

National Grid NTS and other
interested parties

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15 September 2006

Dear Colleague,

Approval of the Incremental Exit Capacity Release ("IExCR") Methodology Statement

Ofgem¹ has considered the submission of the IExCR methodology statement by National Grid Gas National Transmission System ("NGG NTS") on 24 July 2006 pursuant to Special Condition C18 of National Grid Gas plc's NTS gas transporter licence ("the Licence"). Having regard to the principal objective and statutory duties of the Authority², and for the reasons set out in this letter, Ofgem is currently not in a position to approve the IExCR methodology statement.

This letter outlines the background to NGG NTS's submission of the IExCR methodology statement to the Authority and gives the reasons for the Authority being unable to approve the statement.

Background

The IExCR methodology statement describes the process by which incremental exit capacity is made available for sale to gas shippers or distribution network operators.

On 4 January 2006, NGG issued a consultation report pursuant to paragraph 5(iii) of Special Condition C18 of the Licence, in respect of proposed revisions to the IExCR methodology statement. On 4 January 2006 NGG also requested that the Authority confirmed that it was not proposing to direct National Grid NTS to not make the proposed revisions set out in the consultation report pursuant to Special Condition C18(6)(iii) of the Licence. However, on 12 January 2006 Ofgem directed NGG NTS not to make the proposed revisions to the IExCR methodology statement³, though Ofgem noted that it would not veto a revised IExCR methodology statement which excluded Appendix 2 and any references to it.

¹ Ofgem is the Office of the Gas and Electricity Markets Authority. The terms 'Ofgem' and 'the Authority' are used interchangeably in this letter.

² Set out in Section 4AA of the Gas Act 1986, as amended.

³ 'Proposed amendment to the Incremental Exit capacity Release (IExCR) Methodology Statement to support the Implementation of the transitional gas exit capacity arrangements', Ofgem 12 January 2006.

On 18 January 2006, NGG NTS re-submitted an IExCR Methodology Statement to the Authority. This IExCR Methodology Statement was consistent with that submitted to the Authority on 4 January 2006, with the exception that it excluded Appendix 2 and any reference to that Appendix. As such Ofgem approved the IExCR methodology statement on 24 January 2006⁴.

Changes to the IExCR methodology since the last approval

As noted above Ofgem approved the IExCR methodology statement that was submitted on 18 January 2006.

The changes to the IExCR methodology statement proposed by NGG NTS on 24 July 2006 compared to that approved on 24 January 2006 are that:

1. references to the version of the IExCR and date of that version were updated from 1.4 to 1.5 and January 2006 to July 2006; and
2. three footnotes to the methodology were removed.

Ofgem's view

Paragraph 3 of Special Condition C18 of the Licence requires that unless the Authority consents in writing, the IExCR methodology statement should be accompanied by a statement from appropriate auditors confirming that they have carried out an investigation and giving their opinion as to the extent to which NGG NTS has developed a methodology in line with its duties under the Gas Act 1986 and the Licence.

However, on 25 May 2005 the Authority granted consent to NGG under paragraph 3 of Special Condition C18 of the Licence not to have to submit such a statement from appropriate auditors until the enduring offtake arrangements have come into operation or such other period as may be agreed by the Authority and licensee in writing. As the enduring offtake arrangements are not in operation Ofgem accepts that NGG is not required to submit a statement from appropriate auditors pursuant to paragraph 3 of Special Condition C18 of the Licence.

Sub-paragraph 5(ii) of the Licence requires that NGG NTS must consult gas shippers and DN operators and allow them a period of not less than 28 days in which to make representations before revising the IExCR methodology statement (except where the Authority directs otherwise or a consultation is carried out under sub-paragraph 7(a)). Since the proposed revisions to the IExCR methodology statement, however small, have not been consulted on then NGG NTS has not complied with its licence obligations and Ofgem are therefore not in a position to approve the proposed revisions to the IExCR methodology statement.

Ofgem's decision

Following consideration of the documentation provided by NGG NTS pursuant to Special Condition C18(2) and having regard to the Authority's principal objective and statutory duties and for the reasons set out above, the Authority has decided that it is currently unable to approve the IExCR methodology statement for the reason set out above.

⁴ Proposed amendment to the Incremental Exit Capacity Release (IExCR) Methodology Statement to support the implementation of the transitional gas exit capacity arrangements', Ofgem, 24 January 2006.

If you wish to discuss any aspect of this letter, Richard Miller (telephone 0141 331 6013) would be pleased to assist.

Yours sincerely

A handwritten signature in black ink, appearing to read 'R Hull', with a horizontal line underneath.

Robert Hull
Director, Transmission