

Draft Modification Report
Extension of the Sunset Clauses for Registration of Capacity at NTS Exit Points
Modification Reference Number 0046

Version 2.0

This Draft Modification Report is made pursuant to Rule 7.3 of the Modification Rules and follows the format required under Rule 9.6.

1. The Modification Proposal

The Proposal was as follows:

"The Authority decision on the sale of gas distribution networks by National Grid Transco concluded that NTS offtake arrangements required reform to be introduced in two phases:

- "Interim Arrangements" to establish the new commercial framework recognising the new NTS/DN interface; and
- "Enduring Arrangements" (by September 2005) to introduce more market based arrangements effective from Gas Year 2008/09 consistent with the Authority's November Final Impact Assessment with regard to NTS exit capacity reform.

The Uniform Network Code (UNC) was therefore developed on the basis that the Interim Arrangements would expire on 30 September 2008 and sunset clauses were introduced associated with the arrangements for

- a) Firm Capacity Applications for NTS Exit Points (under TPD Section B3.9); and
- b) NTS Offtake Capacity registration for NTS/LDZ offtakes and provision of the Offtake Capacity Statement (under TPD Section B6.2 and B6.3).

It was envisaged that the Enduring Arrangements would be introduced shortly after completion of the DN sales process, facilitated by a UNC Modification Proposal, to define the NTS exit regime to apply in respect of booking and utilisation of NTS exit capacity for the period from 1st October 2008. However, on 24 June 2005 the Authority announced the delay to the implementation of the Enduring Arrangements until September 2007 for release of capacity rights from Gas Year 2010/11 to permit more time to consider and refine the detail of these arrangements. Transitional Arrangements are therefore required to cover the two intervening years between the end of the Interim Arrangements and the commencement of the Enduring Arrangements.

Transco NTS therefore proposes the following changes to the UNC: -

- a) Firm Capacity Applications

It is proposed that the current arrangements for Firm Capacity Applications be extended to continue until 30 September 2010. This will allow Shipper Users to continue to request increases in Firm Capacity or redesignation of an Interruptible Supply Point as Firm for utilisation over 2 further Gas Years.

- b) NTS Offtake Capacity Registration Process

In accordance with current UNC provisions, DNO Users have NTS Offtake Capacity allocations for each of its NTS/LDZ offtakes for each Gas Year up to and including Gas

Year ending 30 September 2008. These allocations are contained in the Offtake Capacity Statement. DNO Users are able to request an increase or decrease to these allocations during June/July each year (“the Application Window”). Transco NTS then informs the DNO User whether its application has been accepted in whole or in part, or rejected, through issuing a revised Offtake Capacity Statement (OCS) by 30 September following the Application Window. The Offtake Capacity Statement contains the allocated NTS Offtake (Flat) Capacity and NTS Offtake (Flexibility) Capacity for each of its NTS/LDZ offtakes with the Assured Offtake Pressure.

It is proposed to extend these arrangements over the period of the Transitional Arrangements such that DNO Users are able to apply on an annual basis for initial amounts of NTS Offtake Capacity at each of its NTS/LDZ offtakes beyond 30 September 2008 - this would be for one further Gas Year ahead each year. For 2005, it is proposed that the Application Window for such capacity requests for Gas Year 2008/09 would be the first two weeks after implementation of this Proposal i.e. 15 October 2005. For 2006, it is proposed that DNO Users would apply for initial amounts of NTS Offtake Capacity for Gas Year 2009/10 during the normal June/July Application Window.

Amendments to previously allocated NTS Offtake Capacity amounts are proposed to continue on the same basis as the current arrangements over the transitional period. This would mean, for example, that DNO Users would be able to apply for changes to existing allocations for Gas Years 2006/07, 2007/08 and 2008/09 in June/July 2006.

Transco NTS will make determinations of any request to amend capacity allocations or for an initial amount of capacity in accordance with the Incremental Exit Capacity Release (IExCR) Methodology Statement. Transco NTS intends to consult on the changes to the current interim IExCR to extend its applicability beyond 30 September 2008 up to 30 September 2010 in parallel with the consultation on this Proposal. This will include an approach for treatment of applications for the release of incremental capacity that require NTS investment and thus require consideration as to when it is appropriate to investment in the NTS and/or contract for demand management to enable increases in the availability of capacity within the NTS.

Transco NTS will inform DNO Users whether its application for amendment to its allocated capacity or an initial capacity amount has been accepted in whole or in part, or rejected, through issuing a revised Offtake Capacity Statement (OCS). For 2005, it is proposed that applications for initial capacity amounts for 2008/09 are responded to by six weeks after implementation of this Proposal by update of the September 2005 OCS i.e. 12 November 2005. For 2006 to 2009, it is proposed that the OCS is issued by 30 September each year.

As there are no agreed Assured Offtake Pressures for Gas Years beyond 30 September 2008, it is proposed that such values are set for each NTS/LDZ offtake at the same level as specified for the previous Gas Year, subject to any revisions agreed in accordance with existing mechanisms under TPD Section J2.5.

Table 1. Proposed Timetable for NTS Offtake Capacity Registration over the transitional period

Application Window	Requests Amended – Relevant Years	for Capacity Gas	for Capacity – Relevant Gas Year	Initial Response Capacity Request	NTS to
Two weeks after implementation of Proposal June/July 2006	2006/07 2007/08 2008/09		2008/09 2009/10	Six weeks after implementation of Proposal 30 September 2006	
June/July 2007	2007/08 2008/09 2009/10			30 September 2007	
June/July 2008	2008/09 2009/10			30 September 2008	
June/July 2009	2009/10			30 September 2009	

It is recognised that Shipper Users at NTS Supply Points and NTS CSEPs can only formally register NTS Exit Capacity requirements under the current UNC provisions for shorter periods and closer to the gas flow day compared to the proposals set out above for DNs. However, Shipper Users and/or developers are able to “reserve” future capacity requirements that would require investment in the NTS via the execution of an Advanced Reservation of Capacity Agreement (ARCA) as explained in Transco NTS’s statement of “Principles and Methods to be used to Determine Charges for National Transmission System Connection Services” (available on Transco’s website). An ARCA obliges Transco NTS to accept Shipper User applications for firm capacity (or load increase or transfer) in respect of the relevant NTS Exit Point up to the level in the ARCA over a specified period. Transco NTS therefore considers that the current arrangements in place for NTS Supply Points and NTS CSEPs allow Shipper Users, where NTS investment is required, to obtain the required rights, although indirectly, for capacity ahead of and for longer periods than the formal UNC registration process allows and is thus comparable to the proposals put forward in this Modification for DNO Users. This therefore allows, in Transco NTS’s view, to delay fundamental changes in the Shipper User UNC registration processes until the Enduring Arrangements are implemented, in accordance with the Authority’s November Final Impact Assessment, when it is envisaged that common capacity products and registration processes would be introduced across all NTS Exit Points.

If this Proposal were not implemented in the indicated timescales, there would be no mechanism for DNO Users to apply for, and Transco NTS to confirm, NTS Offtake Capacity requirements beyond September 2008, such that Transporters are able to finalise its respective investment plans and ensure compliance with its Licence and Safety Case obligations."

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

The Proposer considered that "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 paragraph 1(a), the Proposal would enable DNO Users to register its NTS/LDZ Offtake Capacity requirements beyond September 2008, which would allow Transco NTS to undertake better informed investment decisions and thereby better facilitate the efficient and economic operation of the NTS pipeline system;
- in respect of Standard Special Condition A11 paragraph 1(b), the Proposal would enable Transco NTS and DNO Users to formally confirm NTS/LDZ Offtake Capacity levels to support their respective investment decisions beyond September 2008 and thereby better facilitate the co-ordinated, efficient and economic operation of the combined pipe-line system; and
- in respect of Standard Special Condition A11 paragraph 1(c) (the efficient discharge of the licensee's obligations under this licence), the Proposal would also promote the economic and efficient development and operation of the system which might be expected to facilitate the relevant objective of compliance with Licence obligations."

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

The Proposer considered that implementation of this Proposal "would benefit security of supply by ensuring DNO Users are able to request NTS Offtake Capacity requirements and Transco NTS is able to confirm allocations to DNO Users for Gas Years beyond September 2008. This will support Transporter's undertaking investment decisions in a co-ordinated manner and ensure sufficient transportation capability is available to meet the peak demand."

4. The implications for Transporters and each Transporter of implementing the Modification Proposal , including

a) implications for operation of the System:

The Proposer did not believe this Proposal, if implemented, would adversely affect the operation of the System.

b) development and capital cost and operating cost implications:

The Proposer believed "this Proposal, if implemented, would facilitate the efficient and economic formulation of each Transporter's investment programmes, thereby allowing investments to be undertaken in a more cost effective and efficient manner."

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

The Proposer did not believe this Proposal, if implemented, would require it to recover any additional costs.

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

The Proposer did not believe this Proposal, if implemented, would have any consequences on price regulation.

5. 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

The Proposer did not believe this Proposal, if implemented, would have any consequences on the level of contractual risk of each Transporter.

6. 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

The Proposer did not envisage any impact on the UK Link System if this Proposal were to be implemented.

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

The Proposer commented that nothing had been brought to its attention "to suggest that Users would incur additional costs or risks under the Uniform Network Code to implement the Proposal."

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

No such implications have been identified to date. Parties may wish to comment on these implications within their representations.

9. 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

No such consequences have been identified to date. Parties may wish to comment on these consequences within their representations.

10. Analysis of any advantages or disadvantages of implementation of the Modification Proposal

The Proposer identified the following advantages of implementation:

- It would "allow DNO Users to apply for NTS Offtake Capacity requirements and Transco NTS to confirm capacity allocations to DNO Users for Gas Years beyond 30 September 2008. This will support Transporter's undertaking co-ordinated, efficient and economic investment decisions and ensure sufficient transportation capability is available to meet the peak demand; and
- allow for the extension of the Interim Arrangements until the Enduring Arrangements without fundamental changes to Shipper User capacity registration processes."

The Proposer was "unaware of any disadvantages."

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

Representations are now invited.

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

No such requirements have been identified to date. Parties may wish to comment on these requirements within their representations.

13. 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

No such requirements have been identified to date. Parties may wish to comment on these requirements within their representations.

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

No programme of works has been identified by the Proposer.

15. Proposed implementation timetable (including timetable for any necessary information systems changes)

The Proposer suggested an implementation date of 1 October 2005.

16. Implications of implementing this Modification Proposal upon existing Code Standards of Service

No such implications have been identified to date. Parties may wish to comment on these implications within their representations.

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

18. Legal Text

UNIFORM NETWORK CODE – TRANSPORTATION PRINCIPAL DOCUMENT

SECTION B – SYSTEM USE AND CAPACITY

Amend paragraph 3.9.1(a) to read as follows:

- “(a) ~~to increase the~~ for an amount (or increased amount) of its NTS Offtake Capacity at an NTS/LDZ Offtake pursuant to paragraph 6.3;”

Amend paragraph 3.9.1(b) (ii) to read as follows:

- “(ii) the period (commencing on the date specified under paragraph (i) and ending not later than 30 September ~~2008~~2010) for which it applies for the relevant amount or increased amount of System Capacity or (as the case may be) redesignation of the Interruptible Supply Point as Firm;

Amend paragraph 6.2.1 to read as follows:

"6.2.1 Transco NTS will issue to each DNO User, not later than 30 September in each Gas Year, a statement ("**Offtake Capacity Statement**") specifying, for each DNO User, for each of the Gas Years (each a **relevant** Gas Year) up to and including the Gas Year ending 30 September ~~2008~~2010, in relation to each NTS/LDZ Offtake:

- (a) an amount of NTS Offtake (Flat) Capacity;
- (b) an amount of NTS Offtake (Flexibility) Capacity;
- (c) Assured Offtake Pressures (in accordance with Section J2.5)."

Amend paragraph 6.2.4 to read as follows:

"6.2.4 The Offtake Capacity Statement issued in any Gas Year will, as respects each relevant Gas Year, contain the same details as were specified in the preceding year's statement for that Gas Year, subject to any revision pursuant to paragraph 6.3 or, in the case of Assured Offtake Pressures, Section J 2.5."

Amend paragraph 6.3.2 to read as follows:

“6.3.2 A DNO User may apply :

- (a) to increase its NTS Offtake Capacity at an NTS/LDZ Offtake:
 - (i) in relation to any relevant Gas Year (year Y) or any relevant Gas Year after Year Y by submitting an application to Transco NTS during the period (the **Application Window**) 1 June to 31 July in Gas Year Y-1;
 - (ii) in relation to any relevant Gas Year (year Y) or the remaining part thereof where the DNO User might otherwise be unable to comply with the relevant conditions of its Transporter's Licence, by submitting an application to Transco NTS at any time after the end of the Application Window in Gas Year Y-1;

- (b) for an amount of NTS Offtake Capacity at an NTS/LDZ Offtake in relation to any relevant Gas Year (year Y) by submitting an application to Transco NTS during the Application Window 1 June to 31 July in Gas Year Y-4;

subject to and in accordance with this paragraph 6.”

Amend paragraph 6.3.3 to read as follows:

"6.3.3 An application for ~~increased~~ an amount of NTS Offtake Capacity or for an increase in NTS Offtake Capacity at an NTS/LDZ Offtake shall specify:

- (a) the identity of the User;
- (b) the relevant NTS/LDZ Offtake;
- (c) the relevant Gas Year or Gas Years (or parts thereof) in respect of which the application is made;
- (d) the amount or increased amount of NTS Offtake (Flat) Capacity and/or the amount or increased amount of NTS Offtake (Flexibility) Capacity applied for.”

Amend paragraph 6.3.4 to read as follows:

“6.3.4 Transco NTS may reject, or accept in part only, an application for ~~increased~~ an amount of or an increase in NTS Offtake Capacity in respect of an NTS/LDZ Offtake where, or (as the case may be) to the extent that, Transco NTS determines that it would not be feasible to make gas available for offtake at the NTS/LDZ Offtake on the basis of such amount or increased amount of NTS Offtake Capacity throughout the period for which the application is made.”

Amend paragraph 6.3.5 to read as follows:

“ 6.3.5 In making any determination under paragraph 6.3.4 in relation to applications made within an Application Window, Transco NTS will take into account all applications received by Transco NTS within the Application Window from DNO Users for ~~increased~~ an amount of or an increase in NTS Offtake Capacity and from any Shipper User for an amount of or an increase in NTS Exit Capacity at an NTS Exit Point other than an NTS/LDZ Offtake (and where relevant the provisions of paragraph 3.9).”

Amend paragraph 6.3.6 to read as follows:

“6.3.6 Transco NTS will:

- (a) in the case of an application under paragraph 6.3.2(a)(i) or (b), by 30 September following the relevant Application Window-Period; and
- (b) in the case of an application under paragraph 6.3.2 ~~(b)~~(a)(ii), as soon as reasonably practicable after receiving the application;

notify the User whether its application is accepted in whole or in part, or rejected, specifying (where the application is accepted in part) the amount of NTS Offtake (Flat) Capacity and/or NTS Offtake (Flexibility) Capacity for which the application is accepted.”

Amend paragraph 6.3.8 to read as follows:

“6.3.8 Where Transco NTS accepts an application (in whole or in part) for ~~increased~~an amount of, or an increase in, NTS Offtake Capacity, or where a DNO User decreases the amount of its NTS Offtake Capacity, Transco NTS will issue a revised Offtake Capacity Statement reflecting ~~the such amount, or such~~ increase or decrease.”

SECTION J – EXIT REQUIREMENTS

Amend paragraph 2.5.3 to read as follows:

“2.5.3 For the purposes of Section B6.3, in connection with an application for ~~increased~~an amount or an increase in NTS Offtake Capacity, Transco NTS will not determine that it is feasible to make gas available for offtake on the basis of such increase to the extent that the 0600 and 2200 pressures at which it expects that, under normal NTS operating conditions, gas would (if such application were accepted) be available for offtake at the NTS/LDZ Offtake on any Day during any relevant Gas Year would be reduced below the prevailing Assured Offtake Pressures”

Amend paragraph 2.5.4 to read as follows:

“2.5.4 A DNO User may, at the times at which it may apply (in accordance with B6.3.2) for :

- (a) an increase in NTS Offtake Capacity, apply to increase the Assured Offtake Pressures at an NTS/LDZ Offtake for a relevant Gas Year;
- (b) an amount of NTS Offtake Capacity, apply for the Assured Offtake Pressures in relation at an NTS/LDZ Offtake for a relevant Gas Year.”

Amend paragraph 2.5.5 to read as follows:

“2.5.5 Subject to paragraph 2.5.7, Transco NTS may reject, or accept in part only, any application for ~~increased,~~or an increase in, Assured Offtake Pressures in respect of an NTS/LDZ Offtake in a Gas Year where, or (as the case may be) to the extent that, Transco NTS determines (having regard, inter alia, to the amounts of NTS Offtake Capacity and NTS Exit Capacity held by Users) it would not be possible (under all credible NTS operating conditions) to make gas available for offtake at the NTS/LDZ Offtake on any Day during that Gas Year at the increased Assured Offtake Pressures applied for.”

Add new paragraph 2.5.7 to read as follows:

“2.5.7 For the purposes of paragraph 2.5.5, where a DNO User has applied for Assured Offtake Pressures at an NTS/LDZ Offtake for a relevant Gas Year in accordance with paragraph J2.5.4(b), then where the Assured Offtake Pressures specified in the Offtake Capacity Statement for the preceding year is:

- (a) greater than or equal to the Assured Offtake Pressures applied for, such application will be accepted; or
- (b) less than the Assured Offtake Pressures applied for, the Assured Offtake Pressures accepted will be not less than the values specified in the Offtake Capacity Statement for such preceding year.”

UNIFORM NETWORK CODE – TRANSITION DOCUMENT

PART IIC – TRANSITION RULES

Add new paragraph 1.6 to read:

“1.6 TPD Section B : SYSTEM USE AND CAPACITY

1.6.1 TPD Section B6.3.2(b)

A DNO User may apply for an amount of NTS Offtake Capacity at an NTS/LDZ Offtake in relation to the relevant Gas Year ending 30 September 2009 by submitting an application to Transco NTS no later than [15 October 2005] subject to and in accordance with the TPD Section B6.

1.6.2 TPD Section B6.3.6

In the case of an application under paragraph 1.6.1, Transco NTS will notify the DNO User by no later than [12 November 2005] whether such application has been accepted in whole or in part, or rejected, specifying (where the application is accepted in part) the amount of NTS (Flat) Capacity and /or NTS Offtake (Flexibility) Capacity for which the application is accepted.

1.6.3 TPD Section B 6.2.1

Transco NTS will issue to each of the DNO Users not later than [12 November 2005] a revised Offtake Capacity Statement specifying the amount of NTS Offtake (Flat) Capacity, NTS (Flexibility) Capacity and Assured Offtake Pressures for each of the DNO Users for each of the Gas Years up to and including the Gas Year ending 30 September 2009.”

Add new Paragraph 1.7 to read:

“1.7 TPD Section J : EXIT REQUIREMENTS

1.7.1 TPD Section J2.5.4(b)

A DNO User may, at the time at which it may apply for an amount of NTS Offtake Capacity (in accordance with paragraph 1.6.1) apply for Assured Offtake Pressures at such NTS/LDZ Offtake for the Gas Year ending 30 September 2009.

1.7.2 TPD Section J2.5.7

Where an application has been made in accordance with paragraph 1.7.1 then where the Assured Offtake Pressures specified in the Offtake Capacity Statement for the preceding year is:

- (a) greater than or equal to the Assured Offtake Pressures applied for, such application will be accepted;
- (b) less than the Assured Offtake Pressures applied for, the Assured Offtake Pressures accepted will be not less than the values specified in the Offtake Capacity Statement for such preceding year;

and in either case Transco NTS will notify the DNO User accordingly by no later than [12 November 2005].”

Subject Matter Expert sign off:

I confirm that I have prepared this modification report in accordance with the Modification Rules.

Signature:

Date :

Signed for and on behalf of Relevant Gas Transporters:

Tim Davis
Chief Executive, Joint Office of Gas Transporters

Signature:

Date :