

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 the Authority’s proposals for National Grid’s Gas Transporter Licence in respect of the NTS¹ sets out obligations to prepare and submit for approval by the Authority a capacity substitution methodology statement setting out the methodology that National Grid NTS will use to carry out capacity substitution. In addition, National Grid NTS is obliged to consult with relevant shippers and DN operators prior to submitting the initial statement or revising the methodology. This letter therefore provides notification of the proposed Entry Capacity Substitution Methodology Statement (ECS) and invites views on the proposal.

Due to time constraints, specifically the intention to have all relevant information available in place prior to the September QSEC auctions, National Grid NTS is consulting on its proposed ECS prior to agreement and implementation of its Gas Transporter Licence. Should the specific conditions relating to capacity substitutions be significantly at variance with National Grid NTS’s expectations then this statement may be withdrawn or amended (which may require further industry consultation). Consultation on this statement should not be seen as acceptance by National Grid NTS of the proposed licence conditions.

A copy of the proposed ECS methodology statement accompanies this letter.

Although we are seeking views on the entirety of the statement we would appreciate comments on one particular issue.

When a capacity substitution is being considered in accordance with the proposed methodology it may be identified that more capacity is required from the donor ASEP than is made available at the recipient ASEP. In extreme cases this could mean that a large quantity of unsold capacity at the donor ASEP is used to generate a relatively small amount of incremental capacity at the donor ASEP. Should Users subsequently want the capacity at the donor ASEP then it would not be available. Additional capacity at the donor ASEP would only be available as incremental capacity in long term QSEC auctions², the release of which would require sufficient User commitment, in accordance with the Incremental Entry Capacity Release Methodology Statement.

¹ Transmission Price Control Review: Third consultation on draft licence modifications (Gas transmission). Ref 95/07.

² Capacity may be made available in shorter term via the Capacity Transfer and/or Trade processes which are currently being developed (see UNC modification proposals 150 and 151).

We would like to know whether an upper limit should be placed on the exchange rate (i.e. if more than “n” units of capacity are required from the donor to create one unit at the recipient should the transfer be prohibited? If so, what should the limit be?

Responses to the proposed ECS should arrive at National Grid by 17:00 on 15th June 2007. They should be sent to:

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NG House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

Alternatively they can be sent by e-mail to:
box.transmissioncapacityandcharging@uk.ngrid.com.
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Yours sincerely

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