

Stage 04: Final Modification Report

What stage is this document in the process?



0347:

Amend NTS Exit Capacity Assignment Start Date

The proposal is to bring forward the start date for allowing the full assignment of registered Enduring Annual/ Annual NTS Exit (Flat) Capacity to 1 June 2011. From conversations with National Grid it is understood that functionality in support of partial assignment will not be available until after August 2011.



The Panel recommends implementation of 0347, Amend NTS Exit Capacity Assignment Start Date [Panel recommendation due on 16 December]



The Panel does not recommend implementation of 0347, Amend NTS Exit Capacity Assignment Start Date [Panel recommendation due on 16 December]



High Impact:
Not Applicable



Medium Impact:
Not Applicable



Low Impact: Shipper Users and National Grid NTS

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Any questions?

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About this document:

This document is a Final Modification Report, which was sent to the Authority on xx December 2010, on behalf of the Panel. The Authority will consider the Panel's recommendations, and decide whether or not this change should be made.

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Why Change?

Currently, National Grid will facilitate the full assignment of Registered NTS Exit (Flat) Capacity between Users from 1 August 2011. This commencement date falls after the July 2011 Annual Reduction and Application Windows, the last opportunity for Users to relinquish unwanted registered Enduring Annual/ Annual NTS Exit (Flat) Capacity they would otherwise hold in Gas Year commencing 1 October 2012.

It will be more natural and simple for assignment to be allowed before the July 2011 windows with the following advantages:

- assignment will allow Users to move capacity among themselves without the need to resort to reduction requests and application requests in July 2011;
- consequently, National Grid could expect a lower volume of requests in July 2011; and
- Users wishing to use assignment will not need to enter into deeds of assignment or contracts with each other to guarantee assignment after July 2011.

Solution

The proposal is to bring forward the start date for allowing the full assignment of registered Enduring Annual/ Annual NTS Exit (Flat) Capacity to 1 June 2011.

Impacts & Costs

National Grid has informed the Proposer that systems functionality to enable full capacity assignment is expected to be available before 1 June 2011 and, if this occurs, there are likely to be no cost implications arising as a result of this proposal.

Implementation

This proposal should be implemented immediately upon direction by Ofgem. An implementation date of 1 June 2011 would meet the requirements of this proposal.

The Case for Change

In the view of the Proposer, this proposal will enable a more efficient management of capacity in the run up to full implementation of exit reform and will better facilitate relevant objective A11.1 (c) – the efficient discharge of the Licensee's obligations.

The proposal will also better facilitate competition in gas supply as it provides a more certain means by which incoming shippers can, on behalf of NTS end users, obtain registered NTS Exit (Flat) Capacity (in full) from outgoing shippers. Assignees and Assignors will be able to test each other's willingness to assign before the opportunity to apply for or reduce capacity in July 2011 has lapsed.

Recommendations

This proposal was introduced and discussed at the Transmission Workstream on 4th November 2010 and it is now recommended that the proposal proceeds to the Consultation Phase.

Allowing Exit (Flat) Capacity to be assigned between shipper users

Although current arrangements will allow Shipper Users to assign entire holdings of Exit (Flat) capacity between themselves, under current arrangements they will not be able to do this until after the last opportunity available to relinquish such capacity to National Grid.

2 Why Change?



How will this proposal change that?

This proposal seeks to allow Shipper Users the opportunity of assigning their existing Exit (Flat) capacity holdings between themselves, whilst still having the opportunity to relinquish to National Grid any such holding that they no longer wish to retain following the assignment window.

Current assignment rules can be found here: [0195 0195A 0195AV Introduction of Enduring NTS Exit Capacity](#)

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 the package of new arrangements, National Grid NTS will facilitate the assignment of Registered NTS Exit (Flat) Capacity between Users, commencing on 1 August 2011. This commencement date falls after the July 2011 Annual Reduction Window, the last opportunity for Users to relinquish unwanted registered Enduring Annual and/ or Annual NTS Exit (Flat) Capacity they would otherwise hold in the Gas Year commencing 1 October 2012. It is the Proposer's view that there would be advantages to both Users and National Grid NTS if full capacity assignment were instead introduced before July 2011.

The Proposer believes that the ability of Users to execute full assignments of capacity prior to the July 2011 reduction and/ or application windows will lead to a more straightforward and meaningful July 2011 application process: otherwise a User wanting to relinquish capacity may choose to reduce its holding as required and not assign the capacity; the potential assignee would then possibly be required to apply for Enduring Annual NTS Exit (Flat) Capacity from 1 October 2014 and for Annual NTS Exit (Flat) Capacity in the years commencing 1 October 2012 and 2013. Whilst the application process might provide the longer term capacity required it does not provide any guarantee to the assignee that the capacity will be made available in gas years commencing 1 October 2012 and 2013 since this might rely on the potential assignor making a capacity reduction to take effect from a sufficiently early date. On the other hand, where an assignee and assignor agree to assign capacity, the assignment process does provide more of a guarantee of capacity availability. Furthermore, National Grid may only be able/ willing to release limited quantities of Annual NTS Exit (Flat) Capacity if it has been in receipt of Ad Hoc requests for capacity at the relevant exit point (ref. Modification Proposal 289). The assignment process will therefore provide a greater degree of flexibility to Users when managing their capacity requirements.

3 Solution

The proposal is to bring forward the start date for allowing the full assignment of registered Enduring Annual/ Annual NTS Exit (Flat) Capacity to 1 June 2011. From conversations with National Grid it is understood that functionality in support of partial assignment will not be available until after August 2011.

The proposal only applies to full capacity assignment and, for the avoidance of doubt, excludes partial assignment.

Legal text

Text has not been provided in support of this Modification.

5 Impacts & Costs

Early indications from National Grid NTS are that advancing the implementation of assignment by 2 months should not result in additional system development costs since systems to facilitate exit capacity assignment could be ready by April 2011, i.e. ahead of the key date set out in this proposal. If this were not the case the Proposer would expect National Grid to consider managing the first assignments manually with a view to populating the GEMINI system as required in time for the release of assignment functionality on that system.

Costs

Indicative industry costs

Initial indications from National Grid NTS suggest that the charge for each User will be £0.00 although that is only National Grid NTS's "view" based on the system functionality being delivered as currently planned. National Grid NTS has advised that costs should still be assessed and a Rough Order of Magnitude (ROM) be sought from service provider xoserve.

This Proposal should be classed as User Pays since it is asking National Grid to commit to the delivery of new systems functionality ahead of the original schedule. The current commitment is for National Grid to implement assignment functionality in August 2011.

Costs should be borne by those parties most likely to benefit from the implementation of the Proposal. Whilst the modification has the potential to reduce unnecessary capacity application and reduction requests in July 2011 (since some capacity requirements will be achieved instead via assignments) and therefore may be of benefit to National Grid NTS, the greatest benefit will be to Users who might manage capacity via assignments. DN Users would not be expected to need or engage in exit capacity assignment, nor would gas traders.

It is proposed, therefore, that costs are recovered via one-off payments from all shipper Users registered as holding Enduring Annual NTS Exit (Flat) Capacity or Annual NTS Exit (Flat) Capacity on the date of the implementation of this proposal and that the cost is split evenly among those shipper Users, i.e. a flat charge.

It is recognised that there may be some Users who could acquire exit capacity as a result of an assignment prior to 1 July 2011 and who escape sharing the costs of implementing this modification because they held no Enduring Annual or Annual NTS Exit (Flat) Capacity at the time of implementation. However, these Users would be difficult to identify and the suggested approach is considered by the Proposer to be both pragmatic and reasonable.

Impacts

Impact on Transporters' Systems and Process

| Transporters' System/Process | Potential impact |
|------------------------------|---|
| UK Link | The required functionality is required 2 months earlier than currently planned. |
| Operational Processes | No impact if the systems functionality is delivered as currently planned. However, in the event that National Grid NTS is |

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| | |
|------------------------|---|
| | required to employ a manual process there may be some impact. |
| User Pays implications | As described in the section on Costs above. |

| Impact on Users | |
|---|--|
| Area of Users' business | Potential impact |
| Administrative and operational | The proposal could provide shipper Users with a more flexible and certain means of releasing and obtaining exit capacity. |
| Development, capital and operating costs | It is not certain that any additional costs would be incurred but this seems highly unlikely. |
| Contractual risks | <p>Reduced risk – as things stand Users might have to enter into contracts or deeds of assignment to guarantee the execution of assignments after the July 2011 reduction and application windows.</p> <p>EDF Energy believe that implementation of this proposal may create a contractual risk on Shippers who have already entered into an assignment contract, if the contract is based on the existing August assignment date. Whilst they are not aware whether this is an issue or not, they note that the effect could be that a contract becomes invalid and so a previously contracted position becomes un-contracted, increasing Shippers' risk.</p> |
| Legislative, regulatory and contractual obligations and relationships | None |

| Impact on Transporters | |
|--|---|
| Area of Transporters' business | Potential impact |
| System operation | None |
| Development, capital and operating costs | Early indications from National Grid are that advancing the implementation of assignment by 2 months should not result in additional development costs since systems to facilitate exit capacity assignment could be ready by April 2011, i.e. ahead of the key date set out in this proposal. If this were not the case the Proposer would expect National Grid NTS to consider managing the first assignments manually with a view to populating the GEMINI system as required in time for the release of assignment functionality on that system. Concerns over capacity |

| Impact on Transporters | |
|---|---|
| | management should be minimal, especially as the capacity will not be available for use until, at the earliest, 1 October 2012 but this would need to be confirmed by National Grid NTS. |
| Recovery of costs | Please refer to the Indicative Industry Costs section (Section 5) above. |
| Price regulation | None |
| Contractual risks | It is not envisaged that the proposal will result in any change to the level of contractual risk to National Grid Gas. |
| Legislative, regulatory and contractual obligations and relationships | None |
| Standards of service | None |



Where can I find details of the UNC Standards of Service?

In the Revised FMR for Transco's Network Code Modification **0565 Transco Proposal for Revision of Network Code Standards of Service** at the following location:
<http://www.gasgovernance.com/networkcodearchive/551-575/>

| Impact on Code Administration | |
|-------------------------------|------------------|
| Area of Code Administration | Potential impact |
| Modification Rules | None |
| UNC Committees | None |
| General administration | None |

| Impact on Code | |
|--------------------------|---|
| Code section | Potential impact |
| Transition Rules (TDIIC) | Paragraph 8.3.4 will need to be amended to specify a commencement date of 1 June 2011 for exit capacity assignment. |

| Impact on UNC Related Documents and Other Referenced Documents | |
|--|------------------|
| Related Document | Potential impact |
| Network Entry Agreement (TPD I1.3) | None |
| Network Exit Agreement (Including Connected System Exit Points) (TPD J1.5.4) | None |
| Storage Connection Agreement (TPD R1.3.1) | None |
| UK Link Manual (TPD U1.4) | None |
| Network Code Operations Reporting Manual (TPD V12) | None |
| Network Code Validation Rules (TPD V12) | None |
| ECQ Methodology (TPD V12) | None |
| Measurement Error Notification Guidelines (TPD V12) | None |
| Energy Balancing Credit Rules (TPD X2.1) | None |

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| Impact on UNC Related Documents and Other Referenced Documents | |
|--|------|
| Uniform Network Code Standards of Service (Various) | None |

| Impact on Core Industry Documents and other documents | |
|---|------------------|
| Document | Potential impact |
| Safety Case or other document under Gas Safety (Management) Regulations | None |
| Gas Transporter Licence | None |
| Transportation Pricing Methodology Statement | None |

| Other Impacts | |
|--|---|
| Item impacted | Potential impact |
| Security of Supply | None |
| Operation of the Total System | None |
| Industry fragmentation | None |
| Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties | The proposal could provide shipper Users with a more efficient and certain means of releasing and obtaining exit capacity which will consequently better meet the needs of suppliers and consumers in the event of changes in supplier. |

6 Implementation

Implementation should be made before 1 June 2011.

7 The Case for Change

In addition to that identified the above, the Proposer has identified the following:

Advantages

As described above.

Disadvantages

None identified.

The Proposer believes that 0347 will better facilitate the achievement of **Relevant Objectives c, d (i) and d (ii) listed below.**

| Proposer's view of the benefits of 0347 against the Code Relevant Objectives | |
|--|--------------------|
| Description of Relevant Objective | Identified impact |
| a) Efficient and economic operation of the pipe-line system. | None |
| b) 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. | None None |
| c) Efficient discharge of the licensee's obligations. | Low |
| d) 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. | Low Low None |
| e) 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. | None |
| f) Promotion of efficiency in the implementation and administration of the Code | None |

In the view of the Proposer, and for the reasons explained in Section 2 above, this proposal will enable a more efficient and, for Users, certain management of capacity in the run up to full implementation of exit reform and will better facilitate the identified relevant objectives.

In particular, the proposal will better facilitate competition in gas supply as it provides additional flexibility for shippers, on behalf of NTS end users, to manage their capacity requirements.

In addition to the relevant objectives identified, EDF Energy believe that implementation of this proposal will facilitate Objective A11.1 (a): the efficient and economic operation of the pipeline system. They note that without implementation of this proposal there is a risk that an assignment does not take place after August 2011, as a result of which the Shipper requiring the capacity will have to make an ad hoc application (if spare capacity is available). As the window for reducing capacity has passed this would result in an increase in the capacity booked at the relevant exit point. This would artificially constrain capacity from the system and so would not be beneficial to the economic and efficient operation of the pipeline system.

National Grid NTS also considers this Proposal would, if implemented post the implementation of the appropriate system functionality, better facilitate Relevant Objectives A11 paragraph 1(a), the Proposal would enable Users to make more informed increase/and or reduction Enduring Annual and/or Annual NTS Exit (Flat) Capacity requests in the July 2011 window, which may allow National Grid NTS to undertake better informed investment decisions and thereby better facilitate the efficient and economic operation of the NTS pipeline system.

8 Consultation Responses

Representations were received from the following parties:

| Company/Organisation Name | Support Implementation or not? |
|---------------------------|--------------------------------|
| British Gas | Support |
| EDF Energy | Supports |
| National Grid NTS | Qualified Support |
| SSE | Supports |
| Wales & West Utilities | Supports |

Of the five responses received four representations supported the modification and one offered qualified support.

Summary Comments

Although EDF Energy support implementation of this modification they disagreed with the proposed funding mechanism. As the costs of implementation are expected to be zero, EDF note that this is not a material issue for this modification. However they believe that 25% of the costs should be targeted at National Grid. In addition they believe that any costs should be targeted at Shippers who use the assignment process and not at Shippers in general. This will ensure that costs are correctly targeted at those who are using the service.

EDF also noted that the intention of this modification is to bring forward the assignment start date so that assignments can occur prior to the start of the July application window. This will enable Shippers to assign capacity between them prior to the application window; reduce the number of applications and reductions that may be expected in this window and so reduce the work required to assess these by National Grid. This will also avoid the need for Shippers to enter into capacity assignment contracts, as if assignment does not take place Shippers will still be able to correct their position in the July application window. However, EDF expect this benefit to be marginal, as most Shippers who will be relying on an assignment process will already have entered into a commercial contract to secure their rights. Finally this modification will provide comfort to Shippers that in instances when assignment has failed for whatever reason, there will still be an opportunity in the July application window to ensure that their commercial requirements are covered.

National Grid NTS, whilst supporting the principle of bringing forward the start date for allowing the full assignment of registered Enduring Annual NTS Exit (Flat) Capacity, disagree with the statement that if the functionality were not implemented by the 1 June start date National Grid NTS would need to consider managing the first assignments manually with a view to populating the system when the functionality was available. National Grid NTS believe that this element of the Proposal may cause the Transporters Agent (xoserve) and National Grid NTS some difficulty. Neither xoserve nor National Grid NTS know at this time whether the Proposer's suggestion of managing the first assignments manually then populating the system at a later date is feasible. In order to assess this National Grid NTS has requested a ROM (Rough order of Magnitude) from xoserve but it is unlikely that the results of this ROM will be received prior to February 2011.

Whilst National Grid NTS agrees that there are benefits to Users they are unable to quantify them and are unsure whether any such benefits would outweigh the potential difficulties and cost that National Grid NTS and/or xoserve would encounter if the system functionality was not available prior to implementing this modification. However National Grid NTS would like to reiterate that, were the system functionality to be successfully implemented prior to implementing this modification, it believes there to be no issue with implementing this modification.



This section will detail when the Panel met and any considerations underpinning its recommendation to implement or not.

Insert heading here

Insert text here

10 Recommendations



Having considered the 0347 Modification Report, the Panel recommends:

- that modification 0347 [*should/should not*] be implemented.

Recommendation

'insert text here'