

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

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Dear Colleague

**Re: Consultation on “The Entry Capacity Substitution Methodology Statement”.**

Special Condition C8D of National Grid Gas plc’s (“National Grid”) Gas Transporter License in respect of the NTS (the “Licence”) sets out obligations to prepare and annually review the Entry Capacity Substitution Methodology Statement (the “Methodology”).

At the Transmission Work Group meeting on 5<sup>th</sup> May 2011 National Grid requested that any issues with the current Methodology should be notified to National Grid so that they could be considered as part of the annual review for 2011. No responses were received.

Apart from some general date related changes, and the addition of a new ASEP and general updates to Appendix 1, National Grid is not proposing any further changes.

However National Grid is seeking views on the following:

- Consideration of the removal of the “substitutable quantities” column in Appendix 1; and
- Review of the Exchange Rates.

**The removal of the substitutable capacity quantities contained in Appendix 1**

The substitutable quantities were added to Appendix 1 following a Shipper request in the 2010 consultation. The quantities have been updated within this, 2011, annual review of the methodology.

The initial change was made at short notice, following the 2010 consultation, as it was thought to provide Users with additional information in a readily accessible location. However, upon reflection we question whether it is appropriate to include this information in the Methodology.

The substitutable quantities are also provided in the retainer invitation letter which is issued each year prior to the retainer window, which will be open approximately two months before the QSEC auction. As the Methodology is published at a different time to the invitation letter, there is a possibility that the substitutable quantities provided in the two documents may differ. National Grid believes that as the substitutable quantities must be provided within the retainer letter, to prevent uncertainty with quantities, the data should be omitted from the Methodology. However, we are seeking views on whether the benefits of providing indicative information in the Methodology outweigh the risks and hence, whether the information should be retained or removed.

## **Exchange Rate Cap and Collar**

Entry Capacity Substitution was introduced in December 2009 with a 3:1 exchange rate cap, i.e. if the release of one unit of incremental capacity at a recipient ASEP requires more than three units to be substituted from the donor ASEP, substitution would not be permitted. This limit was introduced to provide a “soft landing” to implementation.

Consideration of the appropriateness of the 3:1 exchange rate cap has been requested, for future reviews of the Methodology. Within this 2011 annual review, National Grid has given further consideration to removing, or relaxing, the cap and does not believe it is appropriate at this time.

Since the implementation of Entry Capacity Substitution there has only been one occurrence, a comparatively small capacity substitution exchanged on a 1:1 basis. We have previously stated that as the Methodology has not been significantly tested it would be inappropriate to make any major changes. This view has been supported by Ofgem in their letter giving approval to the proposed Methodology in 2010. As there was no substitution resulting from the 2011 QSEC auction, National Grid proposes that the exchange rate cap should remain at 3:1; however we would consider relaxing the limit if there is significant industry support.

Similarly, the 1:1 collar has not been tested and National Grid is proposing that the collar remains at 1:1.

In accordance with the above Licence condition, National Grid is required to consult on its proposals before submitting them to the Authority for approval. This letter therefore provides notice of the proposed Entry Capacity Substitution Methodology Statement and invites views on the proposal.

A copy of the proposed Methodology (v2.1) and a comparison to the current version (v2.0) accompanies this letter.

Responses to this consultation should arrive at National Grid by 17:00 on 2<sup>nd</sup> September 2011. They should be sent by e-mail to:

[box.transmissioncapacityandcharging@uk.ngrid.com](mailto:box.transmissioncapacityandcharging@uk.ngrid.com).

Please copy to [lesley.ramsey@uk.ngrid.com](mailto:lesley.ramsey@uk.ngrid.com) and request a “read receipt” to confirm delivery.

Alternatively they can be sent by post to the above address marked for the attention of:

“Lesley Ramsey  
UKT Commercial – Floor B3”

Responses will be placed on National Grid’s website and incorporated within the consultation conclusions report. If you wish your response to be treated as confidential then please mark it clearly to that effect.

Yours sincerely

Lesley Ramsey