

Modification Report
To facilitate the release of Additional NTS Exit (Flat) Capacity at National Grid NTS's discretion
Modification Reference Number 0290
Version 1.0

This Modification Report is made pursuant to Rule 9.3.1 of the Modification Rules and follows the format required under Rule 9.4.

1 The Modification Proposal

Where capitalised words and phrases are used within this Modification Proposal, those words and phrases shall usually have the meaning given within the Uniform Network Code (unless they are otherwise defined in this Modification Proposal). Key UNC defined terms used in this Modification Proposal are highlighted by an asterisk () when first used. This Modification Proposal*, as with all Modification Proposals, should be read in conjunction with the prevailing Uniform Network Code* (UNC).*

Background

Implementation of Modification Proposal* 0195AV established the basis for the reform of NTS Exit Capacity* booking arrangements that, in full, are scheduled to come into effect on 1 October 2012.

As part of these arrangements Users* will be able to apply for Annual NTS Exit (Flat) Capacity* rights in a July Annual Application Window * in Gas Year* (Y) for use in Gas Year Y+1, Y+2 or Y+3. These applications will be for a set quantity of Annual NTS Exit (Flat) Capacity* for each Day* of the Gas Year. Where National Grid NTS* receives such applications for Annual NTS Exit (Flat) Capacity it will allocate in full at each NTS Exit Point* where the aggregate amount of Annual NTS Exit (Flat) Capacity applied for is less than or equal to the total amount of Annual NTS Exit (Flat) Capacity National Grid NTS has released. Where the requests in aggregate exceed the amount of Annual NTS Exit (Flat) Capacity National Grid NTS has released at an NTS Exit Point, applications will be pro rated. There is currently no facility for National Grid NTS to release additional Annual NTS Exit (Flat) Capacity, above the unsold quantity, and as such satisfy a greater proportion of requests.

Proposal

National Grid NTS proposes that the UNC be amended to enable National Grid NTS, at its discretion, to release additional Annual NTS Exit (Flat) Capacity* for use in Gas Year Y+1, Y+2 or Y+3, where the aggregate quantity applied for is greater than the Remaining Available NTS Exit (Flat) Capacity*.

National Grid NTS proposes that it be able to release additional Annual NTS Exit (Flat) Capacity, at its discretion, at a level that exceeds the Baseline NTS Exit (Flat) Capacity* amount.

National Grid NTS proposes that any such release of additional Annual NTS Exit (Flat) Capacity shall:

- be limited solely to the release of Annual NTS Exit (Flat) Capacity in the Annual Application Window*
- be at the sole discretion of National Grid NTS
- be subject to the same price that would be applied if the additional Annual NTS Exit

(Flat) Capacity was released as Remaining Available NTS Exit (Flat) Capacity*

- be in excess of the Remaining Available NTS Exit (Flat) Capacity.
- be applied solely for a Gas Year* i.e. where a User requests Annual NTS Exit (Flat) Capacity for any of Gas Years Y+1 and/or Y+2 and/or Y+3 any additional Annual NTS Exit (Flat) Capacity that is released in response to that request will be applicable for that specific Gas Year only

National Grid NTS proposes, that Users will pay NTS Exit (Flat) Capacity Charges* for all the NTS Exit (Flat) Capacity that is allocated through this process i.e the amount of the Users Registered NTS Exit (Flat) Capacity registered (pursuant to the allocation) multiplied by the Applicable Daily Rate*.

National Grid NTS also proposes, that any additional Annual NTS Exit (Flat) Capacity allocated through this process shall be considered in respect of overruns and the calculation of Overrun Charges*.

- Allocated Annual NTS Exit (Flat) Capacity shall be included in the User's aggregate Available NTS Exit (Flat) Capacity* to determine the Overrun Quantity*

Users will be informed of their allocations by National Grid NTS no later than ten (10) Business Days after the end of the Annual Application Window*.

2

User Pays

a) Classification of the Proposal as User Pays or not and justification for classification

The User Pays Service*, that is being proposed in this Modification Proposal, is the development and implementation necessary to enable Users to be allocated additional Annual NTS Exit (Flat) Capacity, at National Grid NTS' discretion, in excess of the unsold quantity that National Grid NTS is obligated to release for any of Gas Years Y+1, Y+2 and Y+3. It is the view of National Grid NTS that this Proposal is a change/addition to the services provided by xoserve and as such National Grid NTS is of the view that this is a User Pays Proposal. Other Workstream attendees did not believe the Proposal met the definition of a User Pays Proposal in the UNC or User Pays Guidance Document. In addition, Ofgem initially indicated that costs of Exit Reform should be funded by National Grid and, as such, some Workstream attendees felt this should not be classified as a User Pays Proposal.

Implementation would provide a benefit for DNO Users* and Shipper Users* that wish to purchase capacity above baseline, and National Grid NTS through the SO Incentive regime. All parties will benefit from National Grid NTS having the facility to release additional quantities of Annual NTS Exit (Flat) Capacity to the market in response to industry need in the annual application window.

b) Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification

Due to this Proposal requiring a change to the service offered by xoserve, National Grid NTS is of the view (as outlined above) that this is a User Pays Proposal. However xoserve has confirmed that the facility to release additional NTS Exit (Flat) capacity at a level that is greater than the remaining available NTS Exit (Flat) Capacity can be catered for under the current Exit Reform system development and as such can be done at zero cost.

National Grid NTS proposes due to the reasons outlined above, that the split of the recovery

of Implementation Costs should be:

50% Shipper Users 50% Transporters

National Grid NTS proposes that the Shipper User element of the Implementation costs be recovered via a one off implementation charge that is met by those Shipper Users who have NTS Exit (Flat) Capacity holdings and would therefore benefit from this Proposal.

The Shipper User costs would be pro rated between Shipper Users based on their NTS Exit (Flat) Capacity holdings as a proportion of the total NTS Exit (Flat) Capacity holdings held by all Shipper Users as of the 1st October 2012 as registered by National Grid NTS on the implementation date of this Modification Proposal. These charges will be one off charges invoiced in the month following the introduction of the systems and processes that enable this change, in effect:

$$\frac{\text{Shipper User NTS Exit (Flat) Capacity holdings}}{\sum \text{all Shipper Users NTS Exit (Flat) Capacity holdings}} * \text{Shipper Proportion of Implementation Costs}$$

SSE, RWE npower, RWE Supply and Trading GmbH, E.ON UK and EDF Energy do not agree with the proposed User Pays cost split, believing that these proposed changes result from Exit Reform changes and therefore any costs should be incurred by the Transporter whom has already been funded through the DN sales process.

Additionally, EDF Energy went on to state that given that this is expected to be a zero cost change, they do not believe that this is material to the proposal. Were this to change, and significant costs incurred then they would expect Ofgem to scrutinize why these costs were incurred and whether they were efficient and economic.

c) Proposed charge(s) for application of Users Pays charges to Shippers

Any final individually invoiced amount would be subject to an assessment of the NTS Exit (Flat) Capacity held by Shipper Users, for 1 October 2012, on implementation of this Modification Proposal and the final system implementation costs. Utilising the current levels of NTS Exit (Flat) Capacity held by Shipper Users (for the 1 October 2012) and the ROM Cost estimate provided by xoserve, gives the following cost:

Cost per unit of capacity held 0.0000p/kWh

d) Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from xoserve

Any charge applied would be based on the formula outlined in Section 2 b) above and would be dependent upon actual costs received from xoserve

3 Extent to which implementation of the proposed modification would better facilitate the relevant objectives

Standard Special Condition A11.1 (a): the efficient and economic operation of the pipeline system to which this licence relates;

Implementation of this Proposal would allow National Grid NTS to release additional Annual NTS Exit (Flat) Capacity to the market in response to industry demand. This could increase gas demand and flows on the NTS with increased throughput meaning that the system would be operated at a lower unit cost; hence implementation could be regarded as facilitating

economic and efficient operation.

Standard Special Condition A11.1 (b): so far as is consistent with sub-paragraph (a), the coordinated, efficient and economic operation of

- (i) the combined pipe-line system, and/ or***
- (ii) the pipe-line system of one or more other relevant gas transporters;***

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (c): so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;

By facilitating the release of exit capacity in response to User demand, implementation would be expected to better facilitate National Grid NTS in meeting reasonable demands for NTS Exit Capacity and so facilitate discharge of the licensee's obligations in this respect.

Standard Special Condition A11.1 (d): so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition:

- (i) between relevant shippers;***
- (ii) between relevant suppliers; and/or***
- (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers;***

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (e): so far as is consistent with sub-paragraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers;

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (f): so far as is consistent with sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code;

Implementation would not be expected to better facilitate this relevant objective.

4 The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation

Implementation may enhance the operation of the Total System by allowing Users the opportunity to obtain additional Annual NTS Exit (Flat) Capacity than would not otherwise be released.

5 The implications for Transporters and each Transporter of implementing the Modification Proposal, including:

a) Implications for operation of the System:

National Grid NTS does not believe implementation would adversely affect the physical operation of the System.

b) Development and capital cost and operating cost implications:

National Grid NTS does not believe implementation would have any cost implications with respect to system implementation and operating costs.

c) Extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:

Not applicable.

d) Analysis of the consequences (if any) this proposal would have on price regulation:

Not applicable.

6 The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal

It is not envisaged that implementation would result in any change to the level of contractual risk to National Grid NTS.

7 The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users

National Grid NTS would need to undertake development of the UK-Link system to accommodate this Proposal. National Grid NTS raised a ROM (Rough Order of Magnitude) request with xoserve to ascertain the indicative costs. xoserve's response has indicated that the change can be done at zero cost.

Please note the following:

- That the costs utilised are Rough Order of Magnitude Costs and may be subject to change
- That the NTS Exit (Flat) Capacity figure used reflects the level of NTS Exit (Flat) Capacity that Shipper Users currently hold and may be subject to change.

As such any charge is indicative only.

8 The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk

Administrative and operational implications (including impact upon manual processes and procedures)

None anticipated.

Development and capital cost and operating cost implications

None anticipated.

Consequence for the level of contractual risk of Users

None anticipated.

9 The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party

The availability of additional exit capacity may allow some consumers to offtake gas that would not otherwise be possible.

10 Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal

None identified.

11 Analysis of any advantages or disadvantages of implementation of the Modification Proposal

Advantages

As Above

Disadvantages

No disadvantages have been identified.

12 Summary of representations received (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)

Representations were received from the following parties:

Organisation	Position
E.ON UK	Not in Support
EDF Energy	Supports
National Grid Distribution	Supports
National Grid Transmission	Supports
RWE npower & RWE Supply and Trading GmbH	Supports
Scotia Gas Networks	Supports
Scottish and Southern Energy	Supports
ScottishPower	Supports

SSE agrees with the Proposer that implementation of the proposed Modification would better facilitate the relevant objectives as detailed in the Modification Proposal.

One respondent, E.ON UK did not support implementation of the proposal, citing the following reason:

We consider that any proposal seeking to extend National Grid's already generous "discretion" in respect of capacity release is wholly inappropriate. Discretionary release of capacity fundamentally undermines the significance of capacity baselines. Whilst this proposal may permit release of potentially useful amounts of capacity at the margin, the adverse impact on regulatory and commercial certainty is far more significant to the health of the wholesale market.

If NTS Exit Capacity Baselines are the real source of the problem, these should be properly reviewed, rather than seeking a 'workaround' which relies entirely on the discretion of National Grid NTS and which Shipper Users will be in a very poor position to challenge. Instead, we advocate a robust, rules-based approach to capacity release, which this Proposal unfortunately does not support.

13 The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation

Implementation is not required to enable each Transporter to facilitate compliance with safety or other legislation.

14 The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence

Implementation is not required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence.

15 Programme for works required as a consequence of implementing the Modification Proposal

To be part of the wider Exit Reform programme for works.

16 Proposed implementation timetable (including timetable for any necessary information systems changes and detailing any potentially retrospective impacts)

The Proposal could be implemented with immediate effect following direction from Ofgem. Since the Proposal would be incorporated within systems development as part of Exit Reform, an Ofgem direction by June would help to avoid implementation costs.

17 Implications of implementing this Modification Proposal upon existing Code Standards of Service

No implications of implementing this Modification Proposal upon existing Code Standards of Service have been identified.

18 Recommendation regarding implementation of this Modification Proposal and the number of votes of the Modification Panel

19 Transporter's Proposal

This Modification Report contains the Transporter's proposal to modify the Code and the Transporter now seeks direction from the Gas and Electricity Markets Authority in accordance with this report.

20 Text

For and on behalf of the Relevant Gas Transporters:

Tim Davis
Chief Executive, Joint Office of Gas Transporters