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# Entry Capacity Substitution: Licence Obligations

8 April 2008

## What is entry capacity substitution?

- Mechanism which allows unsold capacity to be exchanged for capacity at entry point(s) which is/are signalling a requirement for incremental capacity investment
- Represents a shift of capacity from the donor(s) to the recipient(s), with donor ASEP capacity adjusted appropriately

## Special condition C8D paragraph 10

- NGG to prepare and submit for approval entry capacity substitution methodology, requiring
  - Consultation (minimum 28 days)
  - Submitting report to Authority (14 days after consultation end)
    - Original proposal
    - Consultation responses
    - Changes to original proposal as a result of consultation responses
- Methodology should facilitate substitution objectives
- Authority has two months in which to approve or not

## Entry capacity substitution: licence objectives

- Ensure substitution minimises costs associated with funded incremental obligated entry capacity
- Ensure substitution compatible with physical capability of NTS
- Avoids material increases in costs reasonably expected to be incurred by NGG as a result of substitution
- Facilitate effective competition between shippers and suppliers

## Entry capacity substitution: policy objectives

- Maximise use of existing Transmission network assets for the benefit of consumers
- Intention is to avoid both capacity sterilisation and unnecessary infrastructure investment while accommodating changing flow patterns
- NGG to make informed judgement on how unsold capacity can be put to use in other areas of the network that are signalling investment requirements

## **3 March 2008: Direction to delay entry capacity substitution**

- 6 Jan 2009: NGG to submit methodology for approval
- 6 Apr 2009: NGG to have approved methodology in force

## Exit Arrangements – Substitution(I)

- On 27 February 2008, we issued an open letter to all interested parties concerning the next steps following the CC decision:
  - Impact Assessment in June 2008
  - Decision on the relevant Modification Proposals in November 2008
- NGG is obliged, under the terms of its licence (C8E), to consult on and develop a transparent methodology for baseline revisions. This methodology addresses processes associated with the:
  - substitution and the upward revision of baselines to reflect developments at offtake and entry
  - need to reflect NGG statutory and licence obligations with respect to efficient network development

## Exit Arrangements - Substitution(II)

- NGG required to make all reasonable endeavours to identify the potential for substitution of unsold NTS flat capacity baselines such that the level of NTS obligated incremental flat capacity is minimised
- NGG required to submit a report to Ofgem setting out how it proposed to substitute baseline capacity and seeking Ofgem's approval for any reallocation of baselines.
- NGG obliged to increase exit baselines in the event that exit capacity is generated as a result of entry investments undertaken and vice versa.



The logo for Ofgem, consisting of the word "ofgem" in a white, lowercase, sans-serif font, centered within an orange rounded rectangle. The background of the slide features a collage of images: solar panels on the left, a hand holding a document in the center, and a close-up of a gas meter on the right.

*ofgem*

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