

The Joint Office, Relevant
Gas Transporters, shippers and other
interested parties

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Dear Colleague,

Re: Consultation on the Exit Capacity Release Methodology Statement (ExCR) to support implementation of the Enduring Gas Offtake Arrangements

The Authority (“the Gas and Electricity Market Authority”) decision that allowed the sale of gas distribution networks by National Grid Transco in May 2005 concluded that NTS offtake arrangements required reform to be introduced in two phases:

- “Interim Arrangements” to establish the new commercial framework recognising the new NTS/DN interface; and
- “Enduring Arrangements” (by September 2005) to introduce more market based arrangements effective from Gas Year 2008/09 consistent with the Authority’s November Final Impact Assessment (“National Grid NTS – Potential sale of gas distribution network business” 255/04a) with regard to NTS Exit Capacity reform.

The Uniform Network Code (UNC) was therefore developed to support network sales with sunset clauses (set at 30 September 2008) in respect of arrangements for registration of NTS Exit Capacity at NTS Exit Points.

It was envisaged that the Enduring Arrangements would be introduced shortly after completion of the network sales process, facilitated by a UNC Modification Proposal, to define the NTS exit regime to apply in respect of registration and utilisation of NTS Exit Capacity for the period from 1st October 2008. However, on 24 June 2005 the Authority announced the delay to the implementation of the Enduring Arrangements until 2007 for release of NTS Exit Capacity and NTS Offtake Capacity rights from Gas Year 2010/11 to permit more time to consider and refine the detail of these arrangements. Transitional Arrangements were therefore developed, facilitated by UNC Modification Proposal 046 (“[Extension of the Sunset Clauses for Registration of Capacity at NTS Exit Points](#)”), to cover the two intervening years between the end of the Interim Arrangements and the commencement of the Enduring Arrangements. This included the extension of the

Incremental Exit Capacity Release (IExCR) Methodology Statement to cover the Transitional Arrangements.

National Grid NTS has therefore raised UNC Modification Proposal 0116, "Reform of the NTS Offtake Arrangements", to seek to implement the Enduring Arrangements. As noted in the Proposal, National Grid NTS will require to make determinations of any request to increase or decrease Prevailing NTS Exit (Flat) Capacity or allocate NTS Exit (Flexibility) Capacity in accordance with an ExCR Methodology Statement for the Enduring Arrangements. This is on the basis that Special Condition C18 of National Grid NTS' Gas Transporter Licence will be amended to place an obligation on National Grid NTS to prepare and submit for approval by the Authority on an annual basis an ExCR Methodology Statement setting out the methodology by which it will determine whether to release NTS exit capacity to gas shippers or DN operators. It is National Grid NTS understanding that Ofgem will be commencing their first informal consultation on such Licence obligations as part of the Transmission Price Control Review on 20 October 2010. This consultation however should not be taken as National Grid NTS acceptance of any such changes to its GT Licence.

This letter therefore notifies gas shippers and DN operators of National Grid NTS's proposed ExCR Methodology Statement (which accompanies this letter) for the Enduring Arrangements, and invites views on these proposals.

User Commitment

A key element of these proposals is the amount of financial commitment which any User must provide to obtain an increase in Prevailing NTS Exit (Flat) Capacity and the notice period before reduction of Prevailing NTS Exit (Flat) Capacity will be permitted. National Grid NTS proposes that, as a broad principle, Users should provide:

- a commitment to pay 4 years of NTS Exit Capacity charges if they wish to increase capacity; and
- a minimum of 14 months notice to reduce holdings of Prevailing NTS Exit (Flat) Capacity.

It is considered that these principles will provide better investment signals to National Grid NTS and reduce the risk of stranded assets and thereby costs incurred by consumers under the Enduring Arrangements.

There are several ways in which such principles can be implemented - National Grid NTS has proposed two such options within the attached ExCR Methodology Statement. Views are welcomed from respondents on the most appropriate option for implementation of such user commitment arrangements under the Enduring Arrangements.

Representations

Any representations with respect to this letter may be made (without fettering the discretion of the Authority in respect of its decision on UNC Modification Proposal 0116 or any of the alternates 0116A, 0116B or 0116 C) no later than 17:00 on 24 November 2006. They should be addressed to:

Jan Gascoigne
NG House

Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

Email: Jan.Gascoigne@uk.ngrid.com

National Grid NTS will forward all representations to Ofgem.

If you wish to discuss any aspect of this letter please contact myself on 01926 656369 or Steve Fisher on 01926 6534928.

Yours sincerely

Paul Roberts