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Dear Ian,

Indicative Notice of Intention to Revise NTS Entry Capacity Reserve and Step Prices

I am writing to give indicative notice of our intention to change the Entry Capacity Reserve Prices and Incremental Entry Step Prices for the next Quarterly System Entry Capacity (QSEC) auction which is expected to be held in March 2014.

Prices for permanently obligated and incremental entry capacity will be calculated in accordance with the arrangements set out in the latest approved Statement of the Gas Transmission Transportation Charging Methodology and the Entry Capacity Release (ECR) Methodology Statement.

Please note that National Grid has recently consulted on its proposed changes to the ECR and is awaiting a final decision from Ofgem. The proposed changes include updates for RIIO-T1 which includes new terminology and Licence references, extending the methodology to cover non-incremental capacity release and to cover the potential implementation of UNC Modification 0449¹. Details of the proposed changes can be found on National Grid's website².

Entry prices are set using a transportation model that will be reviewed and updated to include:

- supply and demand patterns determined from the latest data in the 2013 Ten Year Statement and the balancing rules introduced by GCM16. These updates tend to most affect terminals closest to areas where supplies have changed.
- the pipeline network expected in 2016/17 which is based on expected pipeline changes included in the 2013 Ten Year Statement. These changes are likely to have a relatively small impact on entry prices.

¹ UNC Modification 0449 was implemented by Ofgem on 20 September 2013, to be effective from 1 October 2013.

² http://www.nationalgrid.com/NR/rdonlyres/D9EFD257-29F6-413B-99E9-0030587698EB/62708/ECRv02_6Sept_Submitted.pdf

- revised investment costs by a change to the expansion constant. A change to the expansion constant would, all other things being equal, alter the range of entry prices and particularly entry terminals furthest from centres of demand.
- permanent obligated capacities allocated from previous auctions. Any changes to these capacities will impact the price at that entry terminal.

The notice of the reserve and step prices to apply will be given at least two months in advance of the March 2014 QSEC auction.

If you have any questions about this Indicative Notice please contact Karin Elmhirst on 01926 655540.

Yours sincerely,

Steve Fisher
Gas Charging and Capacity Manager