

Steve Fisher
Gas Charging and Development
Manager
National Grid Gas
National Grid House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

Direct Dial: 020 7901 7105
Email: paul.branston@ofgem.gov.uk

Date: 20 October 2015

Dear Steve

Approval of the modified Capacity Release Methodology Statements and of the modified Capacity Methodology Statements pursuant to Special Condition 9A and Special Condition 9B respectively of National Grid Gas plc's gas transporter licence

Thank you¹ for submitting proposed modifications to the three Capacity Methodology Statements and to the two Capacity Release Methodology Statements (collectively the "Methodology Statements") to us² for approval on 21 August 2015. The Capacity Methodology Statements were submitted pursuant to Special Condition 9A and the Capacity Release Methodology Statements were submitted pursuant to Special Condition 9B of your gas transporter licence (the "Licence") respectively.

This letter contains our decision to approve the modified Methodology Statements and sets out the background and reasons for our approval under section 38A of the Gas Act 1986 (the Gas Act). This decision is subject to further clarificatory changes being made to the Methodology Statements as set out in the direction annexed to this letter.

Background

The Methodology Statements set out how users can obtain access to National Transmission System (NTS) entry and exit capacity. The three Capacity Methodology Statements developed pursuant to Special Condition 9A of your Licence are:

- The Entry Capacity Substitution Methodology Statement ("ECS")
- The Exit Capacity Substitution Methodology Statement ("ExCS")
- The Entry Capacity Transfer and Trade Methodology Statement ("ECTT").

The two Capacity Release Methodology Statements developed pursuant to Special Condition 9B of your Licence are:

- The Entry Capacity Release Methodology Statement ("ECR")
- The Exit Capacity Release Methodology Statement ("ExCR").

Special Condition 9A.6 of your Licence states that you must seek to make such modifications to the Capacity Methodology Statements as you consider are reasonably necessary to better facilitate the achievement of the capacity objectives set out in Special Condition 9A.5 of your Licence. Special Condition 9A.6 and 9B.8 of your Licence state that

¹ The terms "the licensee", "NGG" and "you" are used to refer to National Grid Gas plc in this letter.

² The terms "the Authority", "Ofgem", "we", "us" and "our" are used interchangeably in this letter.

you must seek to make modifications to the Methodology Statements if so directed by the Authority and in any event at least once in every two years.

Consistent with Special Conditions 9A.8(b) and 9B.10(b), you consulted on the proposed changes to the Methodology Statements in July 2015. A copy of the consultation can be found on your website.³ There were no consultation responses and you submitted the final proposed modified Methodology Statements to us on the 21 August 2015.

The Methodology Statements submitted to us for approval must be accompanied by a statement from an Independent Examiner as required under Special Conditions 9A.7 and 9B.9 of your Licence unless the Authority otherwise consents in writing. The statement from an Independent Examiner, the scope and objectives of which must have been established by you and approved by the Authority, must give an opinion as to the extent to which you developed a methodology that is consistent with your duties under the Gas Act and your obligations under the Licence. You requested our consent not to submit a statement from the Independent Examiner, on the basis that an Independent Examiner statement would provide little valuable additional information regarding your compliance with your obligations under your Licence and duties under the Gas Act. We gave our consent on 11 November 2014, and therefore no statements from an Independent Examiner were needed to accompany your submission of the proposed Methodology Statements on the 21 August 2015.⁴

Proposed changes to Methodology Statements

The main proposed modifications to the Methodology Statements are to incorporate the processes for allocating NTS capacity at Interconnection Points to facilitate compliance with the Capacity Allocation Mechanisms (CAM) Network Code.⁵ The modifications are proposed to reflect the capacity release processes introduced by UNC Modification 0500⁶ to facilitate implementation of CAM and ensure compliance with the changes to your Licence for CAM that we approved on the 10 February 2015.⁷

The proposed modifications also incorporate the Independent Examiner's recommendations resulting from their review of the Methodology Statements when Planning and Advanced Reservation of Capacity Agreements were introduced in February 2015.⁸ You also propose some typographical corrections.

The Authority's decision

We have reviewed the proposed modifications to the Methodology Statements pursuant to both the Authority's principal objective and statutory duties under the Gas Act, and the capacity objectives for the statements submitted pursuant to Special Condition 9A. Our principal objective under the Gas Act is to protect the interests of existing and future consumers. Section 4C of the Gas Act requires the Authority to carry out its functions under Part I of the Gas Act in the manner that it considers is best calculated to implement, or to ensure compliance with, any binding decision of the Agency or the European Commission

³ <http://www2.nationalgrid.com/UK/Industry-information/Gas-capacity-methodologies/>.

⁴ <https://www.ofgem.gov.uk/publications-and-updates/capacity-methodology-statements-2014-eu-changes-independent-examiner-statement-derogation>.

⁵ Commission Regulation (EU) No 984/2013 of 14 October 2013 establishing a Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems: <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013R0984&from=EN>. The modifications to the Methodology Statements are also proposed to ensure continued compliance with Annex 1 to EC regulation 715/2009 (Congestion Management Procedures).

⁶ 0500: "EU Capacity Regulations – Capacity Allocation Mechanisms with Congestion Management Procedures" available via the Joint Office <http://www.gasgovernance.co.uk/>.

⁷ <https://www.ofgem.gov.uk/publications-and-updates/modification-special-conditions-1a-and-5f-national-grid-gas-plc%E2%80%99s-gas-transporter-licence-facilitate-implementation-capacity-allocation-mechanisms-network-code>.

⁸ <https://www.ofgem.gov.uk/publications-and-updates/approval-modified-capacity-methodology-statements-including-direction-make-some-further-amendments-pursuant-paragraph-8-special-licence-condition-9a-gas-transporter-licence>.

made under the Gas Directive, the Gas Regulation or the Agency Regulation in relation to Gas, which includes CAM.

The Licensee is required by Special Condition 9A.6 of the Licence to make modifications to the three Capacity Methodology Statements that it considers necessary to achieve the capacity objectives in Special Condition 9A.5. Special Condition 9A.5(a) requires the Licensee to ensure that revisions to the Capacity Methodology Statements are effected in manner consistent with its duties under the Gas Act. In particular NGG duty under section 9 of the Gas Act to develop and maintain an efficient and economical pipe-line system for the conveyance of gas and to facilitate competition in the supply of gas. The amended statements will facilitate the development of a more efficient and economic system for the conveyance of gas.

We approve the five Methodology Statements because we consider that they further the Authority's principal objective and statutory duties under the Gas Act and because approval will ensure compliance with CAM. Furthermore the three modified Capacity Methodology Statements facilitate the achievement of the capacity objectives.

However further changes to the Methodology Statements are needed to correct cross-references and typographical errors. Under Special Conditions 9A.8(d) and 9B.10(d) we are directing the Licensee that Special Conditions 9A.8(a)-(c) and 9B.10(a)-(c) shall not apply for the purposes of the clarificatory amendments. Instead we are directing the Licensee to make further changes to the Methodology Statements as specified in the Schedule to this Direction.

We have decided to approve the proposed modified Methodology Statements and direct further changes as set out in the Schedule to the Direction annexed to this letter. Our decision is made on the grounds that the proposed amendments better facilitate the achievement of the capacity objectives set out in Special Conditions 9A.5 in your Licence and the Authority's principal objective and statutory duties under the Gas Act.

Yours sincerely

Paul Branston
Head of Gas Networks

Signed on behalf of the Authority and authorised for that purpose

ANNEX 1

Direction issued to National Grid Gas plc (NGG) pursuant to Special Licence Condition 9A.8(d) (Entry Capacity and Exit Capacity Obligations and Methodology Statements) and Special Licence Condition 9B10(d) (Methodology to determine the release of Entry Capacity and Exit Capacity volumes)

1. This Direction is issued by the Gas and Electricity Markets Authority (the "Authority")⁹ pursuant to Special Licence Condition 9A.8(d) and Special Licence Condition 9B.10(d) of the gas transporter licence (the "Licence") granted or treated as granted under section 7 of the Gas Act 1986 (the Gas Act) to National Grid Gas plc (the "Licensee").
2. Special Licence Condition 9A provides that the Licensee shall prepare and submit for approval by us a statement setting out each of the methodologies referred to in Special Licence Condition 9A (the "Capacity Methodology Statements").
3. Special Licence Condition 9B provides that the Licensee shall prepare and submit for approval by us a statement setting out each of the methodologies referred to in Special Licence Condition 9B (the "Capacity Release Methodology Statements").
4. Special Licence Condition 9A.5 requires the Licensee to use reasonable endeavours to ensure that the methodologies will facilitate achievement of the capacity objectives set out in that paragraph.
5. Special Licence Conditions 9A.6 and 9B.8 require the Licensee to review the current Capacity Methodology Statements and Capacity Release Methodology Statements respectively if so directed by us and in any event at least once in every two years. In accordance with Special Licence Conditions 9A.6 and 9B.8 the Licensee conducted such review to incorporate the processes for compliance with EU Regulation 984/2013 (Capacity Allocation Mechanisms) and the continued compliance with Annex 1 to EC regulation 715/2009 (Congestion Management Procedures).
6. Special Licence Conditions 9A.8 and 9B.10 require the Licensee to take all reasonable steps to consult with Relevant Shippers, interested parties and in case of Exit Capacity Substitution or Exit Capacity Revision, also with Distribution Network Operators and allow them a period of not less than 28 days within which to make representations unless and insofar the Authority may otherwise direct from time to time. The Licensee must also provide to us a report setting out the modifications originally proposed, the representations, if any, made by interested persons and any changes to the modifications proposed as a result of such representations.
7. In accordance with Special Licence Conditions 9A.8 and 9B.10, on 21 August 2015 the Licensee provided us with a report setting out its proposed modifications to the Methodology Statements. No changes were needed as a result of the public consultation. We gave NGG our consent not to comply with the obligation under Special Licence Conditions 9A.7 and 9B.9 to accompany the modified Methodology Statements with statements from an Independent Examiner on the 12 November 2014.¹⁰
8. Having regard to the Authority's principal objective and statutory duties under the Gas Act, and the Licensee's obligation under Special Condition 9A.6 of its licence to achieve the capacity objectives, we have decided to approve the modified Methodology Statements.

⁹ The terms "the Authority", "Ofgem", "we" and "us" are used interchangeably

¹⁰ <https://www.ofgem.gov.uk/publications-and-updates/capacity-methodology-statements-2014-eu-changes-independent-examiner-statement-derogation>

9. The Authority considers further changes are needed to the Methodology Statements to correct a number of cross-reference and typographical errors. Special Conditions 9A.8(d) and 9B.10(d) allow us to direct that sub-paragraphs (a), (b) and (c) of Special Conditions 9A.8 and 9B.10 respectively shall not apply and direct the Licensee to comply with such other reasonable requirements as are specified in that direction. We hereby direct that sub-paragraphs (a), (b) and (c) of Special Condition 9A.8 and 9B.10 shall not apply for the purpose of the amendments to correct a number of cross-reference and typographical errors subject to the additional requirement that the Licensee shall make such further clarification changes to the Methodology Statements as specified in the Schedule to this Direction.
10. We hereby direct, pursuant to Special Licence Condition 9A.8(d) and 9B.10(d) of the Licence, that the modified Methodology Statements shall incorporate the textual amendments set out in the Schedule to this Direction in order to correct cross-references and improve the clarity of the Methodology Statements.
11. This Direction shall have immediate effect and shall remain in effect until such time as we may revoke or vary the Direction in writing upon reasonable notice.
12. This Direction constitutes notice of our reasons for the decision pursuant to section 38A of the Gas Act.

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Paul Branston
Head of Gas Networks

Duly authorised on behalf of the Authority

Schedule to Direction - Methodology Statement changes

Paragraph number	Comment	Text change (deletions crossed out and additions in red text)
The Entry Capacity Release Methodology Statement (ECR)		
Table of Contents	Chapter 11 is missing from the table of contents and needs to be added.	n/a – add reference to Chapter 11
43	In setting out the chapters in Part C, the titles of Chapter 12 and Chapter 13 have been mixed up compared to the actual chapters.	<p>· Chapter 12 looks at the methodology for setting the prices required for each step quantity; and covers the release of Non-Obligated Entry Capacity</p> <p>· Chapter 13 covers the release of Non-Obligated Entry Capacity looks at the methodology for setting the prices required for each step quantity.</p>
53	The end date for the capacity release period hasn't been updated for an auction held in August 2016.	"In these auctions National Grid sells Firm NTS Entry Capacity for Gas Years Y+2 to Y+16 (i.e. an Ad-hoc QSEC auction held in August 2016 will be for capacity release over the period October 2017 to September 2031 2) ..."
61	Minor clarification to avoid confusion over the use of the work "available" when used subsequently in paragraph 64 in relation to unsold capacity.	"This table shows the 'Total Obligated' (the total amount of Obligated Entry Capacity) available, which is the maximum quantity that National Grid has an obligation to release make available for sale at the ASEP for the relevant month...
64	Minor clarification to reference to Table 2	"Table 2 from the Obligation Summary report /(published within the Long-Term Summary report) shows the Obligated Quantity Unsold, i.e. the quantity available, which is referred to in UNC as Unsold NTS Entry Capacity. "
64 Table 2	Minor clarification to heading of table	"Table 2: Obligated Quantity Sold and Unsold Obligation Summary report/Long-Term Summary Report (for illustrative purposes only)"
93 footnote 36	The reference to the UNC has been mistakenly changed, and the original reference should be reinstated.	"UNC TPD Section B2.2.18 1.16.4 includes provisions that provide an option for the initialisation of the Phase 1 PARCA works to be delayed by National Grid until the outcomes / impacts of the annual application process are known."
130	The reference to paragraphs describing the PARCA processes needs to be updated.	"Please note that the PARCA processes are described in paragraphs 88 to 109 110 "
197 footnote 42	The amount of unbundled entry capacity that can be made available in gas year +2 is determined by the exit (not entry) capacity allocated to	"For the avoidance of doubt where there are two adjacent Transporter IPs, the sum of the unbundled interconnected system entry exit

	users at adjacent TSO.	capacity allocated to Users at both adjacent Interconnection Points will be considered.”
198 last bullet point	Incorrect reference - Daily Interruptible Interconnection Point Capacity is covered in UNC EID Section B10.6.1, not B10.5.1.	“It will be sold as Daily Interruptible Interconnection Point (i.e. it will be registered to the Shipper User for the relevant Day only and may be subject to curtailment pursuant to UNC TPD Section B2.9 and EID Section B10.56.1).”
223	Need to add in reference to the UNC EID Section B.	“The Reserve price, large price steps and small price steps for each IP ASEP are determined in accordance with the Gas Transmission Transportation Charging Methodology (UNC TPD Section Y Part A1 and UNC EID Section B).”
Appendix 1	Minor clarification to avoid confusion over the use of the work “available” in paragraph 64 in relation to unsold capacity.	“2. the Unsold Available NTS Entry Capacity volume is 100GWh/d”
The Exit Capacity Release Methodology Statement (ExCR)		
Table of Contents	Part B is missing from the table of contents and needs to be added.	n/a – add reference to Part B
63e	Need to remove square brackets to clarify that the appropriate date is two months prior to the relevant auction.	“in respect of a new Interconnection Point, [2] months prior to the relevant Annual Yearly Auction process.”
78	The subparagraph numbering has been mistakenly changed, and the original numbering should be reinstated.	“a) (b) Determine the date that the requested capacity will be registered from, which may or may not be the date originally requested by the applicant.”
87	Need to add a reference to how the rationing mechanism works.	“Where necessary, requests (or, where relevant, a single request) for Enduring Annual NTS Exit (Flat) Capacity shall be pro-rated. Pro-ration shall be consistent with UNC Section B Annex B-1. ”
182	The hyperlink directs to the wrong page. Need to add hyperlink to Exit Capacity Reports .	n/a – correct hyperlink
183	The reference to the chapter on auction processes for Interconnection Point capacity needs to be updated.	“The quantity of Technical Interconnection Point Capacity to be made available at each Exit IP in each IP auction will be published by the Capacity Platform Operator ⁵⁶ . Chapter 10 7 of this Statement details how these quantities are determined.”
187	Paragraph not relevant to exit capacity release and erroneously copied from ECR	Delete whole paragraph
191 last bullet point	Incorrect reference to the UNC EID section and also need to update reference to UNC TPD section following UNC Modification 547.	“It will be sold as Daily Interruptible Interconnection Point (i.e. it will be registered to the Shipper User for the relevant Day only and may be subject to curtailment pursuant to

		UNC TPD Section B2.9 3.10 and EID Section B10.5.1 10.6.2)”
193	The Long Term Summary Report provides data in months not quarters.	“... The Obligated Exit Capacity is stated for each NTS Exit Point (including IP NTS Exit Points), for each month (or quarter) (on a forward looking basis) in the obligation summary report.”
196	The subparagraph numbering is incorrect - the list should start at (a).	“In order to ensure some capacity is available for later auctions some Technical Interconnection Point Capacity will be withheld from the Annual Yearly Auctions: (e) (a) For auctions of Yearly Interconnection Point Capacity for gas years Y+1 to Y+5... (d) (b) For auctions of Yearly Interconnection Point Capacity ... (e) (c) In the event that the quantity of Unsold Technical Interconnection Point Capacity ...”
214		“The Reserve price, large price steps and small price steps for each Exit IP are determined in accordance with the Gas Transmission Transportation Charging Methodology (UNC TPD Section Y 1A and EID Section B respectively).”
Appendix 1	Two new exit points were added to the licence on 26 September 2015. ¹¹ These should be added to the table for completeness.	n/a – add details on the next exit points Air Products (Teesside) and Fordoun CNG Station.
The Entry Capacity Substitution Methodology Statement (ECS)		
22j	Need to add reference to subparagraph relating to Technical Interconnection Point Capacity.	“j) Sub-paragraphs a) and c) limit Substitutable Capacity to 90% of the Non-incremental Obligated Entry Capacity quantity (10% being held back for MSEC auctions); or in the case of IP ASEPs, sub-paragraph b) limit Substitutable Capacity to 80% of Technical Interconnection Point Capacity; ”
90 footnote 20	Footnote is a leftover from draft version and is no longer needed. As it is potentially confusing it should be deleted.	Delete whole footnote
Appendix 1	The revised baselines for the new Bacton UKCS and IP ASEPs are not the final values in our decision letter	Bacton UKCS 481.4 485.6 Bacton IP 1302.0 1297.8

¹¹ <https://www.ofgem.gov.uk/publications-and-updates/modification-national-grid-gas-transporter-licence-add-two-new-exit-points-national-transmission-system>

	and now in effect in the NGG's Gas Transporter Licence. ¹² These need to be corrected.	
The Exit Capacity Substitution and Revision Methodology Statement (ExCS)		
22 footnote 9	Incorrect reference to sub-paragraph needs to be updated and punctuation deleted.	"As Annual NTS Exit (Flat) Capacity is only available for years Y+1, Y+2 and Y+3, and substitution only applies from Y+4 (see sub-paragraph m l); sub-paragraph d has no relevance"
72	The references to paragraphs in the ExCR need to be updated.	"For the avoidance of doubt, where residual investment relates to the whole or part of the quantity of Incremental Obligated Exit Capacity required at an NTS Exit Point National Grid reserves the right (in accordance with Part A paragraphs 83 86 and 91 94 of the ExCR version 10.1) to reject that application except where a PARCA has been agreed."

¹² <https://www.ofgem.gov.uk/publications-and-updates/modification-special-conditions-1a-and-5f-national-grid-gas-plc%E2%80%99s-gas-transporter-licence-facilitate-implementation-capacity-allocation-mechanisms-network-code>