

CODE MODIFICATION PROPOSAL No 0261
Annual NTS Exit (Flat) Capacity Credit Arrangements
Version 2.0

Date: 29/07/2009

Proposed Implementation Date:

Urgency: Non Urgent

1 The Modification Proposal

a) Nature and Purpose of this 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

Review Group 0221 “Review of Entry Capacity and the Appropriate Allocation of Financial Risk” was established in September 2008 to assess whether or not the current credit arrangements in place for securing long term NTS Entry Capacity*, were sufficiently robust and provide the correct balance of risk between various Shipper Users. National Grid NTS raised Modification Proposal 0246 “Quarterly NTS Entry Capacity User Commitment” to address the issues identified by the Review Group.

Discussions at the April 2009 Transmission Workstream, considered whether a Proposal containing aspects similar to 0246 should be applied to NTS Exit Points*. It was noted by the Transmission Workstream attendees that the Annual NTS Exit (Flat) Capacity* regime contained key differences to that applying at entry, which would need to be considered, including:

- Demonstration Information*, required when making an Adhoc application between 1 October and 30 June in Gas Year Y when works are required.
- The User must be in accordance with the principles in the prevailing Exit Capacity Release Methodology Statement* i.e. that where a User has requested additional Enduring Annual NTS Exit (Flat) Capacity* the User must meet the associated User Commitment (4 years’ worth of capacity charges) before any reductions may become effective.

National Grid NTS then provided an Exit Capacity risk analysis at the June 2009 Transmission Workstream. This analysis evaluated the level of risk to the Shipper Community from a Shipper default relating to the following

categories of NTS Exit (Flat) Capacity*:

- Existing Enduring Annual NTS Exit (Flat) Capacity (resulting from Initialisation);
- Enduring Annual NTS Exit (Flat) Capacity (Adhoc Applications);
- Enduring Annual NTS Exit (Flat) Capacity (Annual Applications);
and
- Annual NTS Exit (Flat) Capacity.

The analysis indicated that the overall risk from a Shipper default is <£2m. However, the analysis reaffirmed that there is a similar risk at NTS Exit Points as identified by 0246 at Entry Points in relation to a User's ability to defer their Capacity commitments. This risk could conceivably lead to revenue expected to be recovered from a User being redistributed to the general shipper community should the original User choose to defer their commitment.

The Transmission Workstream agreed that a Proposal should be raised to address the aforementioned problem with the NTS Exit (Flat) Capacity regime.

Nature of the Proposal

The ability for Users to defer capacity is described in UNC TPD Section B3.2.7. National Grid NTS proposes to remove this section of the UNC to remove the current ability for the User's Annual NTS Exit (Flat) Capacity to lapse. Full details are as follows:

Under UNC TPD Section B3.2.6 National Grid NTS assesses the sum of the User's Value at Risk* which includes the aggregate NTS Exit (Flat) Capacity charges* payable by the User in the following 12 months. The liability for the capacity charges associated with NTS Exit (Flat) Capacity are acquired via Annual Application Window* or adhoc applications. If this aggregated amount exceeds 100% of the User's Code Credit Limit*, then UNC TPD Section B3.2.7 states that National Grid NTS will notify the User. The User can either increase its Code Credit Limit by providing additional security or allow the future 12 months Annual NTS (Flat) Capacity to lapse, in effect deferring their capacity application.

National Grid NTS considers that the risk of a User deferring their capacity commitment is higher when the User only has capacity at a single NTS Exit Point. This is because Users with multiple NTS Exit Points are less likely to defer as in such a situation their capacity will lapse at all of their NTS Exit Points and not just at the NTS Exit Point at which the incremental capacity commitment was made.

National Grid NTS proposes to remove UNC TPD Section B3.2.7 to remove the current ability for the User's Annual NTS Exit (Flat) Capacity to lapse

and therefore Users will be required to meet their capacity commitments as and when they become due and payable.

As Section B3.2.7 is being removed there is no reason to retain Section B3.2.6 and National Grid NTS also proposes to remove UNC TPD Section B3.2.6.

As a consequence of the above National Grid NTS also proposes to remove the similar provisions contained in paragraphs 3.7 and 3.8 of Section B Annex B-1. In addition, we will need to amend Section V3.3.4 to remove the references to Section B3.2.6 and paragraph 3.6 in Section B Annex B-1.

It is anticipated that these changes will enhance current incentives for Users to submit the required security. For clarity, the result of these changes is as follows:

- If the User's Value at Risk exceeds 100% of the User's Code Credit Limit, due to the User's Enduring Annual and Annual NTS Exit (Flat) Capacity for the twelve months commencing from the first day of the next calendar month, being included, then the Transporter will notify the User of such an event, giving such User 2 Business Days to provide the additional surety or security.
- If a User does not increase its Code Credit Limit by providing additional security, then the User will be subject to the associated sanctions detailed within Section V3.3.2. These sanctions will continue to apply until the security is provided, as the User will no longer have the option to allow their capacity to lapse.
- Should the User choose not to put sufficient security in place and the charges become payable, then current provisions within UNC TPD Section V 3.0 Code Credit Limits and Section 4.0 Discontinuing Users and Termination will apply.

b) Justification for Urgency and recommendation on the procedure and timetable to be followed (if applicable)

Not applicable

c) Recommendation on whether this Proposal should proceed to the review procedures, the Development Phase, the Consultation Phase or be referred to a Workstream for discussion.

We recommend that this Proposal should proceed to the Consultation Phase as it has been developed through discussions at the Transmission Workstream.

2 User Pays

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

No classification required as no additional costs anticipated.

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

None, no costs anticipated.

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

None

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

N/A

3 Extent to which implementation of this Modification Proposal would better facilitate the achievement (for the purposes of each Transporter's Licence) of the Relevant Objectives

National Grid NTS considers this Proposal would, if implemented, better facilitate the following Relevant Objectives as set out in its Gas Transporters Licence:

In respect of Standard Special condition A11 (d), the securing of effective competition, this Proposal seeks to mitigate the community risk from a User signalling and being allocated Enduring Annual NTS Exit (Flat) Capacity and then subsequently, through not providing sufficient security, the User's capacity lapsing. As a result of the capacity lapsing there will be an under-recovery of NTS allowed revenue and a subsequent redistribution of this allowed revenue to remaining Users through changes in general transportation charges.

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

This Proposal seeks to strike an appropriate balance between capturing an efficient level of User commitment and mitigating the shipper community's risk from a User's failure to pay NTS Exit Capacity charges.

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

a) The implications for operation of the System:

This Proposal seeks to ensure that any requests for Enduring Annual NTS Exit (Flat) Capacity which results in investment in the NTS is efficient and economic by removing the User's ability to defer its Registered Annual Exit (Flat) Capacity.

b) The development and capital cost and operating cost implications:

This Proposal seeks to reinforce investment signals used by National Grid

NTS to trigger system development.

- c) **Whether it is appropriate to recover all or any of the costs and, if so, a proposal for the most appropriate way for these costs to be recovered:**

We believe that this Proposal, if implemented, would not require any recovery of costs from (or by) Users.

- d) **The consequence (if any) on the level of contractual risk of each Transporter under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal**

No such consequences are anticipated.

- 6 **The extent to which the implementation is required to enable each Transporter to facilitate compliance with a safety notice from the Health and Safety Executive pursuant to Standard Condition A11 (14) (Transporters Only)**

Not applicable.

- 7 **The development implications and other implications for the UK Link System of the Transporter, related computer systems of each Transporter and related computer systems of Users**

No such implications are anticipated.

- 8 **The implications for Users of implementing the Modification Proposal, including:**

- a) **The administrative and operational implications (including impact upon manual processes and procedures)**

For those Users applying for Enduring Annual NTS Exit (Flat) Capacity, the User will probably need to adjust its administrative arrangements to reflect that the obligation to pay NTS Annual NTS Exit (Flat) Capacity charges remain in the event that insufficient security is not in place to meet their obligations. Should the User have insufficient credit in place then ultimately the provisions within UNC TPD Section V will apply.

- b) **The development and capital cost and operating cost implications**

We are not aware of any such implications.

- c) **The consequence (if any) on the level of contractual risk of Users under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal**

By reinforcing the obligations on Users to pay capacity charges, the current risk to other Users would be reduced.

9 The implications of the implementation for other relevant persons (including, but without limitation, Users, Connected System Operators, Consumers, Terminal Operators, Storage Operators, Suppliers and producers and, to the extent not so otherwise addressed, any Non-Code Party)

No such implications have been identified.

10 Consequences on the legislative and regulatory obligations and contractual relationships of the Transporters

No such consequences have been identified.

11 Analysis of any advantages or disadvantages of implementation of the Modification Proposal not otherwise identified in paragraphs 2 to 10 above

Advantages

- Users will continue to signal sufficiently far in advance to allow National Grid NTS to make appropriate investment decisions.
- Users will be required to pay Exit Capacity charges from the agreed release date.
- The proposal removes the risk of, and shipper community exposure to, an event of a User deferring its Capacity commitments.

Disadvantages

- Users that may have been relying on the ability to defer capacity will now have to pay NTS Annual Exit (Flat) Capacity charges even if their project is late or if the User is unable to utilise the registered capacity.

12 Summary of representations received as a result of consultation by the Proposer (to the extent that the import of those representations are not reflected elsewhere in this Proposal)

13 Detail of all other representations received and considered by the Proposer

14 Any other matter the Proposer considers needs to be addressed

15 Recommendations on the time scale for the implementation of the whole or any part of this Modification Proposal

Draft Proposal to 06 August 09 Modification Panel – recommend to consultation

Final Modification Report 17 Sept 09 Modification Panel

Ofgem decision October 2009

Implementation November 2009

16 Comments on Suggested Text

17 Suggested Text

Code Concerned, sections and paragraphs

Uniform Network Code

Transportation Principal Document

Section(s) Section B

Proposer's Representative

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Proposer

National Grid NTS