effective from 1st April 2026.

- Other specific minor amendments required to keep relevant and accurate.

Industry Feedback

To summarise the feedback so far from industry in relation to this topic this can be grouped into 3 areas which are considered to be a barrier to the reservation of Entry Capacity:

1. Net Present Value (NPV) test
2. Unsold baseline capacity
3. Overall commitment required for the PARCA applicant

1. Net Present Value (NPV) Test

The NPV test provides a direct investment signal, supports the user pays principle, and protects against stranded asset investment by requiring the applicant to make a financial commitment through incremental capacity bookings to at least 50% of the project value. This % value is known as the sharing factor.

One of the proposed next steps from the 0901R workgroup report was relating to the NPV test

NPV Test	Further review of NPV test requirements and update to ECR	National Gas to consider further

Review of the Net Present Value (NPV) test (Entry)
The Net Present Value (NPV) test is detailed within the Entry Capacity Release (ECR) methodology and is applied where Funded Incremental Obligated Entry Capacity release is the solution required to release additional Entry Capacity on the National Transmission System (NTS). Funded Incremental Obligated Entry Capacity is required where investment is needed in the NTS requiring physical works in order to meet the requested capacity need. It is not expected to be required where unsold NTS Entry Capacity, Entry Capacity Substitution (from another Entry Point) or Use of existing infrastructure is utilised as the solution.

The NPV test is designed such that at least 50% of the estimated project cost, associated with a funded incremental increase in entry capacity, is recovered as part of the allocation process through capacity charges, including an additional premium cost where necessary. The 50% project cost figure is also adjusted for inflation, and the capacity and premium costs are discounted for time value. The Entry Capacity Release methodology statement (ECR) includes the Net Present Value test (chapter 6) and the Estimated Project Cost methodology (Appendix 1).

During 0901R the following Principles were proposed for a revised NPV test:
• Should be more transparent for ease of understanding
• Should not be an undue barrier to entry
• Should be proportionate to cover the actual requirement
• Should have a more appropriate project costing approach
• Should provide a level of certainty upfront for investment decisions

- Should not be unduly discriminatory
- Should meet the relevant objectives.

Industry Feedback:

▪ Process is too onerous
▪ The sharing factor of 50% is arbitrary
▪ NPV calculation is complex
▪ Wider system benefit value and security of supply needs should be considered
▪ Project Cost methodology v actual costs of delivery the additional Obligated capacity
▪ Cost Uncertainty

2. Unsold baseline capacity

There can be large quantities of unsold baseline capacity as a result of user behaviour which has seen a shift to favour short term NTS capacity bookings. Currently within the ECR methodology to trigger a signal for incremental obligated capacity (additional to existing baseline capacity) at an Entry point, the PARCA applicant is required to first buy any unsold capacity at that point. This is becoming prohibitive in some cases due to the large quantities of unsold capacity which is now a significant additional financial commitment in excess of the incremental capacity they are seeking to add above the existing baseline.

Industry Feedback:

▪ The PARCA applicant requirement to purchase all unsold baseline capacity in order to trigger an incremental signal can be prohibitive
▪ Risk to Security of Supply if incremental obligated capacity is not sufficiently attractive to purchase/commit to
▪ Risk of negatively impacting competition

3. Overall commitment for the PARCA applicant

When multiple financial commitments required by the PARCA applicant are combined this can become an excessive burden which is a bar that cannot be met for investment to proceed. This has become a barrier to securing additional baseline capacity in some cases.

Industry Feedback

▪ A more simplistic approach is called for
▪ A review of the burden on the PARCA applicant
▪ Question over socialisation of costs for the benefit of all network users

Exit Capacity

We have received limited feedback in relation to Exit capacity issues relating to the reservation of capacity from 0901R and therefore are not proposing any material change to the Exit Capacity Release methodology or Exit Capacity Substitution methodology at this time.

We are aware however, that since the review group was concluded new customer needs are emerging for gas exit for example in relation to datacentres.

If you would like to provide any comments in relation to Exit Capacity in your response, please do so clearly marking them as Exit Capacity related.

Options

NGT have considered options to address the industry feedback above along with our own experience of the processes. This has been an ongoing piece of work since the closing of 0901R request workgroup in October 2025, alongside developing the resulting UNC modifications.

All options including any discounted options are set out below.

1. Net Present Value (NPV) Test

A) Do Nothing

This option was discounted on the basis that the feedback should be addressed and by not doing this it is highly likely that the issues experienced will continue.

B) No NPV Test – cost is fully socialised

Having no NPV test at all for Entry could be a risk to stranded assets and therefore this option was not favored and was discounted in favor of amending the current NPV test. (Noting that there is currently no NPV test for Exit Capacity so there is some precedent for this).

C) Sharing factor based on a CBA

The sharing factor is currently set at 50% between the applicant and the amount socialised. This is set within our licence. Changing the sharing factor would be arbitrary without a basis for change.

A Cost Benefit Analysis (CBA) earlier in the process has been considered to take into account any potential wider system benefits, for example security of supply resilience. From this we could use the output to determine the sharing factor. Different options have been considered for this. One option is utilising insights from other methodologies already produced and any revised project cost calculation (see below).

There is a CBA which occurs later in the process which would not be available at this stage.

Next steps: This option will need to be further developed and therefore would be a change anticipated after the 2027 publication. As the sharing factor is contained within our licence then a licence change would also be required.

D) Project Cost method more aligned to estimated actual project costs

The current project cost model is based on Long Run Marginal Cost (LRMC) methodology and estimates based on the distance (km) of investment required in the network. Many issues have been raised with this method challenging its relevance and complexity. Actual project costs are not known at the time the NPV is required to be calculated.

The project cost could potentially be based on project cost estimates which could provide a range more aligned to likely actual project costs. This can be kept under review.

Certainty of cost is an important factor for the applicant and needs to be considered.

Next Steps: This option would require further development to ascertain the appropriate cost estimations to be used and for the existing model to be reviewed and modified appropriately. This therefore is estimated to require a development lead time of at least 12-18 months and would therefore be a change implemented after the 2027 ECR publication.

2. Unsold baseline capacity

A) Do nothing – this has been discounted as it is important to address the feedback received.

B) Alternative trigger for incremental capacity based on forecast utilisation

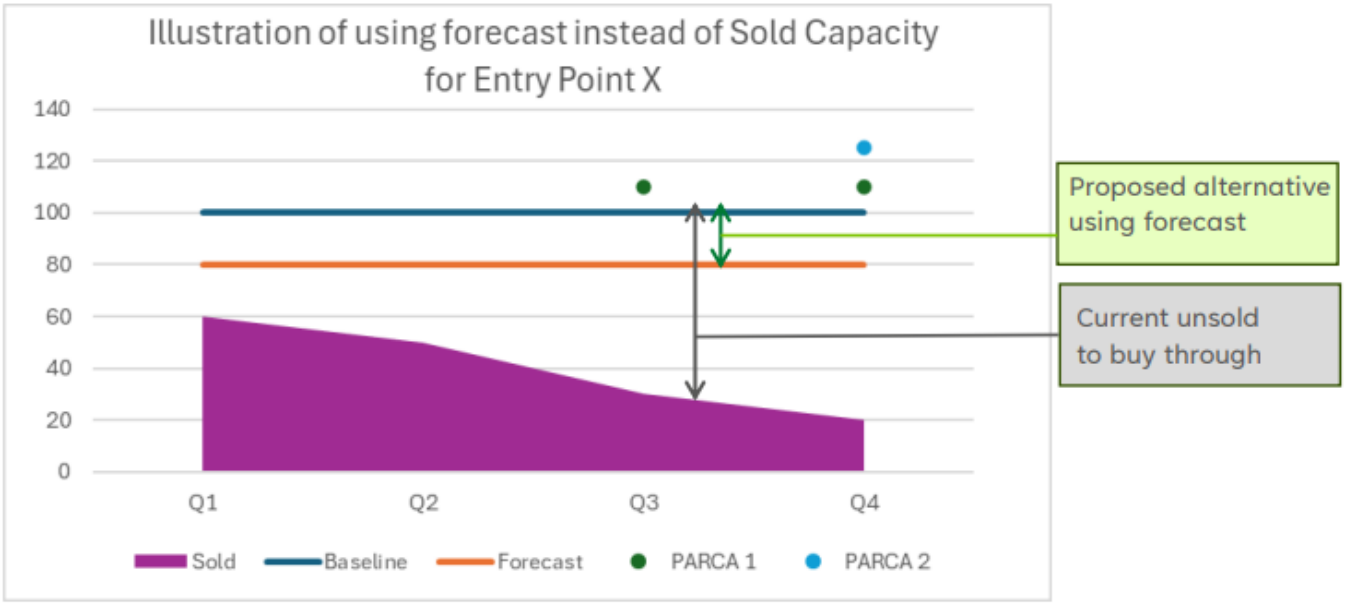
Currently in the ECR methodology, A PARCA applicant must first buy through the unsold capacity up to the baseline capacity before an incremental trigger for additional baseline capacity can be signalled. During review group 0901R it was agreed that this issue should be further considered. We have considered an option to remove the requirement to buy through all of the unsold baseline capacity by using an alternative way to assess the anticipated utilisation of the existing baseline capacity. This could be achieved by using a forecast of utilisation based on expected flows rather than sold capacity.

We believe that a commodity forecast gives a more accurate representation of the likely existing baseline utilisation compared to looking at existing long term capacity sales. This is as a result of the decline in long term capacity bookings across the market. This would mean that the applicant would only be required to buy capacity to meet the required

quantity of incremental capacity beyond that which is forecast to be utilised. The PARCA Applicant will still be required to make a financial commitment as a result of the NPV test.

We are currently minded to move to developing a methodology within ECR to produce a forecast (which would be updated annually) to use for the indicator of utilisation. In developing this methodology, we intend to take learning and insight from existing forecast methodologies where considered applicable which already represent a realistic view of maximum available supply in a stress condition.

The below illustration visualises how this could work.



In this illustration in Q3 the applicant commitment is reduced from 70 to 20 units of unsold capacity to buy before triggering incremental capacity above baseline. The total unsold baseline capacity is replaced with the difference between the forecast and baseline where the forecast is below baseline[3]. If the forecast were to be above baseline there would be no unsold baseline capacity to buy through and any capacity applied for would be treated as incremental. If the sold capacity was in excess of the forecast then we would default to using the sold capacity.

There would be no change proposed to our funding mechanisms in our licence relating to Funded Incremental Obligated Capacity and the need to justify with a robust needs case.

We appreciate that the benefit of this option is limited to projects at existing ASEPs, however this has been experienced as a barrier on several occasions at Entry points in recent history. A change may encourage a new development at an existing ASEP. At new ASEPs then there is no unsold baseline to buy through in any case.

[3] It will in fact be 90% of the baseline. In order to prevent market foreclosure then 10% of baseline cannot be allocated in long term processes and must be withheld to be available in short term auctions.

Next Steps: We are seeking views on this concept in principle and methodology development at this stage. With some further development, this is a change that could potentially be proposed during the current ECR methodology review.

3. Overall commitment for the PARCA applicant

We consider that through the implementation of UNC Mod 0912s, the development and potential implementation of UNC Mod 0920s plus the development and potential changes proposed above, in the review of the Capacity methodology statements, this would result in the overall combined commitment for the PARCA applicant for Entry Capacity being reduced. This will reduce the burden and therefore the corresponding risk to new entry projects committed to bring gas to our network will be potentially consequentially reduced.

Consultation questions

1. **All Options** - To what extent to you agree or disagree with the options and why? Please state for each of the options e.g. 1a, 1b etc.
2. **Option 1c** – Should a Cost Benefit Assessment (CBA) of a project be linked to greater socialisation of costs for Entry Capacity and how is this justified?
3. **Option 1c** - Any preference on how a CBA methodology would be determined?
4. **Option 2b** – Any preference on the basis for a forecast if this were to be used instead of sold capacity for an assessment of utilisation?
5. **All -** Any other options not considered and the reasoning for these to be considered?
6. **Scope**- Do you have any comments to make relating to housekeeping updates or the proposal to link to data maintained elsewhere rather than replicate within the statement Appendix?
7. **Other** - Any other comments not covered by this consultation relating to Capacity Release that could help to inform further thinking or any other comment relating to entry or exit capacity reservation? E.g.: new emerging customer needs

Responses

Any responses will be reviewed and considered to inform the development of the statements and will not be regarded as a formal response at this stage. A further formal consultation will be held aligned to our licence obligations ahead of the submission to Ofgem for approval.

Timeline

This preliminary consultation will be open between 12th June and 17:00 on 10th July.

Who should respond?

Anyone with an interest in this topic and in particular stakeholders in relation to Entry Capacity reservation. Anyone able to provide new insight and information to inform thinking on NTS Entry and/or Exit Capacity.

Respond to:

Responses should be sent to **box.gsoconsultations@nationalgas.com**

Confidentiality:

Please mark your response as confidential if you do not wish for your response to be shared. Responses will be placed on our website and incorporated within our reporting. If you wish your response to be treated as confidential then please mark it clearly to that effect.

Contact Us

If you would like to discuss this consultation, please contact

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