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Re: UNC Modification Proposal 0341 – Manifest Errors in Entry Capacity Overruns

Dear Bob,

Thank you for your invitation seeking representations with respect to the above Modification Proposal. National Grid NTS is supportive of manifest error provisions in principle and understand the rationale of the proposer in bringing Modification Proposal 0341 forward. National Grid NTS agree with the intention of Modification Proposal 0341 in not seeking to guarantee any specific outcome for the proposer by introducing arrangements for manifest errors to be considered by a panel. However, there are several aspects of Modification Proposal 0341 that National Grid NTS does not agree with and National Grid NTS does not support the implementation of Modification Proposal 0341.

Rationale

National Grid NTS does not agree with the view of the proposer that there is an implicit assumption in the design of System Entry Overrun Charges that they would only occur on occasional days and that persistent or very large incidences of System Entry Overruns should be identified by the Transporter and the User, and rectified accordingly. There is no such assumption in the design of the System Entry Overrun Charge nor is it the role of the Transporter to identify to Users specific incidences of System Entry Overruns. National Grid NTS is of the view that the System Entry Overrun Charge mechanism provides an incentive for Users to procure sufficient NTS Entry Capacity, irrespective of whether this applies to occasional days or an extended period of days. If the design of the System Entry Overrun Charges were effectively “softened” where a User has received System Entry Overrun Charges for an extended period, National Grid NTS believes that this would undermine the “ticket to ride” principles of the regime and weaken the incentive on Users to book adequate NTS Entry Capacity. Furthermore, regarding the assumption that persistent or very large incidences of System Entry Overruns should be identified by the Transporter, National Grid NTS believes it is not in a position to know or predict a Users commercial position or intention (for example a User maybe intending to trade NTS Entry Capacity or gas at the beach). It is solely the responsibility of the User to put in place prudent and robust processes to ensure the correct quantities of NTS Entry Capacity are booked accordingly.

National Grid NTS notes the concern of the proposer that there are no proactive warnings in Gemini identifying that nominations exceed booked capacity by a significant amount and/or that this has occurred on a number of consecutive days. Whilst National Grid NTS agree with the proposer that the Gemini system has no proactive warnings identifying where nominations exceed booked capacity, National Grid NTS does not share the concerns of the proposer regarding this. Gemini provides a within day report allowing all Users to compare their individual within day nominations against their booked NTS Entry Capacity at individual Aggregated System Entry Points (ASEPs). Additionally Users have ready access to their own Entry nomination and NTS Entry Capacity entitlements at an ASEP level within Gemini and Gemini also provides the functionality for Users to set their own maximum and minimum NTS Entry Capacity bid/offer parameters on price, quantity and value. Where the User's defined parameters are breached, Gemini then alerts the User accordingly. As such, National Grid NTS does not believe that the introduction of a proactive warning system is justified given the functionality and wealth of information already available to Users on the Gemini system.

National Grid NTS does not support the retrospective nature of Modification Proposal 0341 due to the degrees of uncertainty retrospective application brings to the regime. However, National Grid NTS notes that the proposer communicated to National Grid NTS what the proposer believes to be a manifest error in good time. Furthermore, National Grid NTS agrees with the view of the proposer that National Grid NTS has had sufficient notice to make any necessary retrospective adjustments to a closed out financial year and would discuss with the Authority how this avenue could be pursued in the event of the implementation of Modification Proposal 0341, and a UNCC determination.

Modification Proposal 0341 details that the proposed manifest error provisions address only those circumstances where a Shipper error in its capacity bookings has led to System Entry Overrun Charges being incurred and draws parallels with manifest error provisions detailed under section Q7 of the Balancing Settlement Code (BSC) and those that apply to the On the day Commodity Market (OCM) platform. National Grid NTS is of the view that it is inappropriate to draw such parallels as the aforementioned manifest error provisions are associated with errors in bid and offer acceptance, whereas Modification Proposal 0341 purely details provisions relating to users failure to book adequate levels of NTS Entry Capacity resulting in System Entry Overrun Charges of greater than £50,000. National Grid NTS is of the view that there could have been merit in extending the discussion regarding the scope of Modification Proposal 0341. However, National Grid NTS does appreciate the sentiment of the proposer that the principles contained within Modification Proposal 0341 could lend themselves to other aspects of the regime should further Modification Proposals be raised.

National Grid NTS does not believe that the proposed materiality threshold of £50,000 per claim is appropriate as this may fundamentally undermine the "ticket to ride" principles of the regime in potentially allowing relatively low System Entry Overrun Charges to become claimable. For example, a User could incur multiple NTS Entry Capacity System Entry Overrun Charges across several ASEPs (all of which are under £50,000, but in aggregate are greater than £50,000) and submit a single manifest error claim. This could undermine the discipline of a User and may encourage a User to Overrun to reach the materiality threshold. National Grid NTS is of the view that a stricter threshold limit of £50,000 per ASEP per Day would be more appropriate and is in keeping with the principles of the System Entry Overrun Charge determination (i.e. at ASEP per Day level).

National Grid NTS agrees with the rationale of the proposer to include reference prices but disagrees that the reference prices ensure that it is never cheaper to pursue a Manifest Error Claim than to book correctly. National Grid NTS believes it is difficult (if not impossible) to accurately judge the bid price(s) and the specific auction(s) that the User may have elected to participate in had the NTS Entry Capacity been booked in the first place and in turn the impact that this may have had on other users bidding behaviour/strategy at the time. National Grid NTS is of the view that the inclusion of reference

prices does not guarantee that a Manifest Error Claim would never be cheaper than booking the NTS Entry Capacity in the first place.

In summarising the benefits of the proposal, the proposer states that, “The current 8x NTS Entry Capacity Overrun multiplier in the UNC is capable of acting as an unfair penalty”. National Grid NTS is of the view that the 8x multiplier is appropriate to maintain the “ticket to ride” principles (i.e. to provide an incentive to book adequate levels of NTS Entry Capacity) and does not agree that it can act as an unfair penalty.

National Grid NTS agrees with the view of the proposer that in the event of the Unified Network Code Committee (UNCC) failing to reach a determination within the 55 day time limit that a default arrangement should apply. However National Grid NTS does not agree that the default arrangement should result in the manifest error claim being upheld. National Grid NTS is of the view that in the interests of the wider community, the default arrangement should be that the original System Entry Overrun Charges stand in the absence of a clear UNCC determination and that, under certain circumstances, provisions should be included to permit the User to resubmit their claim based on the feedback from the UNCC in failing to reach a determination within the 55 day limit.

Extent to which implementation of Modification Proposal 0341 would better facilitate the achievement (for the purposes of each Transporter’s Licence) of the relevant objectives

National Grid NTS notes the view of the proposer that implementation of Modification Proposal may better facilitate relevant objectives A11.1 (d) and (f). Due to the aforementioned reasons National Grid NTS does not feel implementation of Modification Proposal 0341 would better facilitate relevant objectives A11.1 (d) and (f)

Finally, National Grid NTS also notes the view of the proposer that the current arrangements create an unintended perverse incentive for National Grid NTS not to identify or highlight any possible errors in a Users’ capacity bookings or facilitate their being addressed due to National Grid NTS benefiting from a share of System Entry Overrun Charges. National Grid NTS believes it is not the role of the Transporter to identify or highlight any possible errors in Users’ NTS Entry Capacity bookings, irrespective of whether National Grid NTS benefit from a share of any System Entry Overrun Charges. It is the sole responsibility of the relevant User to perform this activity and the introduction of such a Transporter service may lessen the reliance of Users on their own internal processes to monitor their own position and therefore weaken the ability of the User to judge if an error has been made. Furthermore, and as aforementioned, National Grid NTS believe it would be inappropriate to prejudge a User’s commercial position and that the magnitude of the continuous monitoring of every User’s position would be significant and impractical.

If you have any questions, please do not hesitate to contact me

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