

**Modification Report**  
**Reform of the NTS Offtake Arrangements**  
**Modification Reference Number 0116V**  
Version 3.0

This Modification Report is made pursuant to Rule 9.3.1 of the Modification Rules and follows the format required under Rule 9.4. To assist the consultation process, this Modification Report includes consideration of Modification Proposals 0116V, 0116A, 0116BV, 0116CV and 0116VD.

## **1. The Modification Proposal**

### **Modification Proposal 0116V**

The Nature and Purpose was set out in 0116V as follows (changes incorporated in 0116VD are highlighted):-

“The Authority (“the Gas and Electricity Market Authority”) decision that allowed the sale of gas distribution networks by National Grid Transco in May 2005 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 (“National Grid NTS – Potential sale of gas distribution network business” 255/04a) with regard to NTS Exit Capacity reform.

The Uniform Network Code (UNC) was therefore developed to support network sales with sunset clauses (set at 30 September 2008) in respect of arrangements for registration of NTS Exit Capacity at NTS Exit Points.

It was envisaged that the Enduring Arrangements would be introduced shortly after completion of the network sales process, facilitated by a UNC Modification Proposal, to define the NTS exit regime to apply in respect of registration and utilisation of NTS Exit Capacity for the period from 1<sup>st</sup> October 2008. However, on 24 June 2005 the Authority announced the delay to the implementation of the Enduring Arrangements until 2007 for release of NTS Exit Capacity and NTS Offtake Capacity rights from Gas Year 2010/11 to permit more time to consider and refine the detail of these arrangements. Transitional Arrangements were therefore developed, facilitated by UNC Modification Proposal 046 (“Extension of the Sunset Clauses for Registration of Capacity at NTS Exit Points”), to cover the two intervening years between the end of the Interim Arrangements and the commencement of the Enduring Arrangements. In effect, the Transitional Arrangements extended the sunset clauses associated with the arrangements for registration of NTS Exit Capacity and NTS Offtake Capacity at NTS Exit Points from 30 September 2008 to 30 September 2010. This implies that, without further changes to the UNC, Users are not able to register NTS Exit Capacity rights beyond 30 September 2010.

This Modification Proposal therefore seeks to introduce the Enduring Arrangements, consistent with Ofgem’s proposals in respect of the Transmission Price Control Review

(TPCR) for the period April 2007 to March 2012, to allow registration of NTS Exit Capacity from 1 October 2010 onwards. The Proposal has been developed following extensive discussions at Ofgem's Enduring Offtake Working Group (EOWG) meetings and Transmission Workstream meetings, which have informed the content and shape of this Proposal, based on the following key assumptions underpinning the enduring NTS offtake arrangements:

(0116VD rewords the last sentence of the previous paragraph as follows: “The Proposal has been ~~developed following extensive discussions at Ofgem's Enduring Offtake Working Group (EOWG) meetings and Transmission Workstream meetings, which have informed the content and shape of this Proposal,~~ based on the following key assumptions underpinning the enduring NTS offtake arrangements.”)

- common NTS Exit Capacity services should be made available to all Users (shippers and DNOs) to avoid the scope for undue discrimination and meet EU Gas Regulation requirements (Regulation (EC) No 1775/2005 – “Regulation of the European Parliament and of the Council on Conditions for Access to the Natural Gas Transmission Networks”, Article 4 -Third party access services);
- “pay-as-bid” release mechanisms should be used where investment cannot be completed in time (or is unlikely to be efficient) as a means of seeking to minimise the risk of any potential undue discrimination in the allocation of constrained amounts of Capacity;
- Capacity products embracing the concept of “flexibility” utilisation should be implemented that will support efficient and economic network operation;
- a “User commitment model” should be promoted requiring UNC (and non-UNC) Users to provide financially backed signals for Capacity requirements to minimise the risk of investment inefficiencies and, in the extreme, asset stranding.”

### **Modification Proposal 0116A**

The Nature and Purpose of Proposal 0116A was as follows:-

“This alternative proposal seeks to remove the ‘sunset’ clauses from the UNC thereby allowing the existing arrangement to become the ‘enduring’ arrangements.

The current arrangements only allow DNO Users to secure NTS Offtake Capacity requirements until 30 September 2010<sup>1</sup>, after which there is no means for DNO Users to

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<sup>1</sup> Reservation of capacity more than 6 months in advance at NTS direct connects is not currently permitted under the UNC, although National Grid NTS can commit to make available capacity for such future dates where a shipper or developer enters into an Advance Reservation of Capacity Agreement (ARCA). For a small number projects there is little or no need to reinforce the NTS and National Grid NTS do not seek ARCA commitments to partially underwrite their system investment. Under such circumstances the absence of an ARCA means that National Grid NTS may not be contractually obliged to allow the relevant shipper to book capacity at a future date, although they would clearly be aware of the new load and their Section 16 licence obligation should in any event require them plan and develop their pipe-line system to meet to such demand. There are a number of mechanisms that could be used to address this long standing anomaly, including mandating ARCA agreements or changing the UNC capacity exit

secure any form of relevant capacity. This would be replaced with a date dictated by an appropriate investment lead time for the investment in offtake capacity (see below).”

### **Modification Proposal 0116BV**

The Nature and Purpose was set out in 0116BV as follows:

“National Grid NTS have raised Modification Proposal 0116 to introduce the “Enduring Arrangements” as a consequence of the Authority (“the Gas and Electricity Market Authority”) decision in May 2005 that the sale of gas distribution networks by National Grid Transco required reform to “Enduring Arrangements” to introduce more market based arrangements and consistent with Ofgem’s proposals in respect of the Transmission Price Control Review (TPCR) for the period April 2007 to March 2012.

Modification Proposal 0116 represents National Grid NTS’s interpretation of how Enduring Arrangements should be implemented, taking account of discussions that took place at Ofgem’s Enduring Offtake Working Group (EOWG) meetings and at Transmission Workstream meetings. Throughout these discussions the majority of User participants questioned the need for, and benefits arising from, such fundamental reform of the current offtake arrangements. However, to the extent that National Grid NTS and/or Ofgem perceived that problems did, or might, exist with the existing transitional offtake arrangements, User participants sought to develop pragmatic solutions to these which minimised operational complexity and reduced the burden of risk Users could face as a result of such fundamental changes.

Notwithstanding whether Modification Proposal 0116 would better facilitate the achievement of the Relevant Objectives or not, RWE Trading GmbH believes that National Grid NTS’s interpretation of how Enduring Arrangements should be implemented contains aspects which are unduly complex and which disproportionately increase the risk between National Grid NTS and Users, and between classes of User.

To this extent we have raised this alternative Modification Proposal to address these concerns. If Ofgem decides that Modification Proposal 0116 does better facilitate the achievement of the Relevant Objectives it can then consider whether this alternative does so more strongly, such that the Relevant Objectives are even better facilitated by this alternative proposal compared to the original proposal. For the avoidance of doubt however, if Ofgem decides that Modification Proposal 0116 does not better facilitate the achievement of the Relevant Objectives then neither should this alternative Modification Proposal.

For the purpose of describing the nature and purpose of this alternative Modification Proposal wording used in National Grid NTS’s Modification Proposal 0116 (Sections 1 – 10) has been replicated below, where appropriate.

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capacity booking rules. Given the tight schedule, for consideration of Modification Proposal 116 there is inadequate time to consider this issue at this time. The proposer of this alternative therefore considers that it is more appropriate to amend the code through a separate Modification Proposal once this alternative has been approved.

At the end of each section there is then a “Summary of Changes” section (in italics), which describes the nature of the changes to the original Modification Proposal 0116 wording, and the reasons why this is felt to be necessary.”

### **Modification Proposal 0116CV**

The Nature and Purpose was set out in 0116CV as follows:-

“National Grid NTS have raised Modification Proposal 0116 to introduce the “Enduring Arrangements” as a consequence of the Authority (“the Gas and Electricity Market Authority”) decision in May 2005 that the sale of gas distribution networks by National Grid Transco required reform to “Enduring Arrangements” to introduce more market based arrangements for NTS Offtake and consistent with Ofgem’s proposals in respect of the Transmission Price Control Review (TPCR) for the period April 2007 to March 2012.

Modification Proposal 0116 represents National Grid NTS’s interpretation of how Enduring Arrangements should be implemented taking account of discussions that took place at Ofgem’s Enduring Offtake Working Group (EOWG) meetings and at Transmission Workstream meetings. Throughout these discussions the majority of User participants questioned the need for, and benefits arising from, such fundamental reform of the current offtake arrangements. However, to the extent that National Grid NTS and/or Ofgem perceived that problems did, or might, exist with the existing transitional offtake arrangements, User participants sought to develop pragmatic solutions to these which minimised operational complexity and reduced the burden of risk Users could face as a result of such fundamental changes.

The Proposer believes that certain areas of Modification Proposal 0116 would not better facilitate the achievement of the Relevant Objectives. We believe that National Grid NTS’s interpretation of how Enduring Arrangements should be implemented contains aspects which are unduly complex and which disproportionately increase the risk between National Grid NTS and Users, and between classes of User. We have incorporated those amendments to the original proposal contained in the alternate proposal 0116b as we believe that these points, where related to the changes which this proposal supports, better facilitate the relevant objectives.

To this extent we have raised this alternative Modification Proposal to address these concerns. With respect to those areas of Modification Proposal 0116 where we concur that it would better facilitate the achievement of the Relevant Objectives Ofgem may then consider whether this alternative does so more strongly than the original Proposal. For the avoidance of doubt, however, if Ofgem decide that Modification Proposal 0116 does not better facilitate the achievement of the Relevant Objectives in this respect (vis-à-vis the status quo ex ante), then logically the same decision should apply to this alternative Modification Proposal

For the purpose of describing the nature and purpose of this alternative Modification Proposal the wording used in National Grid NTS’s Modification Proposal 0116 (Sections 1 – 10) has been replicated below, where appropriate.

At the end of each section there is then a “Summary of Changes” section (in italics), which describes the nature of the changes to the original Modification Proposal 0116 wording, and the reasons why this is felt to be necessary.”

### **Detailed Sections 0116, 0116B and 0116C0116V, 0116BV and 0116CV**

The following sections provide an overview of the key features included in the nature of Proposal 0116. Business Rules will also be made available to support explanation of this Proposal while legal text is being completed. It is envisaged that draft legal text will be provided ahead of the September UNC Modification Panel and a series of meetings will be held in the consultation period to ensure that any necessary clarifications can be supplied to inform consultation responses and Ofgem’s implementation decision.”

*NB where proposed Modifications as set out in Modification Proposals 0116V, 0116BV and 0116CV. Where the text of Sections 1 to 10 of 0116BV an/or 0116CV differs from 0116V, this has been identified below. Other than for these differences, the text is identical, apart from minor grammatical differences which have not been included.*

### **Section 1. NTS Exit Capacity Products**

It is proposed that two separate (0116CV deleted “**two separate**”) NTS Exit Capacity products are made available to all Users (Shipper and DNOs) as described below:-

- “NTS Exit (Flat) Capacity” - to provide Users the ability to obtain rights to offtake a daily quantity of gas at an NTS Exit Point, with the implied right to offtake at an even flow rate across the Gas Day. This in effect extends the current NTS Offtake (Flat) Capacity available to DNO Users at NTS/LDZ Offtakes to all Users and all NTS Exit Points. Such a product is anticipated to provide National Grid NTS with clear locational signals for where, when and how much transportation capability may be required by Users to support anticipated end of day demand, and will facilitate efficient NTS investment planning and operation;
- “NTS Exit (Flexibility) Capacity” - to provide Users the ability to obtain rights to offtake gas in aggregate over a Gas Day at one or more NTS Exit Points within an NTS Exit Zone (to be defined in the enduring ExCR Methodology Statement) at flow rates which deviate from the even flow rate conferred through holding NTS Exit (Flat) Capacity. Actual utilisation of NTS Exit (Flexibility) Capacity for each User at each NTS Exit Zone on each Gas Day will be determined by subtracting 2/3 of its total end of day allocated quantity from the cumulative allocated quantity it has offtaken between 06:00 and 22:00, including a tolerance of 1.5% (0116BV and 0116VD ~~1.5%~~ **3%**) on measurements of the cumulative flow. This in effect extends the current NTS Offtake (Flexibility) Capacity available to DNO Users at NTS/LDZ Offtakes to all Users and all NTS Exit Points within NTS Exit Zones. (0116VD “**This calculation may result in a positive or negative flex requirement** ~~in effect extends the current NTS Offtake (Flexibility) Capacity available to DNO Users at NTS/LDZ Offtakes to all Users and all NTS Exit Points within NTS Exit Zones~~”). Such a product is anticipated to allow Users to compete, on a non-discriminatory basis, for constrained amounts of within day system capability that National Grid NTS will make available in accordance with its Licence obligations and incentives. In addition, this product, in the context of the

proposed regime, will allow National Grid NTS to better manage the system, particularly in the context for large and/or unexpected within day flow rate variations.

(0116CV deleted the second bullet point above and replaced it with the following

- **““NTS Exit (Flexibility) Capacity” (Flexibility, as it is currently termed)– is made available to Distribution Networks as currently provided for in the Uniform Network Code (UNC) in order to enable them to fulfil their licence obligations and demonstrate their provision of sufficient flexibility to meet the requirements of consumers connected to their network. The extension of this requirement to other Users is not included in this proposal. However, it is proposed to introduce a regime of monitoring and publishing the utilisation of System Flexibility in order to assess the need for more rigorous process to allocate and ration this product.”**

*0116BV Proposer’s Summary of Changes (Section 1)*

*“The 1.5% tolerance on measurements of the cumulative flow between 06:00 and 22:00 that is used in the calculation of a User's NTS Exit (Flexibility) Capacity usage has been increased to 3%.*

*Under Section J.4.6.2 of the Uniform Network Code Users may not take gas from a System at a rate of offtake which exceeds or is less than the Prevailing Offtake Rate (as stated in Offtake Profile Notice) by more than the relevant tolerance specified in the Network Exit Provisions.*

*In the case of NEXA Supply Meter Points this tolerance is typically 3%, which in the case of gas fired power stations reflects measuring accuracy and the fact that they may be required to provide Frequency Response. In the case of a NTS/LDZ Offtake this tolerance is 10% in respect of any NTS/LDZ Offtake and 3% in aggregate at all of the Offtakes which serve a LDZ, which may reflect the fact that some offtakes are controlled by pressure variance in the DN network.*

*In the event a User is aware that the rate of offtake will breach the Prevailing Offtake Rate by more than the relevant tolerance, the User is required to re-submit its Offtake Profile Notice.*

*In the case of Registered User's at a NEXA Supply Meter Point they may submit an OPN indicating that they are intending to run at a flat 1/24<sup>th</sup> hourly rate throughout the Gas Day. However their actual flow throughout the Gas Day may be 103% of the 1/24<sup>th</sup> hourly rate for the period 06:00 to 22:00 and 97% of the 1/24<sup>th</sup> hourly flow rate for the period 22:00 to 06:00. In such circumstances the User would not be required to re-submit their Offtake Profile Notice. The User would not be allocated any Daily NTS Exit (Flexibility) Capacity through their OPN submission, and so if they had not purchased any Annual NTS Exit (Flexibility) Capacity in the auctions they could be subject to an NTS Exit (Flexibility) Capacity Overrun charge (in the event of a zonal overrun). This is because the level of the overall measurement tolerance is not sufficient to take account of the Users flow entitlement under the NEXA/Uniform Network Code.*

*Such a situation could equally apply at a NTS/LDZ Offtake. However the overrun exposure would be greater due to the fact that individual NTS/LDZ offtakes have a higher tolerance,*

*and certain NTS/LDZ Offtakes within an LDZ may reside in separate NTS Exit (Flexibility) Capacity zones.*

*Increasing the tolerance to 3% will lessen the likelihood of Users incurring NTS Exit (Flexibility) Capacity Overrun charges for flowing gas in accordance with the NExA/Uniform Network Code. It also promotes an incremental approach to such fundamental reform of the NTS Offtake Arrangements, which will allow Users time to understand what changes they need to make to their day to day operations and processes without fear of being exposed to overrun charges.”*

*0116CV Proposer’s summary of Changes (Section 1)*

*“The removal of the further application of the requirement for Users to acquire an NTS System Flexibility product beyond that already existing in UNC. This has been excluded from this Proposal for the following reasons:-*

- 1. Investment Signals – The signals for economic and efficient investment is cited as one of the main objectives of National Grid’s proposal. National Grid have clearly stated that there would no investment in the network specifically for Flexibility. (This is also consistent with NGG’s licence obligation to invest for the 1-in-20-peak day.) The Flexibility that exists is a bi-product of the establishment of the size of the Transmission network, which is itself driven by (flat) capacity requirements. It follows logically from this that the removal of the process for sale of a Flexibility product does not detract from any objective of the original Proposal to provide investment signals.*
- 2. Quantification of the Flexibility Product – National Grid have demonstrated convincingly that the amount of Flexibility available on any single day is dependent upon a number of unpredictable factors. Therefore it is impossible to forecast, with any level of confidence or reliability, the amount of Flexibility available more than a day or so ahead. This does not support the sale of a Flexibility product to all Users on a long-term basis, which is most unlikely – for a number of reasons – to be an economic and efficient solution.*
- 3. Artificial Scarcity of Flexibility – Given the unpredictability described in (2) above, the amount of Flexibility which can be offered in the long-term is of necessity limited to the lowest number that can be guaranteed by the Transporter to be available at a date far in to the future. Experience has shown that all Users’ and Distribution Networks’ use of flexibility is unpredictable and not co-incident. Therefore in order to be certain of acquiring sufficient Flexibility for days of maximum use it is necessary to book Flexibility for all days, perhaps with a seasonal profile. Should all Users and Distribution Networks simultaneously book sufficient Flexibility for their maximum Flow rate variation on all days far into the future, this will inevitably exceed availability and this demand upon the system would never be co-incident.*
- 4. Sub-Optimal assessment of System Capability – for the reasons outlined above, the assessment of capacity available in the long term would be conservative and would under-estimate the true potential of the system.*

5. *Absence of secondary trading or transfer of flexibility – For those parties able to forecast more reliably their use of Flexibility in advance, mainly DNs, this is likely to be for peak requirements across all days taking account of seasonality. It is likely that this would not be released to other users until there was certainty that it would not be required by the DNs themselves. This would be very close to the gas day, if not within day. This would result in unused Flexibility being unavailable to other Users, i.e. the original Modification would place an artificial Flexibility constraint on the system.*
6. *Exposure to flexibility overrun charges as result of other Users' flow profiles – particularly at locations where there are multiple Users and where there are bi-directional flows, a User may incur a penalty as a result of other Users' flow profiles. The arrangements within the original proposal do not address this problem.*
7. *Contrary to EU Regulation 1775/2005 on conditions for access to gas transmission networks. Article 3 requires transmission system operators to actively pursue convergence of tariff structures and charging principles and for tariffs not to restrict market liquidity or distort trade across borders of different transmission systems. The Proposer believes the original proposal would hamper liquidity and trade across the IUK and Moffat interconnectors. It is also contrary to convergence with the regimes in neighbouring Member States and therefore working against the ambitions for a liberalised European market. The Proposer also believes that the original Modification Proposal may prevent the unencumbered release of the full capacity potential of the network (Article 5)*
8. *Extreme Complexity - All Users and Transporters would be required to establish and maintain sophisticated systems to manage flexibility.*
9. *Exposure to risk – the regime proposed in the original version would create high risk for Users unable to acquire flexibility due to the reasons contained in 2 & 3 above.*
10. *High Costs for Users and Consumers – The necessity for such systems will generate costs. The acquisition of Flexibility will generate costs. The exposure to overrun charges and SO Commodity (flexibility) charges would also add costs.*
11. *Impact upon other regimes – A significant number of NTS connected customers are power stations. The need to book Flexibility for such customers is particularly difficult as the within day profile of gas flows will not be known until very close to the gas day. Should power stations be unable to secure flexibility in the long term, due to uncertainty, and not be able to secure flexibility in the short term, due to the lack of effective Use it or lose it (UIOLI) process (as 5 above), they would be unable to respond to the requirements of the power regime. In that sense, the original Modification would cut across another legitimate regulatory concern, i.e. to facilitate a flexible and economically efficient pattern of power station despatch.”*

[0116VD Proposer's Summary of Changes \(Section 1\)](#)



*Inclusion of a 3% tolerance for NTS Exit (Flexibility) Capacity product better reflects User's operational control, particularly at pressure controlled offtakes, and not just measurement accuracy.*

*Proposal also takes account of negative flexibility capacity.*

## **Section 2. Release of NTS Exit (Flat) Capacity**

The NTS Exit (Flat) Capacity product is proposed to be made available well ahead of the Gas Day in annual bundles of daily rights so that an efficient allocation process can be operated whilst avoiding the potential complexity of providing sub-annual products. The release of daily and within-day Capacity should enable Users to fine-tune its requirements closer to gas flow, and particularly should satisfy the specific needs of counter seasonal loads, such as Storage Operators.

The following classes of NTS Exit (Flat) Capacity will be made available to Users:

- "Prevailing NTS Exit (Flat) Capacity" - Firm NTS Exit (Flat) Capacity which may be applied for and registered as held by a User at a relevant NTS Exit Point for each Gas Day in every Gas Year unless the User provides a notice to reduce its prevailing rights;
- "Annual NTS Exit (Flat) Capacity" - Firm NTS Exit (Flat) Capacity which may be applied for and registered as held by a User at a relevant NTS Exit Point for each Gas Day in a Gas Year;
- "Daily NTS Exit (Flat) Capacity" - Firm NTS Exit (Flat) Capacity which may be applied for and registered as held by a User at a relevant NTS Exit Point for a Gas Day only; and
- "Daily Interruptible NTS Exit (Flat) Capacity" - Interruptible NTS Exit (Flat) Capacity which may be applied for and registered as held by a User at a relevant NTS Exit Point for a Gas Day only.

The key features of each class of NTS Exit (Flat) Capacity in respect of its release are set out below, with other aspects regarding the product described in sections 4 to 10.

Release and Reduction of Prevailing NTS Exit (Flat) Capacity (0116BV and 0116CV inserts "at existing NTS Exit Points") (0116VD "Release of Initial Prevailing NTS Exit (Flat) Capacity")

To minimise the impact on Users, where possible, of implementation of the Enduring Arrangements, it is proposed that each User is granted an initial amount of Prevailing NTS Exit (Flat) Capacity. Where possible, this should be based on quantities held by Users prior to submission of this Proposal to avoid Users changing their Capacity levels in response to this Proposal to levels which might not reflect their genuine requirements.

National Grid NTS will notify each User by 1st July (0116VD ~~"July-May"~~) 2007 of its Initial Prevailing NTS Exit (Flat) Capacity holdings for each (0116BV and 0116CV inserts ~~"existing"~~) NTS Exit Point determined as follows:

- NTS Supply Points and CSEPs – the sum of the User's maximum firm and interruptible NTS Exit Capacity that the relevant Shipper User had registered for any Gas Day ("Maximum Daily Amount") in Gas Year 2005/06 at that NTS Exit Point, subject to the

aggregate amount of Initial Prevailing NTS Exit (Flat) Capacity allocated not being greater than the baseline level of Capacity for Gas Year 2010/11 for that NTS Exit Point (in accordance with National Grid NTS' Licence). Where this is not the case, each User will be allocated an Initial Prevailing NTS Exit (Flat) Capacity holding equal to the amount determined by firstly prorating any interruptible NTS Exit Capacity, then any firm NTS Exit Capacity, proportion of the Maximum Daily Amount down such that the sum of each User's initial rights equals the baseline;

- NTS/LDZ Offtakes – the NTS Offtake (Flat) Capacity that the relevant DNO User will be registered for Gas Year 2009/10 (to be stated in the September 2006 Offtake Capacity Statement) at that NTS Exit Point.

In addition, it is proposed that, where National Grid NTS has entered, or enters, into an Advanced Reservation of Capacity Agreement (ARCA) by the implementation date of this Proposal, the proportion of the Reserved Capacity which is held by each Shipper User at the relevant NTS Exit Point on 30 September 2010 is rolled over into the enduring regime i.e. such Shippers have an amount of Initial Prevailing NTS Exit (Flat) Capacity based on its proportion of the Reserved Capacity at the NTS Exit Point. This is to avoid such Users having to make another user commitment beyond that already included as part of an executed ARCA.

(0116BV instead of the previous paragraph inserts the following: **“In the case of new Firm NTS Supply Points/CSEPs which are commissioned prior to the Enduring Arrangements coming into effect (expected to be Gas Year 2010), the User's Initial Prevailing NTS Exit (Flat) Capacity holding will be the first Registered NTS Exit Capacity at that new Firm NTS Supply Point /CSEP on the date immediately preceding start of the enduring Arrangements (i.e. 30th September 2010).”**)

(0116CV instead of the previous paragraph in Proposal 0116V inserts the following: **“In the case of new NTS Supply Points and CSEPs which are commissioned after 1<sup>st</sup> July 2007 the User's Initial Prevailing NTS Exit (Flat) Capacity holding will be the first Registered NTS Exit Capacity at that new NTS Supply Point or CSEP, consistent with the reserved quantity in the relevant ARCA on the date immediately preceding start of the enduring Arrangements (i.e. 30th September 2010).”**)

(0116VD inserts title **“Reduction of Prevailing NTS Exit (Flat) Capacity**)

Users may apply to reduce its Initial Prevailing NTS (Exit) Flat Capacity by 15<sup>th</sup> July each year from and including 2007 onwards by providing an appropriate notice as described later in this section. (0116B and 0116C(0116BV and 0116CV inserts the following: **“For the avoidance of doubt the latest date a User is able to reduce its Initial Prevailing NTS (Exit) Flat Capacity is the 15th July in the year preceding implementation of the Enduring Arrangements (i.e. 15th July 2009).”**)

(0116VD inserts title **“Release of Prevailing NTS Exit (Flat) Capacity**)

Users may also apply for (additional) Prevailing NTS Exit (Flat) Capacity rights at any NTS Exit Point during the Annual Application Window in Gas Year Y for use from Gas Year Y+4, Y+5 or Y+6 onwards (i.e. if the Annual Application Window was in July, Users

may apply in July 2007 for additional prevailing rights above its initial levels, if any, for use from October 2010 and/or October 2011 and/or October 2012 onwards).

The timescales for these applications should reflect the typical expected minimum lead-time required to complete incremental investment to enhance transportation capability, where investments are required. The default lead time for new NTS investments and the associated incentive arrangements are under debate as part of the Transmission Price Control Review (TPCR). In the interim, National Grid NTS maintains its initial proposal of the Annual Application Window being in July. However, it is likely that National Grid NTS will need to raise a further UNC Modification Proposal, in the event of implementation of this Proposal, to align the timescales for the Annual Application Window and liability arrangements with the conclusions of the TPCR in respect of the default lead times for investments. (0116VD “~~However, it is likely that National Grid NTS has stated that it is likely that they will need to raise a further UNC Modification Proposal, in the event of implementation of this Proposal, to align the timescales for the Annual Application Window and liability arrangements with the conclusions of the TPCR in respect of the default lead times for investments~~”). This further UNC Modification Proposal is also likely to include the potential ability for Users to apply for an increase in Prevailing NTS Exit (Flat) Capacity commencing from a date earlier than that implied by the default investment lead time, depending on the conclusions on the investment incentive arrangements.

Accordingly, Users will have the opportunity to purchase additional quantities of NTS Exit (Flat) Capacity, consistent with their willingness to pay and satisfaction of any ‘strength of signal test’ that will be set out in the enduring ExCR Methodology Statement. This would apply to each request that National Grid NTS receives to increase its Prevailing NTS Exit (Flat) Capacity. It is National Grid NTS’ intention to consult on the enduring ExCR Methodology Statement in parallel with consultation on this UNC Modification Proposal. (0116VD “~~It is National Grid NTS’ intention to consult~~ is consulting on the enduring ExCR Methodology Statement in parallel with consultation on ~~this~~ the UNC Modification Proposal 0116V). (0116VD does not include the following two sentences). Consistent with discussions at Ofgem’s Enduring Offtake Working Group, National Grid NTS is likely to propose that each User requires to commit to be registered for 4 years of NTS Exit (Flat) Capacity in order to obtain additional prevailing rights, regardless of the baseline level at the NTS Exit Point. This would oblige the User to pay for the NTS Exit Capacity charges for each of these years on its revised total amount of Prevailing NTS Exit (Flat) Capacity.

(0116VD resumes) Users will be informed of their allocations by National Grid NTS up to 2 months, but as soon as possible, after completion of the long-term application process (i.e. by 30 September at the latest following the close of the July application window) to allow National Grid NTS sufficient time to complete credit checks and the incremental release processes under the ExCR Methodology Statement. In the event that acceptance of such applications for Prevailing NTS Exit (Flat) Capacity would result in the aggregate level at an NTS Exit Point to be above the baseline, then it is anticipated that National Grid NTS will be obliged under its Licence to consider whether transfer of unsold baseline quantities from other NTS Exit Points may reduce, avoid or defer the need for investment.

(0116VD inserts title “Reduction in NTS Exit (Flat) Capacity”)

In the event that a User wishes to reduce its Prevailing NTS Exit (Flat) Capacity holdings, then it must provide the appropriate amount of notice (the “Reduction Notice Period”) by 15<sup>th</sup> July during the Annual Application Window. The Reduction Notice Period will be stated in the enduring ExCR Methodology Statement. It is National Grid NTS’ intention to consult on a proposal that the Reduction Notice Period will be such that the Gas Year with effect from which a reduction of Prevailing NTS Exit (Flat) Capacity is effective may not be earlier than the later of: (0116VD “It is National Grid NTS’ intention to consult ~~on a~~ ~~proposal~~ that the Reduction Notice Period will be such that the Gas Year with effect from which a reduction of Prevailing NTS Exit (Flat) Capacity is effective may not be earlier than the later of:)

- Gas Year  $Y_{N+2}$  where Gas Year  $Y_N$  is the Gas Year in which the notice was provided; and
- Gas Year  $Y_{A+4}$  where Gas Year  $Y_A$  is the Gas Year with effect from which the User was most recently allocated Prevailing NTS Exit (Flat) Capacity at the NTS Exit Point.

This means that a User needs to provide at least 14 months notice of a reduction in prevailing rights where any associated User commitment has been met or has been obtained through regime initialisation (e.g. if a User applied to reduce its Initial Prevailing NTS Exit (Flat) Capacity holdings in July 2010, then this could only be effective from October 2011 at the earliest). Where a User has requested additional prevailing rights, the User must have met the associated commitment before reductions will be effective (e.g. in the Annual Application Window of July 2007, a User requests 10 units of Capacity from Gas Years 2010/11 onwards. It would be registered Capacity for the 4 Gas Years 2010/11 to 2013/14, inclusive. In July 2008, if the Users applies to reduce 5 units of this Capacity, then such a reduction could only be effective from October 2014 at the earliest).

***(0116BV and 0116CV do not include the following ARCA sub section.)***

#### *Advanced Reservation of Capacity Agreements (ARCAs)*

To allow non-UNC parties (e.g. developers) to progress their projects and obtain their required access to the gas transmission system before it has obtained the services of any Shipper User, National Grid NTS may enter into ARCAs with such parties (the “Reservation Party”) for the reservation of Prevailing NTS Exit (Flat) Capacity (the “Reserved Capacity”). This is to allow such non-UNC parties to be able to follow the same arrangements as Users under the UNC for release of Prevailing NTS Exit (Flat) Capacity.

The Reservation Party may nominate any Shipper User to be registered as holding part or all of the Reserved Capacity for the NTS Exit Point. After nomination of such a User, the User will be entitled to be registered, subject to such User meeting the required credit checks, as holding such amounts of Prevailing NTS Exit (Flat) Capacity as if they had initially registered the Capacity through the UNC Prevailing NTS Exit (Flat) Capacity arrangements.

The Reservation Party will be obliged to pay National Grid NTS an amount, if any, based on the same principles as applied to Users under the ExCR Methodology Statement in respect of the level of user commitment made for increases in Prevailing NTS Exit (Flat) Capacity.

Where National Grid NTS has entered into an ARCA, the amount of Reserved Capacity will be treated as if it were registered by a User for the purposes of determining amounts which National Grid NTS is obliged under its Licence to release.

*(0116BV and 0116CV, except where indicated otherwise, include the following paragraphs instead of the above:*

**“Release and Reduction of Prevailing NTS Exit (Flat) Capacity at new NTS Exit Points**

**In the case of new NTS Exit Points, a developer (which could be either a User or a non-UNC party) would be expected to enter into discussions with National Grid NTS regarding their connections requirements in accordance with the indicative timescales published on their website, and other guidance provided.**

**As a result of these discussions National Grid NTS and developers may enter into certain project agreements so as to allow National Grid NTS to proceed with the project development and construction necessary to establish a new NTS Exit Point, thereby enabling the developer's proposed project to secure a gas supply from the NTS. Examples of such agreements are listed on National Grid NTS's website, but are not limited to these.**

**It is in the interest of the developer to ensure that their project plan and timescales are visible to National Grid NTS, and that their key project milestones are as aligned as closely as possible with National Grid NTS's incremental capacity planning/construction processes and timescales.**

**Therefore to the extent that a developer is able to make a commitment to pay for Prevailing NTS Exit (Flat) Capacity at a new NTS Exit Point sufficient to meet any "strength of signal test" set out in the enduring ExCR Methodology Statement in July of a Gas Year Y they shall use reasonable endeavours to do so, either by way of a commitment in accordance with the Uniform Network Code in the July Annual Application Window or by way of a contractual agreement. In doing so they will be entitled to reserve and/or register (0116CV ~~and/or register~~) such for Prevailing NTS Exit (Flat) Capacity at the new NTS Exit Point from Gas Year Y+4.**

**There will however be circumstances where the developer is not able to make a commitment sufficient to meet any “strength of signal test” in a July Annual Application Window as they may, for example, not have secured all necessary consents or board approval by this stage. Despite this it may, in certain cases, still be possible for National Grid NTS to make NTS Exit (Flat) Capacity available from Gas Year +4, or earlier.**

**It may also be the case that the developer requires National Grid NTS to make NTS Exit (Flat) capacity available from a date other than the start of a Gas Year, and again it may be possible for them to do this.**

**In both of the above circumstances National Grid NTS shall be obliged to use their reasonable endeavours to make capacity available within the timescales requested by the developer, providing the developer has entered into the necessary agreements to**

**progress any project development and construction and made a user commitment sufficient to meet any "strength of signal test".**

**In the event National Grid NTS is able to make NTS Exit (Flat) Capacity available within shorter timescales than defined in the Network Code/ExCR Methodology Statement and/or commencing from a date other than the start of the Gas Year the developer's user commitment obligations shall commence from the time NTS Exit (Flat) Capacity is first made available. Once made available the rules regarding release and reduction of prevailing NTS Exit (Flat) Capacity at existing NTS Exit Points shall apply.**

**The default lead time for new NTS investments and the associated incentive arrangements are under debate as part of the Transmission Price Control Review (TPCR). However, the principles of release and reduction of Prevailing NTS Exit (Flat) Capacity at new NTS Exit Points described above shall be implemented through this modification or future modification proposal raised by National Grid NTS immediately after the TPCR debate relating to these issues has been concluded."**

#### Release of Annual NTS Exit (Flat) Capacity

It is proposed that "pay-as-bid" auctions will be held in August of each Gas Year Y to provide Users the opportunity to seek to procure annual NTS Exit (Flat) Capacity rights for Gas Years Y+1, Y+2 and Y+3. These auctions may enable Users to adjust their portfolio of annual NTS Exit (Flat) Capacity holdings as their demand forecasts become more certain.

The amount of Capacity to be made available will be consistent with National Grid NTS' obligations under its Licence. This is anticipated to comprise of baseline amounts for each NTS Exit Point, set initially based on the physical capability of the NTS. National Grid NTS' obligation to release capacity may exceed such a baseline at an NTS Exit Point, subject to Users meeting the incremental release test, or reduced below such a baseline if this may avoid, reduce or defer investments in accordance with processes to be defined in the ExCR Methodology Statement.

To commence an annual auction, National Grid NTS will issue an invitation to Users 28 days in advance of the auction detailing :

- the Gas Days on which the auction will be held – the auction will be held in two rounds with 3 business days between each round;
- reserve price for each NTS Exit Point and Gas Year (in accordance with the Statement of Gas Transmission Transportation Charges);
- available Annual NTS Exit (Flat) Capacity for each NTS Exit Point for each Gas Year and auction round - 50% of the available baseline Capacity levels will be made available on the first day, and the remaining 50% plus any unsold Capacity from the first day on the second day.

Users will be able to place bids, subject to meeting required credit limits, for NTS Exit (Flat) Capacity stating in each bid their desired quantity and the price they are willing to pay for such a quantity. Users may submit up to 10 bids per NTS Exit Point for each

auction round from 08:00 to 17:00 on the day of the auction. The quantity of daily NTS Exit (Flat) Capacity bid for can not be less than the minimum eligible amount of 100,000 kWh. The price of the bid must be greater than or equal to the reserve price as stated in National Grid NTS' Statement of Gas Transmission Transportation Charges.

All bids will be ranked in price order and allocated sequentially highest price first at each NTS Exit Point until all available Capacity is allocated or there are no further bids to satisfy, subject to the following:

- where a Capacity bid exceeds the remaining available amount, the User will be allocated an amount equal to the remaining unallocated amount;
- where two or more bids have the same bid price and the sum of the requested quantities exceeds the remaining available amount, then these bids will be allocated by pro rating the amounts applied for in each such bid;
- where the amount to be allocated in respect of a bid would be less than the minimum amount specified in the Capacity bid, the bid will be disregarded;

Users will be informed of their allocations by National Grid NTS within 48 hours of closure of each auction round.

#### Release of Daily Firm NTS Exit (Flat) Capacity

Daily Firm NTS Exit (Flat) Capacity will be made available through “pay-as-bid” auctions held ahead of the Gas Day at 15:00 and during the Gas Day at 08:00, 14:00, 18:00, 22:00 (0116CV 22:00) and 01:00. National Grid NTS will also be able to hold additional auctions at its discretion by inviting Users to participate in such an auction with at least 60 minutes notice. This is intended to provide certainty of the times at which auctions will be undertaken while retaining the flexibility for National Grid NTS to respond to market requirements in respect of requests for additional capacity.

The amount of Capacity to be made available will be consistent with National Grid NTS' obligations under its Licence. National Grid NTS anticipates that it will be able to meet such obligations by releasing any unsold baseline Capacity in auctions held at 15:00 D-1 and 08:00 D. National Grid NTS will also be able to release, at its discretion, non-obligated NTS Exit (Flat) Capacity for any daily flat auction. The provision of such additional NTS Exit (Flat) Capacity above baseline levels is anticipated to be the subject of a Licence incentive on National Grid NTS to encourage efficient trade-offs between incremental NTS Exit (Flat) Capacity release and potential Capacity management costs.

Users will be able to place bids, subject to meeting required credit limits, for NTS Exit (Flat) Capacity stating in each bid their desired quantity and the price they are willing to pay for such a quantity. Users may submit up to 10 bids per NTS Exit Point from 7 days before the Gas Day until 00:00 hours on Gas Day. The quantity of daily NTS Exit (Flat) Capacity bid for can not be less than the minimum eligible amount of 100,000 kWh. The price of the bid must be greater than or equal to the reserve price as stated in National Grid NTS' Statement of Gas Transmission Transportation Charges. It is proposed that Users can make fixed or reducing bids as in place for daily auctions of System Entry Capacity. All bids will be ranked in price order and allocated highest price first at each NTS Exit Point using the same allocation rules as for annual auctions of NTS Exit (Flat) Capacity.

National Grid NTS will determine User allocations within 60 minutes after completion of each auction.

#### Release of Daily Interruptible NTS Exit (Flat) Capacity

It is proposed that daily Interruptible NTS Exit (Flat) Capacity will be made available at 15:00 ahead of the Gas Day through a “pay-as-bid” allocation process. The quantity to be offered will be determined as:

- a Use-it-or-Lose-It (UIOLI) amount - the difference between the firm NTS Exit (Flat) Capacity holdings at the NTS Exit Point and the quantity of NTS Exit (Flat) Capacity that is expected to be utilised by Users for the purposes of facilitating gas flows (assessed from a rolling average over a 30 day period from D-36 to D-7 inclusive); and
- any additional amount that National Grid NTS may make available at its discretion..

For avoidance of doubt, the release of interruptible NTS Exit (Flat) Capacity on this basis would not change firm NTS Exit (Flat) Capacity holders’ rights at the NTS Exit Point.

Users will be able to place bids and will be allocated Daily Interruptible NTS Exit (Flat) Capacity in accordance with the same provisions as for Daily Firm NTS Exit (Flat) Capacity.

National Grid NTS may withdraw interruptible NTS Exit (Flat) Capacity (i.e. effectively scale-back) at any time during the Gas Day to manage any exit transportation constraint. No compensatory payments would be due for curtailment of interruptible NTS Exit (Flat) Capacity rights.

#### *0116BV Proposer’s summary of Changes (Section 2)*

*“1) Provision has been made for new Firm NTS Supply Points and CSEPs which are commissioned prior to Enduring Arrangements coming into effect to secure an Initial Prevailing NTS Exit (Flat) Capacity holding based on the first Registered NTS Exit Capacity at that new Firm NTS Supply Point or CSEP. In the absence of this change new Firm NTS Supply points and CSEPs which are due to commission during the transitional period would have to signal their requirement for this capacity in July 2007, and therefore be subject to a user commitment under the UNC, despite already having registered firm capacity in the transitional period or possibly being subject to user commitment through an ARCA.*

*2) Clarification has also been added regarding the latest date a User can reduce its Initial Prevailing NTS (Exit) Flat Capacity prior to the start of the Enduring Arrangements.*

*3) A distinction has been made between release and reduction of Prevailing NTS Exit (Flat) Capacity at new and existing NTS Exit Points. The section on ARCAs has been removed and replaced with a section covering Release and Reduction of Prevailing NTS Exit (Flat) Capacity at new NTS Exit Points.*

*The reason for this distinction is that without it developers (here the term is used to mean both Users and non-UNC parties) could be unnecessarily hampered by the rigid timetable for requesting Prevailing NTS Exit (Flat) Capacity at a new NTS Exit Point.*

*It is not entirely clear how a User would signal their requirement for Prevailing NTS Exit*



*(Flat) Capacity at a new NTS Exit Point in a July Annual Application Window under Modification Proposal 0116. However, even if they could there will be occasions when developers are unable to make the necessary commitment to meet any "strength of signal test" at this time.*

*If the developer missed the July Annual Application Window under Modification 0116 the developer would face a year's delay in being able to secure Prevailing Annual NTS Exit (Flat) Capacity, whereas in reality National Grid NTS may be able to make this available sooner, or from a date not commencing at the start of the Gas Year.*

*This is inefficient, and bearing in mind the significant increase in gas fired power generation that has been forecast to be required over the next decade, may result in inefficiencies and supply side tightness in the electricity market. It is also arguable whether it is consistent with National Grid NTS's licence obligation to meet all reasonable demands for gas.*

*Applying the same arrangements for securing NTS Exit (Flat) Capacity at new NTS Exit Points for both Users and non-UNC parties also avoids any possibility of discrimination arising."*

#### *0116CV Proposer's Summary of Changes (Section 2)*

*1) Same as 0116BV*

*2) Same as 0116BV*

*3) A distinction has also been made between release and reduction of Prevailing NTS Exit (Flat) Capacity at new and existing NTS Exit Points. [The remainder of this bullet point 3 then same as 0116BV]*

#### *0116VD Proposer's Summary of Changes (Section 2)*

*Notification of prevailing rights by 1<sup>st</sup> May 2007 (rather than July) will provide Users with a more appropriate lead time to raise and resolve any disputes and assess future requirements ahead of the first application window. As information is based on historical requirements and submissions, NTS should be able to meet this requirement.*

### **Section 3. Release of NTS Exit (Flexibility) Capacity**

*(0116CV deletes this whole section and replaces it with alternative wording)*

The NTS Exit (Flexibility) Capacity product is proposed to be made available in annual bundles of daily rights. In addition, daily rights will be released ahead of and during the Gas Day to enable User's to fine-tune its capacity holdings as they become more certain of their requirements.

The following classes of NTS Exit (Flexibility) Capacity will be made available to Users:

- "Annual NTS Exit (Flexibility) Capacity" - Firm NTS Exit (Flexibility) Capacity which may be applied for and registered as held by a User in a relevant NTS Exit Zone for each Gas Day in a Gas Year; and

- "Daily NTS Exit (Flexibility) Capacity" - Firm NTS Exit (Flexibility) Capacity which may be applied for and registered as held by a User in a relevant NTS Exit Zone for a Gas Day only.

The key features of each class of NTS Exit (Flexibility) Capacity in respect of its release are set out below, with other aspects regarding the product described in sections 4 to 10.

#### Release of Annual NTS Exit (Flexibility) Capacity

It is proposed that "pay-as-bid" auctions will be held in July of each Gas Year Y to provide Users the opportunity to seek to procure annual NTS Exit (Flexibility) Capacity rights for Gas Years Y+1 to Y+5 (inclusive). These auctions will enable DNO Users to seek to obtain annual NTS Exit (Flexibility) Capacity as part of their consideration of whether to contract for LDZ Interruptible Capacity and/or undertake LDZ system investment, but would also allow Shipper Users the same opportunity.

The ability for National Grid NTS to accommodate offtake flow variations and make available NTS Exit (Flexibility) Capacity will continue to be constrained by the physical capability of the NTS. National Grid NTS is anticipated to be obliged to make available any unsold baseline level of NTS Exit (Flexibility) Capacity as defined in its Gas Transporter's Licence. This is anticipated to be 22mscm in aggregate for all NTS Exit Zones for Gas Years 2010/11 and 2011/12, with area and zonal limits constraining the allocation of this national amount across NTS Exit Zones in accordance with the ExCR Methodology Statement.

To commence the annual flex auctions, National Grid NTS will issue an invitation to Users 28 days in advance of the auction detailing:

- the days on which the auction will be held – the auction will be held in two rounds with 3 business days between each round (except for the first annual flex auctions in 2007, for which there will be 5 business days between each round);
- reserve price for each NTS Exit Zone and Gas Year (in accordance with the Statement of Gas Transmission Transportation Charges);
- available Annual NTS Exit (Flexibility) Capacity for each NTS Exit Zone for each Gas Year and auction round - 50% of the available Capacity ~~be will~~ will be made available on the first day, and the remaining 50% plus any unsold Capacity from the first day on the second day.

Users will be able to place bids, subject to meeting required credit limits, for NTS Exit (Flexibility) Capacity stating in each bid their desired quantity and the price they are willing to pay for such a quantity. Users may submit up to 10 bids per NTS Exit Zone for each auction round from 08:00 to 17:00 on the day of the auction. The quantity of daily NTS Exit (Flexibility) Capacity bid for can not be less than the minimum eligible amount of 50,000 kWh. The price of the bid must be greater than or equal to the reserve price as stated in National Grid NTS' Statement of Gas Transmission Transportation Charges.

All bids (irrespective of the NTS Exit Zone) will be ranked in price order and allocated highest price first until there are no further Capacity bids to satisfy, or if earlier:

- in relation to any NTS Exit Zone, such time as the amount of NTS Exit Capacity allocated in aggregate in respect of such NTS Exit Zone is equal to the relevant zonal maximum, after which time any remaining Capacity bids for such NTS Exit Zone will be disregarded; or if earlier
- in relation to any NTS Exit Area, such time as the amount of NTS Exit Capacity allocated in aggregate in respect of NTS Exit Zones in such NTS Exit Area is equal to the relevant area maximum, after which time any remaining Capacity bids for NTS Exit Zones in such NTS Exit Area will be disregarded; or if earlier
- in relation to the NTS as a whole, such time as the amount of NTS Exit Capacity allocated in aggregate in respect of all NTS Exit Zones is equal to the relevant amount of NTS Exit (Flexibility) Capacity for the NTS.

The treatment of bids which exceed the remaining available amount or where two or more bids are at the same bid price or where the amount to be allocated for a bid is less than the minimum amount specified in the bid will be the same as for the proposed allocation of bids for Annual NTS Exit (Flat) Capacity.

Users will be informed of their allocations by National Grid NTS within 48 hours after closure of each auction round (except for the first annual flex auctions in 2007, for which National Grid NTS will inform Users of their allocations within 4 business days of completion of the each auction).

#### Release of Daily NTS Exit (Flexibility) Capacity

Users may apply for Daily NTS Exit (Flexibility) Capacity for an NTS Exit Zone by submitting (or revising) Individual Offtake Profile Notices (IOPNs) at NTS Exit Points in an NTS Exit Zone up to 00:00 on the Gas Day, except where National Grid NTS has given notice that the Gas Day is a “Flexibility Constraint Day”, as described below.

The IOPN for each Registered User will be determined from the OPN at each NTS Exit Point based on its proportion of the end of day quantity allocated at that NTS Exit Point for D-7, unless:

- an Individual Offtake Profile Notice (IOPN) for each Registered User is provided with the OPN such that the sum of the rate of offtakes in each IOPN equals the aggregate rate set out in the OPN; or
- a standing instruction is notified in advance to National Grid NTS by all Registered Users of the attribution of the OPN for that NTS Exit Point to each Registered User.

At each hour bar, National Grid NTS will determine each User’s Notified User Daily Flexibility Quantity (“Notified UDFQ”) for each NTS Exit Zone based on the submission or revision of its IOPN for each relevant NTS Exit Point in the NTS Exit Zone. Where any User’s Notified UDFQ is less than its NTS Exit (Flexibility) Capacity holdings for an NTS Exit Zone, its IOPN will be accepted. Where any User’s Notified UDFQ exceeds its NTS Exit (Flexibility) Capacity holdings for an NTS Exit Zone, this will be considered as an application for additional NTS Exit (Flexibility) Capacity. National Grid NTS will determine (at its discretion) whether it is feasible to make gas available for offtake from the NTS Exit Points in each NTS Exit Zone based on such applications:

- if National Grid NTS determines it is feasible to make gas available for offtake, then each User's application for Daily NTS Exit (Flexibility) Capacity via its IOPNs will be accepted. It will be deemed that the User procured such rights at the reserve price for daily flex auctions as stated in National Grid NTS' Statement of Gas Transmission Transportation Charges;
- if National Grid NTS determines that, for any NTS Exit Zone, it is not feasible to make gas available for offtake, then each User's application for Daily NTS Exit (Flexibility) Capacity via its IOPNs will be rejected. Such Users will be able to resubmit or revise its IOPNs, and if National Grid NTS is unable to accept such re-submissions or revisions at the next hour bar, National Grid NTS will then give notice to all Users that the Gas Day is, or has become, a "Flexibility Constraint Day" for the relevant NTS Exit Zone.

For clarity, a User may not withdraw an application for NTS Exit (Flexibility) Capacity and does not surrender or reduce its NTS Exit (Flexibility) Capacity for a Gas Day by submitting or revising an IOPN as a result of which the Notified UDFQ is less than a User's NTS Exit (Flexibility) Capacity holding.

*(0116BV amends the last paragraph as follows:*

**"For clarity, a User may not withdraw an application for Daily NTS Exit (Flexibility) Capacity and created via its submission of an IOPN. Also a User does not surrender or reduce its Annual NTS Exit (Flexibility) Capacity holding for a Gas Day by submitting or revising an IOPN as a result of which the Notified UDFQ is less than a User's Annual NTS Exit (Flexibility) Capacity holding. Users holding Daily NTS Exit (Flexibility) Capacity secured by the submission of a previous IOPN surrender Daily NTS (Flexibility) Capacity by submitting an IOPN with a lower implied NTS Exit (Flexibility) Capacity requirement."**

Where National Grid has notified Users that an NTS Exit Zone is a Flexibility Constraint Day, Users may no longer apply for Daily NTS Exit (Flexibility) Capacity via IOPNs for that NTS Exit Zone, but instead may apply for Daily NTS Exit (Flexibility) Capacity by submitting bids in daily pay-as-bid auctions.

National Grid NTS will inform Users of the time of any Daily NTS Exit (Flexibility) Capacity auction with at least 60 minutes notice. For each auction, Users will be able to place bids, subject to meeting required credit limits, for Daily NTS Exit (Flexibility) Capacity stating in each bid their desired quantity and the price they are willing to pay for such a quantity. Users may submit up to 10 bids per NTS Exit Zone from 7 days before the Gas Day until 00:00 hours on Gas Day. The quantity of Daily NTS Exit (Flexibility) Capacity bid for can not be less than the minimum eligible amount of 50,000 kWh. The price of the bid must be greater than or equal to the reserve price as stated in National Grid NTS' Statement of Gas Transmission Transportation Charges. It is proposed that Users can make fixed or reducing bids as currently in place for daily auctions of System Entry Capacity. All bids will be ranked in price order and allocated highest price first using the same allocation rules as for annual auctions of NTS Exit (Flat) Capacity applied to each NTS Exit Zone.

National Grid NTS will determine User allocations of Daily NTS Exit (Flexibility) Capacity within 60 minutes after completion of each auction.

(0116CV wording is as follows:

### **“Section 3. Monitoring of NTS Exit (Flexibility) Capacity utilisation**

**In the development of the Exit Reform Proposals National Grid have identified zones of the National Transmission System (NTS) within which there are dependencies with respect to Flexibility. For each Zone a maximum flexibility has been estimated, Zones have been grouped into Areas, with an Area maxima and a National maxima has been estimated for the aggregated Areas. This National maxima has been estimated as 22mcm which is less than the sum of the Area maxima. In turn each Area maxima is less than (or in one case equal to) the sum of the zonal maxima. In presenting these figures NG have asserted that the sum of the Zonal maxima, giving a National maxima of 40.68mcm, cannot be available simultaneously. There is broad acceptance of this point.**

**However, from recent (3 years) experience the maximum utilisation of system flexibility on any day has been 14.9 mcm. On the basis of this evidence there is a widespread belief that system flexibility is not currently constrained. Indeed there is a general view that system capability is sufficient to accommodate flows in future years, even with the changing pattern of deliveries to the NTS.**

**Prior to the further consideration of very complex arrangements to manage, and potentially to ration, flexibility, it is proposed to establish a regime of monitoring the use of system flexibility and reporting this to the wider industry.**

**This is described in greater detail within Section 9 (Information Publication)”**

*0116BV Proposer’s summary of Changes (Section 3)*

*Clarification has been added as to when a User does or does not surrender or reduce its NTS Exit (Flexibility) Capacity holding for a Gas Day by submitting or revising an IOPN.*

*If a User does not secure its NTS Exit (Flexibility) Capacity through the annual auctions, but instead relies on its OPN submissions, any re-submission of an OPN which results in the Notified UDFQ being less than the NTS Exit (Flexibility) Capacity secured through the original OPN should reduce the NTS Exit (Flexibility) Capacity.*

*In the event it does not this could lead to Users over estimating the amount of NTS Exit (Flexibility) Capacity they require in their initial OPN submissions and National Grid NTS failing to fully release the amount of NTS Exit (Flexibility) Capacity available, neither of which are conducive to the economic and efficient operation of the system.*

*0116 C0116CV Proposer’s summary of Changes (Section 3)*

*This proposal removes the obligation for all Users to hold system flexibility but includes a requirement upon NGNTS to monitor and publish details of flexibility utilisation by Zone, Area and Nationally. This will provide a reliable assessment of flexibility use compared to system capability. From this experience it will indicate the necessity, or other wise, of a more rigorous regime to limit use of system flexibility.*

### **Section 4. Transfers and Assignments**

#### **Transfers**

It is proposed that a User (“Transferor”) will be able to transfer (subject to the restrictions outlined below):

- firm NTS Exit (Flat) Capacity at an NTS Exit Point to another User (“Transferee”) at the same NTS Exit Point;

(0116CV deletes the following two bullets)

- NTS Exit (Flexibility) Capacity at an NTS Exit Zone to another User (“Transferee”) within the same NTS Exit Zone;
- NTS Exit (Flexibility) Capacity at an NTS Exit Zone to another User or itself (“Transferee”) at another NTS Exit Zone.

(0116CV resumes)

National Grid NTS will facilitate such transfers via a transfer registration process which will allow Users to inform National Grid NTS of the amounts, periods and points/zones of the requested transfers. This will be facilitated in August 2009 for Gas Year 2010 onwards and will allow Users to transfer:

- prior to completion of the last annual auction, annual bundles of Capacity by specifying the quantity of Capacity to be transferred for each Gas Year;
- after completion of the last annual auction, daily amounts of Capacity by specifying the quantity of Capacity to be transferred for each Gas Day.

For transfers of NTS Exit (Flat) Capacity at an NTS Exit Point or NTS Exit (Flexibility) Capacity at an NTS Exit Zone (~~0116CV or NTS Exit (Flexibility) Capacity at an NTS Exit Zone~~) between Users, such transfers may not be notified in respect of any Gas Day later than 04:00 on the Gas Day.

(0116CV deletes the following paragraph and the associated bullets)

For transfers of NTS Exit (Flexibility) Capacity between NTS Exit Zones (between different Users or the same User), such transfers:

- may not be notified:
  - later than 12:00 ahead of the Gas Day;

(0116BV amends the above bullet to read as follows:

- **“later than ~~12:00~~ 17:00 ahead of the Gas Day or, if earlier, the time on the Preceding Day specified in the Uniform Network Code for initial submission of OPNs for a Gas Day;”**)

(0116VD amends the above bullet to read as follows:

- **“later than ~~12:00~~ 14:00 ahead of the Gas Day”**)
  - during a Capacity allocation period;
  - if National Grid NTS has provided notification that it is considering undertaking or has undertaken a Capacity constraint management action at the NTS Exit Zone;

- will be rejected if the transfer would result in the aggregate holdings of NTS Exit (Flexibility) Capacity at the NTS Exit Zone exceeding the relevant zonal limit and/or area limit.

(0116CV resumes)

Transfers may be rejected by National Grid NTS where the requested transfer amount exceeds the Transferor User's Capacity holding.

If a requested transfer has not been rejected within 60 minutes of the confirmation of the requested transfer by the Transferee User, the transfer will be deemed to have been accepted by National Grid NTS.

(0116BV and 0116VD (except where indicated) amends the above paragraph to read as follows:

**"If a requested transfer has ~~not been rejected~~ been matched by the Transferee User within 60 minutes of the confirmation of the requested transfer by the Transferee Transferor User, the transfer will be deemed to have been accepted by National Grid NTS. (0116VD does not include the following sentence) If not it will be deemed to have been rejected."**

Any accepted transfers will be deducted from the Transferor's holdings and added to the Transferee's holdings for the purposes of determining NTS Exit Capacity Overrun charges and NTS Exit Capacity Neutrality Charges. The Transferor User will remain liable for the payment of NTS Exit Capacity charges and any commitments associated with Prevailing NTS Exit (Flat) Capacity.

#### Assignment

It is proposed that a User ("Assignor") will be able to assign, subject to the restrictions outlined below, from a specified day (the "Assignment Day"):

- all of its firm NTS Exit (Flat) Capacity obtained through the long and medium term release mechanisms at an NTS Exit Point to another User ("Assignee") at the same NTS Exit Point;

(0116CV deletes the following bullet)

- all of its NTS Exit (Flexibility) Capacity obtained through annual auctions at an NTS Exit Zone to another User ("Assignee") at the same NTS Exit Zone.

National Grid NTS will facilitate such assignments via an assignment registration process which will allow Users to inform National Grid NTS of the date from which such assignments are requested to take place. This will be facilitated starting in August 2009 for Gas Year 2010 onwards.

Assignments may not be notified later than 5 Business Days before the Assignment Day.

Assignments will be rejected by National Grid NTS where the Assignee User does not have the required credit worthiness.

If a requested assignment has not been rejected within 4 Business Days of the confirmation by the Assignee User, the assignment will be deemed to have been accepted by National Grid NTS.

(0116BV and 0116VD (except where indicated) amends the above paragraph to read as follows:

**“If a requested assignment has ~~not been rejected~~ been matched by the Assignee User within 4 Business Days of the confirmation of the requested assignment by the Assignee Assignor User, the assignment will be deemed to have been accepted by National Grid NTS. (0116VD does not include the following sentence) If not it will be deemed to have been rejected.”**

Any accepted assignments will be deducted from the Assignor’s holdings and added to the Assignee’s holdings for the purposes of determining NTS Exit Capacity Overrun charges and NTS Exit Capacity Neutrality Charges, and the Assignee will become liable for the payment of the associated NTS Exit Capacity charges and any commitments associated with prevailing NTS Exit (Flat) Capacity.

*0116BV Proposer’s summary of Changes (Section 4)*

*1) The latest time for transfers of NTS Exit (Flexibility) Capacity between NTS Exit Zones has been amended to cater for either the approval or non-approval of Modification Proposal 100.*

*2) The wording in the modification proposal has been clarified to make it clear that the transfer and assignment processes require both the Transferee/Assignee User and Transferor/Assignor User to match transfers/assignments prior to acceptance, as is the case with Entry Capacity and NBP trades. However the legal drafting accompanying the Modification Proposal 0116 makes it clear this is the case despite the wording in the Modification Proposal suggesting otherwise. This should help to prevent errors made by the counterparties to a transfer/assignment automatically being accepted, particularly where one party has specified the wrong counterparty to the transfer/assignment.*

*0116CV Proposer’s summary of Changes (Section 4)*

*The references to Transfer and Assignment of Flexibility have been removed.*

*0116VD Proposer’s summary of Changes (Section 4)*

*By allowing Transfers to be notified up to 14:00, DNOs will be able to take account of recent demand forecasts. This will help maximise efficiency in terms of use and release of spare capacity.*

*Matching arrangements will help prevent errors being made where one party has identified the wrong amount or wrong counterparty. This reflects legal drafting for Modification Proposal 0116.*

## **Section 5. Exit Capacity Management**

National Grid NTS requires adequate tools to maintain its ability to manage the NTS in a safe, economic and efficient manner. It is therefore proposed that a range of exit Capacity management tools will be available to National Grid NTS as follows:



- curtailment of any Daily Interruptible NTS Exit (Flat) Capacity. Where National Grid NTS determines either within or ahead of the Gas Day that there will be a shortfall in NTS Exit (Flat) Capacity, National Grid NTS may issue an Interruptible Exit (Flat) Capacity Curtailment Notice to Users at the relevant NTS Exit Point(s). Such a notice will specify when the curtailment is to take effect (not less than 4 hours after the notice is issued), and the factor by which all Users' Interruptible NTS Exit (Flat) Capacity holdings at that NTS Exit Point are required to be curtailed;
- buy-back of Firm NTS Exit Capacity. Users may offer to surrender NTS Exit Capacity to National Grid NTS by submitting offers in a similar manner to those used for making Capacity bids for the release of Daily NTS Exit (Flat) Capacity via pay-as-bid auctions. National Grid NTS will rank all offers in increasing price order and will allocate such offers as for Daily Capacity bids. National Grid NTS will not accept any Capacity offers until after 15:00 ahead of the Gas Day, and will then only do so at its discretion.
- Exit Capacity Management Agreements. This may comprise of forward agreements (pursuant to which a User will surrender a particular amount of NTS Exit (Flat) or (Flexibility) (0116CV or (Flexibility)) Capacity in relation to a period of one or more Gas Days) or option agreements (pursuant to which National Grid NTS may require a User to surrender a particular amount of NTS Exit (Flat) or (Flexibility) (0116CV or (Flexibility)) Capacity in relation to any Day in a period of one or more Days). National Grid NTS may at any time issue a tender for the buy-back of NTS Exit (Flat) Capacity at an NTS Exit Point and NTS Exit (Flexibility) Capacity at an NTS Exit Zone (0116CV and NTS Exit (Flexibility) Capacity at an NTS Exit Zone). To the extent that National Grid NTS considers that it would be efficient and economic to accept these offers they will be accepted and the associated payments made.
- Within day flow reductions. National Grid NTS may invite Users to make offers for the reduction of a specified amount of flow in an NTS Exit Zone over a specified period within the Gas Day. Such offers may be made and will be allocated in a similar manner as for Capacity buy-back offers (as described above). Such a tool is anticipated to allow National Grid NTS to better manage any unacceptable forecast of within day linepack depletion in an NTS Exit Zone.

(0116CV adds the following:

**'Management of System Flexibility**

**NGNTS will receive and aggregate Users flow nominations within each Zone to assess the likely demands upon System Flexibility. If, in their assessment the demands will exceed system capability they will be entitled to reject the nominations and require Users to re-submit. In doing so NGNTS will reject nominations from all Users within that zone which exceed that flexibility with the exception of that which is within the limit of Flexibility already secured by Distribution Networks under the annual booking process. They will indicate to those Users where nominations have been rejected the scale of the deficit in order that Users will be able to reshape their profile to match system capability. A mechanism based upon this submission/rejection of OPNs could be developed by NG NTS relatively simply to introduce a market based rationing of flexibility if the information disclosure suggested this may be necessary.**

**NGNTS also have the potential to take Local Balancing actions in order to address this deficit in system capability. If the only way to solve the deficit is by such Local Balancing action the cost will flow into neutrality. NGNTS incentives should be adjusted so that this is not regarded as an easy option and other methods of system configuration are considered before this step is taken.”)**

For clarity, the processes and principles for use of such tools to resolve NTS Exit Capacity constraints will be described in the System Management Principles Statement (SMPS).

*00116CV Proposer’s summary of Changes (Section 5)*

*The references to Flexibility have been removed from this section. Provision has been made for NGNTS as System operator, to reject Nominations (OPNs, SFNs) and require Users to resubmit in circumstances where they believe that system Flexibility requirements will exceed the capability of the system and integrity of the system may be prejudiced.*

## **Section 6. Liabilities and User Obligations**

### **Failure to make gas available for offtake**

National Grid NTS is liable for “failure to make gas available for offtake” payments where it is unable to meet User requests for gas they wish to offtake from the NTS within their Capacity entitlements (e.g due to plant failure or locational Transportation Constraints) or the gas made available for offtake is non-compliant and a User has declined to offtake such gas. The current liability arrangements for “failure to make gas available for offtake” for NTS Exit Points is proposed to continue. This will require the liabilities arrangements for Users at NTS Supply Points and CSEPs to be amended to reflect the new NTS Exit Capacity products. In addition, these arrangements will need to reflect the conclusions of the TPCR in respect of the incentive arrangements for new investments. National Grid NTS may need to raise a UNC Modification Proposal to seek implementation of such arrangements, in the event that this Proposal is implemented, after conclusion of these aspects of the TPCR.

It is proposed that National Grid NTS will not be exposed to such liabilities in the following circumstances:

- if the rate of offtake exceeds the aggregate Maximum Permitted Rate for the NTS Exit Point (as described below);

*(0116VD does not included the following bullet)*

- if there is an aggregate Exit (Flat) Capacity overrun at the NTS Exit Point or aggregate Exit (Flexibility) Capacity overrun at the NTS Exit Zone;

*(0116VD resumes)*

- for any Gas Day that is a planned maintenance day within the permitted number of days as set out in the relevant Network Exit Agreement for NTS Supply Points and CSEPs, or current provisions within UNC OAD Section I for NTS/LDZ offtakes.

*(0116VD does not included the following paragraph)*

In addition, if there is an aggregate Exit (Flat) Capacity overrun at the NTS Exit Point or aggregate Exit (Flexibility) Capacity overrun at the NTS Exit Zone and as a result National

Grid NTS fails to make gas available for offtake at another NTS Exit Point or Zone, then it is proposed that the Users which have incurred an overrun charge be liable for relevant amounts of the failure to make gas available costs incurred by National Grid NTS. Each User will be liable for a share of National Grid NTS' liability payment based on each User's proportion of the aggregate overrun quantity.

(0116VD resumes)

#### Pressure Commitments

It is proposed that the current basis on which pressure commitments are made to Users at NTS Supply Points/CSEPs and NTS/LDZ Offtakes continue under the enduring arrangements. This will however require definition of the level of Assured Offtake Pressures for each NTS/LDZ offtake from October 2010 to inform DNO's investment planning process.

It is proposed that these Assured Offtake Pressures are issued to each DNO User by 30 September (0116VD ~~'September June'~~) each year in the "Offtake Pressure Statement". This will replace the current Offtake Capacity Statement in place as part of the interim/transitional arrangements and is in effect the same except for removal of capacity holding information and provision of information for the following 6 (as opposed to 5) Gas Years

Initially these levels are proposed to be set at implementation of this Proposal by rolling over the pressure commitments that have been granted to DNOs at each of its NTS/LDZ offtakes for Gas Year 2009/10 as part of the September 2006 Offtake Capacity Statement (i.e. these pressures are set for Gas Years 2010/11, 2011/12 and 2012/13). For each Gas Year thereafter, the Assured Offtake Pressures in the Offtake Pressure Statement issued in September (0116VD ~~"September June"~~) of Gas Year Y will be set as follows:

- for any Gas Year, the same as the Assured Offtake Pressures specified in the preceding year's statement, subject to agreed changes as explained below;
- for Gas Year Y+6, the same as the Assured Offtake Pressures for Gas Year Y+6 specified in the preceding year's statement, subject to agreed changes as explained below

Both the relevant DNO and National Grid NTS will have the ability to request of each other increases or decreases to the relevant Assured Offtake Pressures in place post October 2010 for specified Gas Years ("permanent" changes).

National Grid NTS will also (0116VD ~~"also"~~) have the ability to request of a DNO a decrease to relevant Assured Offtake Pressures in place post October 2010 for specified Gas Days ("temporary" changes). This is to avoid potential inefficient operation of the NTS typically at off-peak periods in a Gas Year when a DNO may not require the peak pressures set for the entirety of the Gas Year. The ability for DNOs to request such temporary changes is not considered necessary as they should already have the required pressures for the year. In addition, the ability for both National Grid and DNOs to request temporary changes could be confusing if pressure change requests are made by each party, but in opposite directions, for the same period at the same NTS Exit Points.

National Grid NTS may request permanent changes in April each year, with effect from the following Gas Year at the earliest, with response required from the relevant DNO by 30 June (i.e. within 2 months). Similarly, DNOs may request permanent changes in July each year, with effect from the following Gas Year at the earliest, with a response required from National Grid NTS by 30 September (i.e. within 2 months).

(0116VD amends the above paragraph as follows: “National Grid NTS **and DNOs** may request permanent changes **to the relevant Assured Offtake Pressures** in April each year, with effect from the following Gas Year at the earliest, with response required from the relevant counterparty DNO by 30 June (i.e. within 2 months). ~~Similarly, DNOs may request permanent changes in July each year, with effect from the following Gas Year at the earliest, with a response required from National Grid NTS by 30 September (i.e. within 2 months).~~”)

National Grid NTS may request of a DNO a reduction for any Gas Day or period of Gas Days (up to a maximum of 30 Gas Days) with a response required within 10 business days. Requests must be accepted by the DNO unless it would prejudice the safe and efficient operation of its network.

#### Non-compliant Gas

In the event that National Grid NTS makes available non-compliant gas, the amount of compensation paid by National Grid NTS to the relevant Users will continue as specified under current UNC TPD Section J provisions.

#### User Offtake Obligations

It is proposed that Users take all reasonable steps to not offtake gas at an NTS Exit Point at a rate that exceeds the Maximum Permitted Rate for that Exit Point defined as sum of:

- the User’s NTS Exit (Flat) Capacity at the NTS Exit Point divided by 24; and

(0116CV deletes the following bullet)

- the User’s NTS Exit (Flexibility) Capacity at the NTS Exit Zone divided by 4.

In the event that the rate of offtake exceeds or is expected to exceed the aggregate Maximum Permitted Rate to such an extent that National Grid NTS considers the security of the NTS may be jeopardised, upon notification by National Grid NTS to the relevant User(s) of such impending risk of a local Gas Supply Emergency, the relevant User(s) must promptly reduce their rate of offtake to within their Maximum Permitted Rate.

#### *0116CV Proposer’s summary of Changes (Section 6)*

*There are no proposed changes to the original Section 6 wording of Modification Proposal 0116V other than the removal of the reference to Flexibility.*

#### *0116VD Proposer’s summary of Changes (Section 6)*

*NTS is still liable for failure to make gas available for offtake where there has been an overrun. Creating exceptions where there is an overrun:*

- *removes any incentive for NTS to manage the situation and find an appropriate means of maintaining supply*

- *creates double jeopardy for Users. Overrun charges are significant and should provide sufficient incentive for Users to manage capacity requirements appropriately without creating additional liabilities.*

*Changes introduce consistency in timing of requests for permanent changes in Assured Offtake Pressures for NTS and DNOs. Modification Proposal 0116V separates the capacity and pressure request process. This could introduce significant risk for DNOs if pressure and capacity requests had to be submitted at the same point in time. DNOs could find that they are successful in securing additional capacity and may be liable for capacity charges, but if not successful in securing the required pressure, capacity would be useless. Arrangements could tie up capacity unnecessarily. This would be inefficient. By allowing pressure requests to be submitted and confirmed in April, before capacity requests have to be submitted, DNOs will be able to submit a more informed and efficient capacity request.*

## **Section 7. Charges and Credit Arrangements**

This section summarises charges which will be invoiced and payable in accordance with TPD Section S and associated credit arrangements. For clarity, invoices will be issued the month following each month in which Capacity is utilised i.e. the first set of invoices under the enduring regime will be issued November 2010.

### NTS Exit Capacity Charges

The NTS Exit (Flat) Capacity Charge payable by a User in respect of each Day will be determined for each NTS Exit Point as follows:

- in respect of Prevailing NTS Exit (Flat) Capacity, the NTS Exit (Flat) Capacity as stated in National Grid NTS' "Statement of Transmission Transportation Charges" for that Day;
- in respect of Annual and Daily NTS Exit (Flat) Capacity, the bid price submitted by the User and allocated for the relevant Gas Year/Gas Day.

*(0116CV deletes the following paragraph and associated bullets)*

The NTS Exit (Flex) Capacity Charge payable by a User in respect of each Day will be determined for each NTS Exit Zone as follows:

- in respect of Annual NTS Exit (Flexibility) Capacity, the bid price submitted by the User and allocated for the relevant Gas Year; and
- in respect of Daily NTS Exit (Flexibility) Capacity obtained through:
  - the OPN Capacity Application, the Daily NTS Exit (Flexibility) Reserve Price as specified in National Grid NTS' "Statement of Transmission Transportation Charges";
  - daily NTS Exit (Flexibility) Capacity auctions, if any, the bid price submitted by the User and allocated for the relevant Day.

*(0116CV resumes)*

Bid prices submitted in any NTS Exit Capacity auctions must be at or above the relevant reserve price as specified in National Grid NTS' "Statement of Transmission Transportation Charges".

(0116CV deletes the following sub-section)

#### NTS Exit Commodity Charges

A User will pay an NTS Exit Flat Commodity Charge in respect of its end of day gas offtaken determined for each NTS Exit Point by multiplying its daily gas offtaken at each NTS Exit Point by the Applicable Commodity Rate.

A User will pay an NTS Exit Flex Commodity Charge in respect of the amount of flexibility it has utilised for a Gas Day determined for each NTS Exit Zone by multiplying its flexibility utilisation for the NTS Exit Zone by the Applicable Commodity Rate.

The Applicable Commodity Rates will be stated in National Grid NTS' "Statement of Transmission Transportation Charges".

(0116CV resumes)

#### NTS Exit (Flat) Capacity Overrun

It is proposed that an overrun mechanism will be put in place to discourage any under-booking of NTS Exit (Flat) Capacity for each Gas Day while affording Users the benefits of aggregation at an NTS Exit Point.

NTS Exit (Flat) Capacity overrun charges at an NTS Exit Point will be triggered if the aggregate end of day flow of all Users at that NTS Exit Point exceeds the aggregate end of day NTS Exit (Flat) Capacity held by all Users at that NTS Exit Point.

In the event that an aggregate overrun quantity occurs at an NTS Exit Point, a User would incur an overrun charge reflective of the extent that its individual end of day gas flow has exceeded its registered NTS Exit Capacity at the NTS Exit Point. If the sum of the Users' individual overrun quantities at the NTS Exit Point exceeds the aggregate overrun quantity, then each User's overrun quantity would be reduced in line with its overrun quantity to ensure matching – this will determine the User's NTS Exit (Flat) Capacity Overrun amount.

Any NTS Exit (Flat) Capacity transfers at the NTS Exit Point will be taken into account in the determination of flat overruns.

A User's NTS Exit (Flat) Capacity Overrun charge will be determined by multiplying the User's NTS Exit (Flat) Capacity Overrun amount by the highest of:

- 8 times the highest price paid by Users at the relevant NTS Exit Point to National Grid NTS for any class of NTS Exit (Flat) Capacity for that Gas Day;
- 8 times the highest reserve price at the relevant NTS Exit Point for any NTS Exit (Flat) Capacity auctions;
- times the highest price paid by National Grid NTS for NTS Exit (Flat) Capacity at the relevant NTS Exit Point through any exit constraint management action.

A single User may be appointed (the "Overrun User") in respect of any Gas Day at an NTS Exit Point by all Registered Users to be liable for all amounts payable by any relevant User

by way of NTS Exit (Flat) Overrun Charges at the NTS Exit Point. For clarity, each User's NTS Exit (Flat) Capacity overrun charge at the NTS Exit Point will continue to be calculated in accordance with the above provisions, but the Overrun User (where appointed) will be liable for payment of such charges.

(0116CV deletes the following sub-section)

#### NTS Exit (Flexibility) Capacity Overrun

It is proposed that an overrun mechanism will be put in place to discourage any under-booking of NTS Exit (Flexibility) Capacity for each Gas Day while affording Users the benefits of aggregation at an NTS Exit Zone.

NTS Exit (Flexibility) Capacity overrun charges at an NTS Exit Zone will be triggered if the aggregate flexibility utilisation of all Users at that NTS Exit Zone exceeds the aggregate NTS Exit (Flexibility) Capacity held by all Users at that NTS Exit Zone. The aggregate flexibility utilisation will be determined by the extent that the allocated energy for the NTS Exit Zone over the period 06:00 to 22:00 (applying a tolerance of 1.5% (0116VD ~~1.5%~~ 3%) to provide a reasonable amount of protection in respect of the margin of uncertainty associated with offtake quantity measurement (0116VD ~~"quantity measurement control"~~ "quantity measurement control")) exceeds 16/24 times the end of day allocation for the NTS Exit Zone.

(0116BV amends the above paragraph to read as follows:

**"NTS Exit (Flexibility) Capacity overrun charges at an NTS Exit Zone will be triggered if the aggregate flexibility utilisation of all Users at that NTS Exit Zone exceeds the aggregate NTS Exit (Flexibility) Capacity held by all Users at that NTS Exit Zone and National Grid NTS has given notice that the Gas Day is a "Flexible Constraint Day". The aggregate flexibility utilisation will be determined by the extent that the allocated energy for the NTS Exit Zone over the period 06:00 to 22:00 (applying a tolerance of ~~1.5%~~3% to provide a reasonable amount of protection in respect of the margin of uncertainty associated with offtake ~~quantity-variation and measurement~~) exceeds 16/24 times the end of day allocation for the NTS Exit Zone."**

In the event that an aggregate overrun quantity occurs at an NTS Exit Zone, a User would incur a flexibility overrun charge reflective of the extent that its individual flexibility utilisation for the NTS Exit Zone has exceeded its registered NTS Exit (Flexibility) Capacity at the NTS Exit Zone for the Gas Day. A User's individual flexibility utilisation will be determined by the extent that its allocated energy for the NTS Exit Zone over the period 06:00 to 22:00 (including a tolerance of 1.5% for measurement inaccuracies) (0116VD ~~"(taking account of negative flexibility capacity and including a tolerance of 1.5% for measurement inaccuracies 3% for offtake control uncertainty)"~~ "(taking account of negative flexibility capacity and including a tolerance of 1.5% for measurement inaccuracies 3% for offtake control uncertainty)") exceeds 16/24 times its end of day allocated energy for the NTS Exit Zone. If the sum of the Users' individual overrun quantities at the NTS Exit Zone exceeds the aggregate overrun quantity, then each User's overrun quantity would be reduced in line with its overrun quantity to ensure matching – this will determine the User's NTS Exit (Flexibility) Capacity Overrun amount.

(0116BV amends the above paragraph to read as follows:

**“In the event that an aggregate overrun quantity occurs at an NTS Exit Zone and National Grid NTS has given notice that the Gas Day is a "Flexible Constraint Day", a User would incur a flexibility overrun charge reflective of the extent that its individual flexibility utilisation for the NTS Exit Zone has exceeded its registered NTS Exit (Flexibility) Capacity at the NTS Exit Zone for the Gas Day. A User’s individual flexibility utilisation will be determined by the extent that its allocated energy for the NTS Exit Zone over the period 06:00 to 22:00 (including a tolerance of ~~1.5%~~3% for offtake variation and measurement inaccuracies) exceeds 16/24 times its end of day allocated energy for the NTS Exit Zone. If the sum of the Users’ individual overrun quantities at the NTS Exit Zone exceeds the aggregate overrun quantity, then each User’s overrun quantity would be reduced in line with its overrun quantity to ensure matching – this will determine the User's NTS Exit (Flexibility) Capacity Overrun amount.”**

In respect of Users at a bidirectional sites, flows at such sites will be included in the NTS Exit (Flexibility) Capacity Overrun charge determination for the relevant NTS Exit Zone where the net flows up to 22:00 implies an offtake of gas i.e. the aggregate quantity of gas offtaken at the NTS Exit Point between 06:00 and 22:00 on a Gas Day is greater than or equal to the aggregate quantity of gas delivered at the NTS Entry Point between 06:00 and 22:00 on the Gas Day.

Any NTS Exit (Flexibility) Capacity transfers at or between NTS Exit Zones will be taken into account in the determination of flexibility overruns.

Where a User’s flexibility utilisation would be increased as a result of appropriately responding to an NTS Exit Capacity constraint management action by National Grid NTS (0116BV inserts “or as a consequence of an intertrip or forced outage”), the overrun calculation will be based on its prevailing Individual Offtake Profile Notice at the time the offer was accepted by National Grid NTS. This adjustment is intended to eliminate the perversity of increasing overrun exposure for Users that participate in the NTS Exit Capacity management process.

A User’s NTS Exit (Flexibility) Capacity overrun charge will be determined multiplying the User's NTS Exit (Flexibility) Capacity Overrun amount by the highest of:

- 8 times the highest price paid by Users at the relevant NTS Exit Zone to National Grid NTS for any class of NTS Exit (Flexibility) Capacity for that Gas Day;
- 8 times the highest reserve price at the relevant NTS Exit Zone for any NTS Exit (Flexibility) Capacity auctions;
- 1.1 times the highest price paid by National Grid NTS for NTS Exit (Flexibility) Capacity at the relevant NTS Exit Zone through any exit constraint management action.

Where an “Overrun User” has been appointed in respect of any Gas Day at an NTS Exit Point, it will be liable for all amounts payable by any relevant User by way of NTS Exit (Flex) Overrun Charges in respect of the aggregate gas flow at that NTS Exit Point.

(0116CV resumes)

NTS Exit Capacity Buy-Back Charges



Where National Grid NTS accepts a Daily Capacity offer made by a User for buy back of NTS Exit Capacity, National Grid NTS will pay to the User the amount of the NTS Exit Capacity for which the offer was accepted multiplied by the offer price.

#### NTS Exit Capacity Neutrality Charges

An NTS Exit Capacity neutrality arrangement is proposed to accommodate any difference between amounts received or receivable and paid or payable by National Grid NTS in respect of NTS Exit Capacity Charges for non-obligated and Interruptible NTS Exit Capacity, NTS Exit Capacity Overrun charges, and costs/revenues associated with Exit Capacity Constraint Management at all NTS Exit Points, consistent with National Grid NTS' Licence. Any difference in such revenues and costs for a Gas Day is proposed to be payable to or recoverable from Users in line with their proportion of the aggregate Firm NTS Exit (Flat) Capacity holding for that Gas Day. Where National Grid NTS has utilised an allowable maintenance day such that the User was unable to flow against any proportion of its NTS Exit (Flat) Capacity holding, at the NTS Exit Point, then for the purposes of determining NTS Exit Capacity Neutrality Charges, such an amount will be excluded.

(0116B and 0116C, (0116BV and 0116CV, except where indicated otherwise, amend the above paragraph to read as follows:

**“An NTS Exit Capacity neutrality arrangement is arrangements are proposed to accommodate any difference between amounts received or receivable and paid or payable by National Grid NTS in respect of NTS Exit Capacity Charges for. Any difference in the revenues and costs arising from non-obligated and Interruptible NTS Exit (Flat) Capacity, NTS Exit (Flat) Capacity Overrun charges and costs/revenues associated with Exit Capacity Constraint Management at all NTS Exit Points consistent with National Grid NTS' Licence. Any difference in such revenues and costs for a Gas Day is proposed to be payable to or recoverable from Users in line with their proportion of the aggregate Firm NTS Exit (Flat) Capacity holding for that Gas Day. (0116CV does not include the following that was added by 0116BV) Any difference in the revenues and costs arising from non-obligated NTS Exit (Flexibility) Capacity and NTS Exit (Flexibility) Capacity Overrun charges at an NTS Exit Zones within an area for a Gas Day is proposed to be payable to or recoverable from Users in line with their proportion of the aggregate Firm NTS Exit (Flexibility) Capacity holding in that area for that Gas Day. (0116CV resumes) Where National Grid NTS has utilised an allowable maintenance day such that the User was unable to flow against any proportion of its NTS Exit (Flat) Capacity holding, at the NTS Exit Point, then for the purposes of determining NTS Exit Capacity Neutrality Charges, such an amount will be excluded.”**

#### Credit Arrangements

The current credit rules in respect of System Entry Capacity will be extended to accommodate NTS Exit Capacity. These rules require all Users to have an appropriate level of credit. Where a User's indebtedness exceeds 70% of its credit limit, National Grid NTS will notify the User of such a breach and if, following this notice, the User's indebtedness exceeds 85% of its credit limit National Grid NTS will be entitled to reject or refuse to accept.

- applications by the User for NTS Exit Capacity (and/or System Entry Capacity);
- requests for such a User to be assigned NTS Exit Capacity (and/or System Entry Capacity).

National Grid NTS's credit checks will take into account any payments that are due from the User in the next 12 months i.e. any entry Capacity or exit Capacity charges due by the User in this period.

*0116BV Proposer's Summary of Changes (Section 7)*

*1) Reference to a NTS Exit (Flexibility) Commodity Charge has been deleted.*

*Whilst National Grid NTS has yet to finalise the details of the methodology they would use to set such a charge, and have previously suggested that even if referenced in the Uniform Network Code the charge could be set to zero, by referencing it in the Uniform Network Code Users are likely to have to include a charge code for this in their invoice processing systems.*

*National Grid NTS has previously suggested that only 5% of the recoverable relevant SO costs might be recovered through a NTS Exit (Flexibility) Commodity Charge, in which case there is a distinct possibility that the relative value of charges levied for utilisation of a NTS Exit (Flexibility) Capacity could be low, particularly for small shippers. Bearing in mind the increased implementation and ongoing costs that are likely to arise from validating such relatively low value invoices, and the disputes that may arise as a result of measurement inaccuracy, it is questionable whether the benefits of such a charge would outweigh the costs.*

*If a NTS Exit (Flexibility) Commodity Charge is levied or provided for in the Uniform Network Code Users will in all likelihood have to put systems and processes in place to be able to capture and record their offtake on an hour by hour basis, as without this information they would be less able to dispute differences that may arise between the quantity invoiced and the quantity used. Without such a charge Users may be less inclined to do this as differences that may arise between the quantity invoiced and the quantity used are only relevant to the extent a zonal overrun applies and the difference is not subsumed within overall measurement tolerance.*

*2) For reasons stated above in Section 1 the 1.5% tolerance on measurements of the cumulative flow between 06:00 and 22:00 that is used in the calculation of a User's NTS Exit (Flexibility) Capacity usage has been increased to 3%.*

*3) An amendment has been made so that the NTS Exit (Flexibility) Capacity Overruns would only be incurred if the aggregated NTS Exit (Flexibility) Capacity usage of all Users at a zone exceeds their aggregate holdings and that National Grid NTS has given notice that the Gas Day is a "Flexible Constraint Day".*

*Where National Grid NTS has not declared a "Flexible Constraint Day" there should be no scarcity of NTS Exit (Flexibility) Capacity either zonally, nationally or in an area. Zonal overruns should therefore be of little consequence to system operation or efficiency and on this basis it is inappropriate to apply an overrun charge.*

*These changes are likely to enable Users to adopt a more simplistic approach to the system/process development required to operate these new arrangements. They also promote an incremental approach to such fundamental reform and restrict Users exposure to overrun charges only to days where NTS Exit (Flexibility) Capacity is scarce.*

*4) In the event a User's flexibility utilisation increases as a result of an intertrip or forced outage the overrun calculation will be based on its prevailing Individual Offtake Profile Notice at the time the intertrip/forced outage commenced, in the same way as would apply to a User appropriately responding to a NTS Exit Capacity constraint management action.*

*Section 5.7 of the Uniform Network Code recognises that Supply Point Network Exit Provisions may prescribe circumstances in which by reason of a sudden interruption in the operation of the Consumer's Plant, the rate of offtake may be reduced suddenly.*

*In such circumstances the Registered User could be exposed to a NTS Exit (Flexibility) Capacity Overrun charge if it had not acquired sufficient Annual NTS Exit (Flexibility) Capacity in the auctions, and National Grid NTS has declared a Gas Day a "Flexibility Constraint Day".*

*As intertrips and forced outages are unpredictable and relatively infrequent events it would be inefficient, from the point of the NTS development, for Users to take account of these when signalling what, if any, NTS Exit (Flexibility) Capacity they wish to acquire in the annual auctions. Therefore Users are likely to have to acquire the NTS Exit (Flexibility) Capacity they may need as a result of intertrips and forced outages on a daily basis which leaves them potentially exposed to overrun charges.*

*5) The NTS Exit Capacity neutrality arrangement has been split into two separate pots, one incorporating NTS Exit (Flat) Capacity costs/revenues and the other incorporating NTS Exit (Flexibility) costs and revenues. The NTS Exit (Flat) Capacity pot would be payable to or recoverable from Users in line with their proportion of the aggregated Firm NTS Exit (Flat) Capacity holding for that Gas Day. The NTS Exit (Flexibility) Capacity pot would be sub divided into four, reflecting the four NTS Exit (Flexibility) Capacity areas, and revenues would be payable to or recoverable from Users in line with their aggregated NTS Exit (Flexibility) Capacity holding for that Gas Day in that area.*

*The reason for this is that NTS Exit (Flat) Capacity is a nodal product with in most cases one User at each node and it would be impractical and self defeating to smear neutrality costs on anything other than a national basis, particularly as costs/revenues may arise as a consequence of entry related or national events.*

*NTS Exit (Flexibility) Capacity however, is a zonal product with area inter-dependencies and it would be inefficient therefore to smear costs and revenues nationally.*

*0116CV Proposer's summary of Changes (Section 7)*

*1) References to NTS Exit (Flexibility) have been deleted.*

*0116VD Proposer's summary of Changes (Section 7)*

*Includes a tolerance of 3% rather than 1.5% and takes account of negative flex.*

## **Section 8. Other Impacts**

### NTS/LDZ Operational Flows

For clarity, it is proposed that the following provisions under UNC OAD Section I will cease to have effect on 1 October 2010:

- Low Demand Days - Under OAD Section I2.5, National Grid NTS may instruct a DNO to offtake gas in aggregate for an LDZ at an even flow rate when demand is forecast to be less than 50% of the 1-in-20 peak day demand. In effect this would reset the DNOs NTS Exit (Flexibility) Capacity rights to zero in aggregate across all NTS/LDZ offtakes for that LDZ where National Grid NTS exercises its option. Under the enduring regime National Grid NTS would need to seek to buy-back NTS Exit (Flexibility) Capacity if such entitlements could not be met;
- Interruption – Under OAD Section I5.0, National Grid NTS can provide a request that a DNO interrupts LDZ Interruptible Supply Points. Under the enduring regime, National Grid NTS would need to use its constraint management tools to resolve any exit capacity constraints.

However National Grid NTS' ability under OAD Section I2.4 to request that a DNO revises its Offtake Profile Notices while maintaining the aggregate rate of offtake into an LDZ will remain. This facility will also be extended, based on the same principles, to allow DNO Users to request that National Grid NTS accept Offtake Profile Notices which will transfer, but not increase in aggregate, its NTS Exit (Flat) Capacity holdings between two or more of its NTS/LDZ offtakes within an LDZ consistent with the requested flow requirements in the Offtake Profile Notices. This is to provide DNO Users sufficient certainty that National Grid NTS will transfer its NTS Exit (Flat) Capacity between such NTS/LDZ offtakes, where it would not jeopardise the safe and efficient operation of the NTS, to prevent potential inefficient over-booking of capacity.

In addition, the current arrangements in respect of revisions to OPNs in accordance with Notice Period and Ramp Rate provisions by DNO Users (OAD Sections I2.3) will continue to apply under the enduring arrangements. Similarly, the provisions in respect of revisions to OPNs by Shipper Users at NTS Supply Points and CSEPs will continue to apply as currently defined in TPD Section J and associated Network Exit Agreements.

For clarity, where there is an operational event on a Transporter's network under the enduring arrangements, the relevant Transporters will co-operate to ensure security of supply. Such arrangements will require to be described in each Transporter's Safety Case consistent with this Proposal, if implemented. In addition, during a Network Gas Supply Emergency, commercial arrangements will be suspended and, in particular, Users will not be liable for any exit capacity overrun changes that may arise.

### CSEP Ancillary Agreements

Currently there exists a number of CSEP Ancillary Agreements in respect of the UK – Continent Interconnector, the GB Ireland Interconnector, as well as a number of generic NTS DM CSEP Ancillary Agreements, in force between National Grid NTS and CSEP Users. The text of these are identical in many respects and all contain provisions which will no longer be applicable in the enduring exit regime, namely Capacity booking processes, the concept of Firm CSEP and Interruptible CSEPs and associated default allocation

provisions to apportion liability between CSEPs based on Firm and Interruptible CSEPs. These provisions will be superseded by the proposed new enduring Offtake arrangements under the UNC.

Ideally, on the commencement of the enduring exit regime, the remaining provisions of the CSEP Ancillary Agreements would be replaced by provisions in UNC. However this is not proposed within this Proposal, and instead National Grid NTS will issue an explanatory note of provisions within such agreements that would be redundant in the event that this Proposal is implemented.

#### *0116CV Proposer's Summary of Changes (Section 8)*

*Only minor typographical changes have been made to Section 8 wording of Modification Proposal 0116V.*

### **Section 9. Information Publication**

(0116CV adds the following paragraph:

**“All NTS connectees currently supply nominations (OPNs, SFNs) containing details of the volumes of gas to be offtaken and the pattern or profile in which these flows will apply through the day. This is used by NGNTS to assess the demands upon the system. NGNTS will also have data from real time data flows at NTS Offtake points.”**)

National Grid NTS will publish aggregated information to the industry in respect of release and surrender of Capacity rights as summarised in Table 1.

National Grid NTS will also publish information in relation to Exit Capacity Management Agreements in respect of each class of NTS Exit Capacity, each NTS Exit Point or NTS Exit Zone, and each period, for which any tender was carried out or as the case may be, option was exercised, as published for Entry Capacity Management Agreements.

In respect of inter-zonal NTS Exit (Flexibility) Capacity transfers, National Grid NTS will publish aggregate holdings by NTS Exit Zone reflecting acceptance of any inter-zonal transfers.

(0116B and 0116C(0116BV and 0116CV add the following paragraphs:

**“National Grid NTS shall publish, by 11:00 on the day following the Gas Day, the actual aggregated usage of NTS Exit (Flexibility) Capacity, along with details of any NTS Exit (Flexibility) Overrun quantity and charge that may have arisen in an NTS Exit Zone on a Gas Day.**

**National Grid NTS shall also publish information to the industry each Gas Day in respect of the aggregate Notified UDFQ for each NTS Exit Zone, initially following the submission of IOPN's by Users ahead of the Gas Day and thereafter shortly after each hour bar of the Gas Day.”**)

Table 1. Aggregate Capacity Release and Surrender Information to be Published

Joint Office of Gas Transporters

Type of Capacity invitation/ invitation date	Time by which information is to be published	Information to be released (see key below)									
		A	B	C	D	E	F	G	H	I	J
<b>Prevailing Flat / July</b>	Not later than 24 hours post Users being informed of their allocations	Y	Y	N	N	Y	Y	N	N	Y	Y
<b>Annual Flat / August</b>	Not later than 48 hours following closure of each auction round and 24 hours after final allocation	Y	Y	Y	Y	Y	Y	Y	Y	N	N
<b>Daily Firm Flat</b>	Not later than 1 hour after Users being informed of their allocations	N	Y	Y	Y	Y	Y	Y	Y	N	N
<b>Daily Interruptible Flat</b>	Not later than 1 hour after Users being informed of their allocations	N	Y	Y	Y	Y	Y	N	Y	N	N
<b>Annual Flex/July</b>	Not later than 48 hours after closure of each auction round and 24 hours after final allocation	Y	Y	Y	Y	Y	Y	Y	Y	N	N
(0116C delete following two rows)											
(0116CV deletes following two rows)											
<b>Daily Flex - Auction</b>	Not later than 1 hour after Users being informed of their allocations	N	Y	Y	Y	Y	Y	N	Y	N	N
<b>Exit Capacity Buyback/Within Day Flow Reduction</b>	Not later than 1 hour after acceptance of offers	N	Y	Y	N	N	N	N	N	N	N

Key

- A- Total bid/offer volume
- B- Total successful bid/offer volume
- C- Highest successful bid/offer (price and volume)
- D- Lowest successful bid/offer (price and volume)
- E- Total number of bidders
- F- Total successful bidders
- G- Unsold Flat Capacity / Max available Flex
- H- Weighted average bid/offer price
- I- Reduction Quantity Allocated (and relevant Gas Year from which reduction effective)
- J- Incremental Quantity Allocated

*0116BV Proposer's summary of Changes (Section 9)*

*1) National Grid NTS shall be required also to publish the following information in addition to that shown in Table 1:*

- a) For each Gas Day the actual utilisation of NTS Exit (Flexibility) Capacity in each zone shall be made available by 11:00hrs the following day; and*
- b) For each Gas Day with details of any NTS Exit (Flexibility) Overrun quantity and charge that may have arisen in an NTS Exit Zone; and*
- c) Within 1 hour of Users submitting their initial Offtake Profile Notice on the Preceding Day to a Gas Day and subsequently for each hour within a Gas Day the sum of NTS Exit (Flexibility) Capacity expected to be utilised in each zone based on the OPNs/SFNs submitted which are not rejected.*

*The information referred to in a) and b) should be made available with effect from 2nd October 2010 and the information in c) should be made available with effect from 1st July 2007.*

*Such information is required to enable Users to assess the amount of NTS Exit (Flexibility) Capacity that is being used and/or is likely to be available so that they can better determine how best to acquire NTS Exit (Flexibility) Capacity and their exposure to overrun/neutrality charges.*

*Bearing in mind that National Grid NTS's electronic OPN submission system has now been developed, it may be possible to make the information in c) available sometime in advance of the first auctions of NTS Exit (Flexibility) Capacity for the Enduring Arrangements (i.e. July 2007). This would allow Users to understand the extent of the daily utilisation of NTS Exit (Flexibility) Capacity prior to the first opportunity to acquire such capacity for the Enduring Arrangements, thus making their decisions and strategy more informed.*

*0116CV Proposer's summary of Changes (Section 9)*

*1) National Grid NTS shall be required also to publish the following information in addition to that shown in Table 1:*

- a) For each Gas Day the actual utilisation of NTS Exit (Flexibility) Capacity in each Flexibility Zone shall be made available by 11:00hrs the following day; and*
- b) Within 1 hour of Users submitting their initial Offtake Profile Notice on the Preceding Day to a Gas Day and subsequently for each hour within a Gas Day the sum of NTS Exit (Flexibility) Capacity expected to be utilised in each zone based on the OPNs/SFNs submitted which are not rejected.*

*The information referred to should be made available with effect from 1<sup>st</sup> July 2007.*

*Such information is required to enable Users to assess the amount of NTS Exit (Flexibility) Capacity that is being used and/or is likely to be available so that they can better determine how NTS Exit (Flexibility) Capacity is being used.*

*Bearing in mind that National Grid NTS's electronic OPN submission system has now been developed, it should be possible to make the information in b) to be Available from the date proposed.*

**Section 10. Transitional Timetable**

The following table describes the transitional timetable leading up to full implementation of the enduring regime, taking into consideration timescales for system functionality to be developed and periods for which the “Transitional Arrangements” are still in effect.

Table 2. Summary of Transitional Timetable

<b>Date Held</b>	<b>Product (Flat/Flex)</b>	<b>Auction/ Application</b>	<b>Annual/Long/ Medium/Short Term</b>	<b>Period</b>
<b>(0116 B and 0116C inserts:</b>				
<b>(0116BV and 0116CV inserts:</b>				
<b><u>“1<sup>st</sup> July 2007</u></b>	<b><u>Flex</u></b>	<b><u>Publication of the aggregated Notified UDFQ for each NTS Exit Zone</u></b>		<b><u>Each Gas Day form Jul-2007 onwards”)</u></b>
July 2007 (reductions by 15 <sup>th</sup> July)	Flat	Applications	Long Term (Increase and reductions)	Oct-2010 onwards
July 2007	Flexibility	Auctions (00116C <del>Auctions</del> <b><u>Applications by DNs</u></b> )	Annual	Oct-2010 to Sep-2012
July 2007	Flexibility	Auctions (00116CV <del>Auctions</del> <b><u>Applications by DNs</u></b> )	Annual	Oct-2010 to Sep-2012
July 2008 (reductions by 15 <sup>th</sup> July)	Flat	Applications	Long Term (Increase and reductions)	Oct-2011 onwards
July 2008	Flexibility	Auctions (00116C <del>Auctions</del> <b><u>Applications by DNs</u></b> )	Annual	Oct-2010 to Sep-2013
July 2008	Flexibility	Auctions (00116CV <del>Auctions</del> <b><u>Applications by DNs</u></b> )	Annual	Oct-2010 to Sep-2013
August 2008	Flat	Auctions	Medium Term	Oct-2010 to Sep-2011
July 2009 (reductions by 15 <sup>th</sup> July)	Flat	Applications	Long Term (Increase and reductions)	Oct-2012 onwards
July 2009	Flexibility	Auctions (00116C <del>Auctions</del> <b><u>Applications by</u></b>	Annual	Oct-2010 to Sep-2014



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		<u><a href="#">DNs</a></u>		
July 2009	Flexibility	<u><a href="#">Auctions (00116CV Auctions Applications by DNs)</a></u>	Annual	Oct-2010 to Sep-2014
Aug 2009	Flat & Flexibility (00116C & Flexibility)	Trading/Transfers		Oct 2010 onwards
Aug 2009	Flat & Flexibility (00116CV & Flexibility)	Trading/Transfers		Oct 2010 onwards
August 2009	Flat	Auctions	Medium Term	Oct-2010 to Sep-2012
Oct-2009	Flat & Flexibility (00116C & Flexibility)	Holdings considered in security/indebtedness processes.		Oct-2010
Oct-2009	Flat & Flexibility (00116CV & Flexibility)	Holdings considered in security/indebtedness processes.		Oct-2010
July 2010 (reductions by 15 <sup>th</sup> July)	Flat	Applications	Long Term (Increase and reductions)	Oct-2013 onwards
July 2010	Flexibility	<u><a href="#">Auctions(00116C Auctions Applications by DNs)</a></u>	Annual	Oct-2010 to Sep-2015
July 2010	Flexibility	<u><a href="#">Auctions(00116CV Auctions Applications by DNs)</a></u>	Annual	Oct-2010 to Sep-2015
August 2010	Flat	Auctions	Medium Term	Oct-2010 to Sep-2013
24 <sup>th</sup> Sept 2010	Flat & Flexibility (00116C & Flexibility)	Bidding	Short Term	1-Oct-2010
24 <sup>th</sup> Sept 2010	Flat & Flexibility (00116CV & Flexibility)	Bidding	Short Term	1-Oct-2010
30 <sup>th</sup> Sep-2010	Flat &	Auctions	Short Term	1-Oct-2010

	Flexibility (day ahead) + Flat (Interruptible) (00116C & Flexibility)			
30 <sup>th</sup> Sep-2010	Flat & Flexibility (day ahead) + Flat (Interruptible) (00116CV & Flexibility)	Auctions	Short Term	1-Oct-2010

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

In this Section, the Proposers’ comments in support of implementation of their own Proposal are summarised. These comments are then followed by those submitted within the Transmission Workstream and in representations. Where a number of respondents make similar comments, these have not been attributed.

**1(a) the efficient and economic operation of the pipe-line system**

**Modification Proposal 0116V**

The Proposer believed that implementation would facilitate the achievement of this objective as it would enable Users to register their NTS Exit Capacity requirements beyond September 2010, which would allow National Grid NTS to undertake better informed investment decisions.

Some parties suggested that investment decisions would not be better informed but that signals could be spurious and produce inefficient and uneconomic investment. The lack of historic data would make the provision of accurate data particularly problematic. Consumer representatives emphasised that large users may not be sufficiently incentivised to provide signals through the complex mechanisms proposed, leading to a lack of information being generated and consequently less efficient investment than under the existing regime.

To the extent that the Modification Proposal potentially prevents flexibility being created at entry points, this would damage efficient operation of the system.

Some respondents believed that implementation could bring adverse effects on storage that could inhibit provision of storage services as a substitute for NTS pipeline capacity.

Some respondents made the following comments in respect of all the Proposals except 0116A:

- There was no evidence that the current regime does not provide adequate investment signals and requiring a 4 year User commitment could lead to inefficient investment in the NTS.
- NTS shippers may not be best placed to provide investment signals and manage allocation for Connected Systems and no adequate alternative (such as a Moffat “Single Party”) is sufficiently developed at present.

- The flexibility product would artificially increase balancing costs and drive inefficient flexibility purchasing and investment decisions.
- The complexity of the proposed flexibility product would introduce greater risk of operational errors.
- Removal of the interruptible capacity product could lead to greater likelihood of a Stage 2 Gas Deficit Emergency. Shippers' ability to balance under market conditions would therefore be eroded, creating an adverse impact on system operation.

#### **Modification Proposal 0116A**

The Proposer believed that implementation of this alternative Proposal would facilitate the achievement of this objective as it would enable DNO Users to register their NTS Offtake Capacity requirements beyond September 2010, and allow National Grid NTS to continue to consult and forecast other Users' NTS Exit Capacity requirements consistent with and pursuant to the relevant provisions of UNC Section O, which would allow National Grid NTS to undertake better informed investment decisions beyond 2010 and thereby better facilitate the efficient and economic operation of the NTS pipeline system;

Some respondents argued that less information would be available for efficient investment decisions by NG NTS since Shippers would only be able to request increases in capacity requirements 6 months in advance of use and Users would not be able to signal their flexibility requirements.

Respondents also suggested implementation of Modification proposal 0116A would enable bi-directional sites to provide flexible services thereby reducing residual balancing actions.

#### **Modification Proposal 0116BV**

The Proposer believed that implementation of this alternative Proposal would facilitate the achievement of this objective by:

- providing greater transparency of NTS Exit (Flexibility) Capacity availability and utilisation, which will enable Users to anticipate constraints that may arise and acquire their NTS Exit (Flexibility) Capacity requirements more efficiently;
- encouraging more co-ordinated planning of future new capacity requirements, allowing National Grid NTS to make more informed and efficient investment decisions;
- ensuring that NTS Exit (Flexibility) Capacity holdings that have been acquired by acceptance of an IOPN are reduced in the event an IOPN is revised, thereby encouraging Users to submit accurate IOPNs at all times, preventing hoarding and making more baseline or discretionary capacity available;
- ensuring costs will not be inappropriately incurred and will be better targeted, thereby creating an incentive for those Users best able to manage constraints that may arise to do so more efficiently than National Grid NTS;

Some respondents argued that declaration of a "Constraint Day" might disproportionately push up the price of gas and so not facilitate economic and efficient operation..

NG NTS argued that Proposal 0116BV could also lead to less efficient and economic operation of the NTS due to the absence of a cost reflective SO Flexibility charge.

#### Modification Proposal 0116CV

The Proposer believed that implementation of this alternative Proposal would facilitate the achievement of this objective by:

- o providing greater transparency of NTS Exit (Flexibility) Capacity availability and utilization, which will enable Users to anticipate constraints that may arise
- o encouraging more co-ordinated planning of future new capacity requirements, allowing National Grid NTS to make more informed and efficient investment decisions
- o ensuring costs will not be inappropriately incurred and will be better targeted, thereby creating an incentive for those Users best able to manage constraints that may arise to do so more efficiently than National Grid NTS.

In its representation, EDFE argued this Proposal does not comply with the principles of better regulation since the arrangements would not be less complex than those that it would replace.

#### Modification Proposal 0116VD

The Proposer believed that implementation of this alternative Proposal would facilitate the achievement of this objective by enabling Users to provide as accurate an indication as possible of their NTS Exit Capacity requirements beyond September 2010, acting on the most up to date information available. This would allow National Grid NTS to undertake better informed investment decisions and thereby better facilitate the efficient and economic operation of the NTS pipeline system.

In its representation, WWU argued that the iterative process of requesting pressure then capacity would facilitate more efficient investment decisions by Transporters.

NG NTS argued that the additional complexity of negative flexibility capacity would add to the costs of operating the system.

**1(b) so far as is consistent with (a), the co-ordinated, efficient and economical operation of (i) the combined pipe-line system, and/or (ii) the pipe-line system of one or more other relevant gas transporter.**

#### Modification Proposal 0116V

The Proposer believed that implementation would facilitate the achievement of this objective as it would enable National Grid NTS and DNO Users to formally confirm NTS Exit Capacity levels to support their respective investment decisions beyond September 2010. In addition the proposed commercial regime should enable National Grid NTS to better respond to its Exit Capacity incentive by optimising the provision of Exit Capacity at times of high demand by efficiently trading off pipeline investment against buyback contracts.

Some respondents argued the introduction of a flexibility product would provide little information that was of practical use to the system operation, that it could become a major

distraction to efficient operation and that there is no evidence the DNs have avoided investment by increasing their reliance on NTS flexibility in the transition period.

#### **Modification Proposal 0116A**

The Proposer believed that implementation of this alternative Proposal would facilitate the achievement of this objective as it would enable National Grid NTS and DNO Users to formally confirm NTS Exit Capacity levels to support their respective investment decisions beyond September 2010 and thereby better facilitate the coordinated, efficient and economic operation of the combined pipe-line system;

#### **Modification Proposal 0116BV**

Some respondents believed that implementation would provide a transparent and efficient means for DN Users to signal changes in long term NTS Exit (Flexibility) Capacity requirements.

#### **Modification Proposal 0116CV**

In its representation, EDFE argued it was unclear whether flat capacity would be released to DNs when they needed it and hence implementation would not be an improvement on present arrangements.

#### **Modification Proposal 0116VD**

The Proposer believed that implementation would provide a mechanism to enable NTS to take full account of DN planning and operational needs including operational tolerance relating to flexibility capacity use, benefit provided by negative flexibility, coordination of pressure commitment and capacity booking, timescale for notifying transfer of flex between zones and maintains strong incentives on NG NTS to make gas available even in the event of overruns.

In its representation, WWU argued that long term commitment costs and constrained allocation of flexibility capacity may lead to less efficient and economic operation of the combined pipeline systems.

**1(c) so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence**

#### **Modification Proposal 0116V**

The Proposer believed that implementation would further National Grid NTS' GT Licence obligation standard special condition A6 by ensuring its transportation business is conducted in a manner to avoid unfair or unduly discriminatory arrangements.

The substantial costs of implementing and operating the proposed mechanisms may be inconsistent with efficient discharge of licence obligations.

Some respondents believed that retaining different arrangements that reflect the specific needs of different Users would be appropriate and duly, rather than unduly, discriminatory. For example, bi-directional sites would not have their specific usage and impact on the system properly recognised in the charges they would face.

Implementation would discriminate between Users and non-UNC parties in that only the former would be restricted to July flat capacity applications with start dates of October.

### **Modification Proposal 0116A**

The Proposer believed that this alternative Proposal would restore the enduring nature of the UNC in a manner that does not require significant implementation costs<sup>2</sup>;

The Authority has contended that offering different exit capacity booking arrangements to different classes of Users whether these be DNs, direct connects, storage facilities or interconnectors amounts to undue discrimination and that this is a key reason why they believe reform of the offtake regime is necessary.

In the Authority's February 2005 decision document "National Grid Transco – Sale of gas distribution networks," they state

#### **"Undue discrimination between NTS offtake points.**

*The offtake arrangements should deliver a framework in which the risk of Transco NTS unduly discriminating between DNs and parties who hold agreements with Transco NTS at other NTS exit points is minimised. Ofgem therefore considered that the arrangements should be developed in a way that delivers consistency of treatment between the DNs and holders of Network Exit Agreements (NExAs), Connected System Agreements (including those applicable to interconnectors) and Storage Connection Agreements (SCAs)."*

Later on in the document it adds

*"As a result of DN sales, we accept that robust commercial arrangements will need to be established at the previously internalised interface between the NTS and the DNs, i.e. the NTS/DN offtakes. Furthermore, to ensure equality in treatment of all users connected to the NTS, these arrangements should also apply between NTS and directly connected customers. This will serve to ensure that access to the NTS is provided to all network users in a manner that is not unduly discriminatory."*

This was not the view shared by the Proposer nor it believed most market participants. Indeed as far as the Proposer was aware, no market participant has formally complained about undue discrimination with respect to the current NTS offtake arrangements. The Proposer obtained a legal view from counsel which, amongst other matters, concludes;

"Proper application of the non-discrimination provisions<sup>3</sup>,

- requires answering two questions: (a) are the users or classes of user materially comparable; and (b) is there a valid reason, or objective justification, for any difference in treatment.

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<sup>2</sup> National Grid NTS's Mod 116 is very similar to the proposal put forward by Ofgem's during the gas distribution network sales process. At that time the Gas Forum commissioned a report to "Review of the Proposed Gas Exit Arrangements" dated 28 June 2005, which concluded that the net present value (NPV) industry cost impact of the reforms could be as much as -£100m.

<sup>3</sup> Set out in the The Gas Act 1986 and various European directives.

- may not only permit but actually require that material differences between classes of user be reflected in appropriately different treatment.”

The Proposer believed the various classes of NTS User were not materially comparable, that there were valid reasons for their different treatment and as such, different treatment was appropriate.

The Proposer concluded that Gas DNOs are subject to price control regulation, whilst shippers who ship gas to direct connects, storage facilities or export gas through interconnectors operate in the competitive market. Shippers are not in a position to be able to fairly ‘compete’ with DNs for access rights, nor are they necessarily able to provide long term commitments in the same way as such monopoly network businesses whose income stream it ultimately secured through the price control process. In addition, the ‘connected facilities’ themselves are also subject to a variety of different licensing and exemption regimes reflecting their different circumstances. By allowing appropriate differences in the NTS offtake arrangements for different classes of Users to persist this alternative Modification Proposal better facilitates the achievement of Standard Special Condition A11, paragraph 1 (a), (b), (c), (d) and (f).

In its representation, NG NTS argued that the lack of opportunity for Shipper Users to register NTS Exit (Flat) Capacity in the same timescales as DN Users is unsustainable, and noted that ARCAs are only undertaken where NTS investment is required.

EDFE argued that demand side response would be facilitated by implementation of Modification Proposal 0116A and thereby facilitate achievement of licence obligations regarding system security.

#### **Modification Proposal 0116BV**

The Proposer believed that implementation of this alternative Proposal would facilitate the achievement of this objective by:

- ensuring all Users can register NTS Exit (Flat) Capacity from date in advance of the start of the Gas Year thereby ensuring non-discrimination between parties at offtake;
- ensuring all NTS connected gas fired power stations are not disadvantaged compared to those connected to the DN by removing their exposure to overrun charges in the event of an intertrip or forced outage;
- allowing Users to signal their requirements more flexibly thereby allowing National Grid NTS to better discharge its licence obligation to meet all reasonable demands for gas;

Respondents provided the same counter arguments as expressed for Proposals 0116V and 0116VD.

#### **Modification Proposal 0116CV**

The Proposer believed that implementation of this alternative Proposal would facilitate the achievement of this objective by:

- ensuring all Users can register NTS Exit (Flat) Capacity from a date in advance of the start of the Gas Year thereby ensuring non-discrimination between parties at offtake

- ensuring all NTS connected gas fired power stations are not discriminated against compared to those connected to the DN by incurring overrun charges in the event of an intertrip or forced outage
- allowing Users to signal their requirements more flexibly thereby allowing National Grid NTS to better discharge its licence obligation to meet all reasonable demands for gas
- Removing misleading signals of unknown constraints on the NTS well into the future due to absence of any reliable indication of gas flows at that time.

Some respondents argued that implementation may not facilitate the achievement of licence obligations with respect to non-discrimination because it is not clear how additional capacity would be allocated on a fair and equitable basis.

**1(d) so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition:**

**(i) between relevant Shippers**

**Modification Proposal 0116V**

The Proposer believed that implementation would facilitate achievement of this objective by offering NTS Exit Capacity to all Users on a non-discriminatory basis and allowing Users to better reflect the value placed on Firm NTS Exit Capacity and the costs of constraint management.

There could be some misallocation of costs between Shippers if costs are allocated to exit as opposed to entry, which would be inconsistent with facilitating effective competition between relevant Shippers, and charges would not be cost reflective.

Shippers are not in a position to fairly compete with DNOs for the proposed products since they operate in a competitive market while the DNOs are monopolies with access to their own diurnal storage.

Increasing complexity creates a barrier to entry and may discourage Shippers from actively competing to supply NTS customers, thereby restricting competition. The increased costs to Shippers of operating in this segment of the market would favour larger Shippers.

Some respondents believed that in the event of implementation;

- There would be undue discrimination against Shippers reliant on Storage and serving interconnectors compared to those that did not.
- Complex and long duration products may deter competitive switching of Suppliers in the large Industrial and Commercial market.
- Capacity could be sterilised by the 14 months notice period to reduce holdings of prevailing NTS Exit (Flat) Capacity, impairing competition.
- NTS Exit (Flexibility) Capacity would worsen cost reflectivity and so impair competition.

**Modification Proposal 0116A**



The Proposer believed that implementation of this alternative Proposal would continue to secure effective competition between relevant Shippers without exposing them to any ineffective competition with DNO Users who are regulated natural monopolies and also subject to Safety Cases which may lead them to act as distressed purchasers in some circumstances;

Some respondents pointed out that NTS Supply Points have diverse contractual arrangements with different business models which involve varying time periods and it may be unduly discriminatory to treat all the same.

#### **Modification Proposal 0116BV**

The Proposer believed that implementation of this alternative Proposal would facilitate the achievement of this objective by:

- o encouraging an incremental approach to such fundamental reform so as to allow Users (particularly small Users) to become familiar with the obligations the new arrangements place on them whilst lessening their exposure overrun costs;
- o creating circumstances whereby Users can passively manage their NTS Exit (Flexibility) Capacity requirements and overrun exposure, which may allow them to avoid costly systems investment and increased resources;
- o preventing barriers to entry and operational and commercial inefficiencies arising in the supply of gas to NTS Exit Points.

#### **Modification Proposal 0116CV**

The Proposer suggested that implementation of this alternative Proposal would facilitate the achievement of this objective by:

- o encouraging an incremental approach to such fundamental reform so as to allow Users (particularly small Users) to become familiar with the obligations the new arrangements place on them whilst lessening their exposure overrun costs
- o creating circumstances whereby Users can passively manage their NTS Exit (Flexibility) Capacity requirements and exposure which may allow them to avoid costly systems investment and increased resources
- o preventing barriers to entry and operational and commercial inefficiencies arising in the supply of gas to NTS Exit Points
- o removes a Users exposure to charges which are outside their control that would be generated as a result of actions or omissions by another User
- o removes the necessity to build and manage additional systems for which the benefit and requirement are not proven

#### **(ii) between relevant suppliers;**

#### **Modification Proposals 0116V and 0116VD**

Facilitation of the securing of effective competition between relevant Shippers would be expected to have similar implications for competition between relevant Suppliers.

In its representation EDFE argued that the lack of an obligation to transfer capacity to an incoming User would be detrimental to competition between Suppliers.

- (iii) between DN operators (who have entered into transportation arrangements with relevant gas Transporters) and relevant shippers.**

**Modification Proposals 0116V and 0116VD**

Implementation would facilitate achievement of this objective for the reasons of non-discrimination outlined above in respect of Shippers.

It was acknowledged that competition between DNs would remain limited were the Proposal to be implemented, with few areas in which DNs could be competing to acquire NTS capacity.

**Modification Proposal 0116A**

It was pointed out that implementation would continue rules that do not artificially limit the amount of flexibility available to DNs.

- 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;**

**All Proposals**

In its representation, the Gas Storage Operators Group argued that only implementation of Modification Proposal 0116A would not increase the costs of storage and therefore the costs of security of supply. Similarly retention of interruptible User status with an incentive for standby fuels would better facilitate achievement of this objective.

- 1(f) so far as is consistent with sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of...the uniform network code.**

**Modification Proposals 0116V, 0116VD, 0116BV, 0116CV**

Some respondents suggested increased complexity would impede efficiency and increase the likelihood of a number of corrective Modifications.

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

**Modification Proposals 0116V and 0116VD**

The Proposers believed implementation would:

- provide National Grid NTS with improved system management tools;
- provide an enduring regime which aims to limit utilisation of within day linepack variations to within expected system capability.

Some respondents believed that implementation would remove interruptible load and hence Stages 2 and 3 of a Network Gas Supply Emergency would be reached earlier – because there would be no interruptible loads to take off the system. This could change the order in

which customers are taken off the system, potentially affecting security of supply for some large users.

It was also argued that the added costs and complexity of operation were these Proposals to be implemented would have an adverse impact on incentives to invest in storage and provide flexibility services and hence would adversely impact security of supply.

Other implications raised by respondents were:

- Early suspension of the OCM due to reaching Stage 2 of an emergency earlier may prevent the market from providing a solution.
- Inefficient investment signals could impact the security of the system in the long-term.
- Governance of market rules would be fragmented, and this could weaken the integrity of the market and thereby weaken security of supply.
- In the absence of a universal firm regime on DN systems, industry fragmentation could result.
- New system management tools may not be taken up by market participants if they are considered too complex or risky for the investment required.
- Incremental capacity requests by Users could not take account of actual project approval date. This delay could lead to incremental capacity being delivered later than required.

#### **Modification Proposal 0116A**

The Proposer believed that implementation would not provide the ability to reserve incremental capacity unless an ARCA was required and thus could potentially disadvantage any parties that wished to do so.

#### **Modification Proposal 0116BV**

The Proposer believed that implementation of this alternative Proposal would provide National Grid NTS with improved system management tools. However it is not clear the extent to which these will be used.

It may also limit utilization of within day linepack variations to within expected system capability, providing National Grid NTS ensure that all the available NTS Exit (Flexibility) Capacity is readily released. However, bearing in mind that the Uniform Network Code currently contains provisions to do this, and that these provisions have never yet resulted in any over utilization of within day linepack, it is arguable whether it does this better.

Removing the right of Users to purchase Interruptible NTS Exit Capacity annually is likely to result in more NTS Exit Points acquiring annual firm capacity, which could quicken the onset of Stage 2 or 3 of a Network Gas Supply Emergency.

Implementing Enduring Arrangements in the NTS but not in DN networks will also result in industry fragmentation and cause Users to have to adopt different operational and commercial practices when shipping gas to sites in each pipeline system.

Some respondents believed that implementing publication of flexibility utilisation and availability information will better inform the market and thereby assist efficient operation of the system.

STUK suggested that flexibility auctions triggered by declaration of a “constraint day” could lead to exacerbation of the problem if Users sought to participate in complex commercial arrangements rather than focus on bringing gas onto the system.

#### **Modification Proposal 0116CV**

The comments in respect of implementation of Proposal 0116BV apply to implementation of this alternative Proposal except there would be no such concept as a “constraint day”.

NG NTS observed that this Proposal would not limit utilisation of within day linepack variations to system capability.

#### **Modification Proposal 0116VD**

Further to the comments relating to Proposal 0116V, the Proposer believed that implementation would further improve operation of the system by ensuring DNOs’ requirements are taken into account.

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

##### **a) implications for operation of the System:**

##### **Modification Proposals 0116V**

The Proposer considered that implementation would provide a wider range of system management tools to better manage any transportation constraints.

There could be a reduced willingness to participate in energy balancing mechanisms, adversely affecting system operation, because of the increased cost and complexity of operating in the market.

Removing interruption would remove an effective existing tool for managing transportation constraints and the flexibility product would be ineffective in targeting costs, provide distraction to efficient system operation and could cause perverse behaviours as parties seek to flow gas to optimising flexibility unnecessarily or to the detriment of the system.

##### **Modification Proposal 0116BV and 0116CV**

The Proposers considered that implementation of this alternative Proposal would require National Grid NTS to publish more information compared to Modification Proposal 0116V. However, National Grid NTS’s ability to determine each User’s Notified UDFQ for each NTS Exit Zone at each hour bar, based on the submission or revision of its IOPN (such that they can determine whether to accept or reject such IOPNs), may be helped by the fact that they have recently developed an electronic OPN submission system.

The Proposers suggested that implementation would require National Grid NTS to use its reasonable endeavours to facilitate applications for incremental NTS Exit (Flat)

Capacity outside of the July Annual Application Window and for registration of such capacity by Users from dates other than the start of the Gas Year.

**Modification Proposal 0116BV**

The Proposer suggested that implementation would provide a wider range of system management tools for National Grid NTS to manage any transportation constraints. Transporters should also be able to operate their systems more efficiently as a consequence of greater information provision to Users, better targeting NTS Exit (Flexibility) Neutrality.

**Modification Proposal 0116CV**

The Proposer believed that implementation of this alternative Proposal would provide a wider range of system management tools for National Grid NTS to manage any transportation constraints. Transporters should also be able to operate their systems more efficiently as a consequence of greater information provision to Users of the use of NTS Exit (Flexibility).

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

**Modification Proposal 0116V**

The Proposer believed that implementation would have associated cost implications of systems development and ongoing operational costs. These have been captured as part of Ofgem's Impact Assessments on the potential new arrangements and Ofgem has sought information to update its Impact Assessment.

Some respondents argued that capital investment could inefficiently increase in accordance with a User commitment signal where subsequently the incremental requirement has been delayed or postponed.

**Modification Proposal 0116BV**

The Proposer believed that implementation of this alternative Proposal would have associated cost implications of systems development and ongoing operational costs. Ofgem will need to update its Impact Assessment in light of this Modification Proposal.

**Modification Proposal 0116CV**

The Proposer of this alternative Proposal, believed that if implemented, it would have much lower associated cost implications of systems development and ongoing operational costs. Ofgem will need to update such Impact Assessment in light of this Modification Proposal.

**Modification Proposal 0116VD**

The Proposer believed that implementation would have associated cost implications of systems development and ongoing operational costs. These will be captured as part of Ofgem's Impact Assessments on the potential new arrangements.

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

**Modification Proposals 0116V, 0116BV, 0116CV, 0116VD**

Costs which National Grid NTS incur as a result of implementation of this Proposal that are deemed to be in accordance with Network Sales requirements are not intended to be recovered from Users.

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

**Modification Proposal 0116V and 0116VD**

Changes to the National Grid NTS Gas Transmission Transportation Charging Methodology Statement and DNOs' Gas Distribution Transportation Charging Methodology Statements would be required as part of the changes to the NTS Exit regime. NG NTS has consulted on proposed changes to its charging methodology in parallel with consultation on this Proposal.

**Modification Proposals 0116BV and 0116CV**

Changes to the National Grid NTS Gas Transmission Transportation Charging Methodology Statement and DNOs' Gas Distribution Transportation Charging Methodology Statements would be required. By removing any reference to a NTS Exit (Flexibility) Commodity Charge this Modification Proposal removes the prospect of National Grid NTS introducing a non-cost reflective charge based on a percentage of SO costs as a proxy for potential balancing/capacity costs that might be incurred as a consequence of inappropriate use of system flexibility.

**Modification Proposals 0116V, 0116BV and 0116VD**

Some respondents suggested these Proposals would introduce non-cost reflective charges.

**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**

**Modification Proposal 0116V and 0116VD**

NG NTS would consider any contractual risk of these Proposals as part of its Transmission Price Control Review in which its obligations and incentives in respect of NTS Exit Capacity will be agreed.

The level of contractual risk for each DN Transporter will be dependent on the outcome of its DN Incentive arrangements, which are to be brought forward by Ofgem based on a view of the likely enduring arrangements.

EON argued that implementation would transfer risk away from NG NTS to shippers and DNOs even though there has been no sudden stranded asset risk increase.

Some respondents believed that the DNOs' risks would increase as they would need to introduce substantive process change and would need to outbid Users in the competitive market if they need to acquire flexibility to meet their 1 in 20 obligations.

Some DNs argued implementation of Proposal 0116VD would help mitigate their contractual risk.

### **Modification Proposals 0116V, 0116BV and 0116VD**

Some respondents argued that implementation could introduce ineffective mechanisms for providing investment signals for NG NTS, which would lead to inefficient investment and hence increase their contractual risk. They also suggested that implementation of the flexibility product would substantially increase costs and risks. Particular complexity and risk arises for connected loads that are served by multiple shippers and for bi-directional sites.

### **Modification Proposal 0116BV and 0116CV**

The Proposers believed that implementation of these alternative Proposals would not be expected to place any greater or lesser contractual risk on National Grid NTS or any other Transporter than Modification Proposal 0116.

## **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**

### **Modification Proposal 0116V and 0116VD**

In the event of implementation it is anticipated using the current IS infrastructure and Gemini system to facilitate the registration of NTS Exit Capacity (except where Offtake Profile Notices are used to apply for Daily NTS Exit (Flexibility) Capacity). The Gemini system is used to manage the current Entry Capacity auction process and similar functionality is expected to be made available to allow a User to:

- make bids and offers in respect of NTS Exit Capacity;
- view its Capacity holdings and aggregate Capacity information;”

NG NTS has indicated its intention for industry engagement to be undertaken during the IS development and implementation phase. In addition, National Grid NTS intends that relevant procedures will be provided as appropriate as part of the system roll out and training. DNs indicated the need for system access and training of its users within the implementation programme.

In its representation NG NTS also identified impacts on IGMS, its web site and its internal Management Information Systems.

### **Modification Proposal 0116A**

Implementation would require no changes to existing systems and processes.

### **Modification Proposals 0116BV and 0116CV**

Implementation of these alternative Proposals, in comparison to Proposal 0116V, would be expected to lessen the extent of system development Users are required to undertake to manage their offtake requirements, and their cost exposures under the new enduring arrangements.

### **Modification Proposals 0116A and 0116CV**

Implementation would require limited systems development work for NTS Exit (Flexibility).

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

**Modification Proposal 0116V and 0116VD**

Administrative and operation costs on Users have been captured as part of Ofgem's Impact Assessments on the potential new arrangements. It is understood that Ofgem intends to update such Impact Assessment in light of the enduring exit proposals.

Users would need to renegotiate contracts beyond the UNC, align arrangements with downstream operators, change their operations and to rewrite their own systems to accommodate the new regime. Operational costs would increase.

In its response, EON said that the Gas Forum intends to update the report commissioned from NERA consultants on industry costs. EON also suggested that DNs would need to develop cost recovery mechanisms for NTS Exit charges and that price volatility would increase.

Some respondent suggested that consequential increases in security requirements would increase costs for small shippers, and that agency arrangements would be needed to manage of flexibility allocation between multiple Users.

**Modification Proposal 0116A**

Implementation of this Proposal would not increase contractual risk or operational costs compared to the current regime, nor introduce auction price risk

**Modification Proposal 0116BV**

Implementation of this alternative Proposal would increase the administrative/operational costs for Users. However, it is expected to do so to a lesser extent than Modification Proposal 0116 as it includes measures designed to minimize a Users exposure to NTS Exit (Flexibility) overrun and commodity charges, thereby allowing Users scope to passively manage their NTS Exit (Flexibility) requirement.

It will also increase the level of contractual risk, for example at CSEPs and bi-directional sites where an Overrun User is not appointed and in greater exposure to Capacity charge under recovery from end user customers.

**Modification Proposal 0116CV**

Some respondents believed that implementation would introduce rights to book long term exit capacity that does not require an ARCA and so would remove the risk associated with this.

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

**Modification Proposal 0116V and 0116VD**

Existing and prospective NTS connected consumers and Connected System Operators would be impacted by implementation of these Proposals in those areas described above in Section 7.



Respondents also identified the following implications:

- Gas fired power generation and storage projects may, at the margin, be delayed or cancelled because of the required User commitment.
- The complexity and costs of the NTS Exit flexibility product may inhibit or add a premium to flexibility provided by gas fired power generation to the electricity market. Similar arguments were made in terms of gas storage and demand side response services in respect of the gas balancing market.
- NTS connected consumers would face longer commitment periods, new processes for managing capacity levels and uncertainty as to whether adequate flexibility capacity was held by their Shipper(s).

#### **Modification Proposal 0116A**

Implementation would have no incremental impacts above the current arrangements.

#### **Modification Proposal 0116CV**

Respondents believed that implementation would ensure gas fired power generation will continue to be able to offer flexibility services to the electricity market, whilst facilitating long term User commitment in terms of flat capacity.

### **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**

#### **Modification Proposals 0116V, 0116BV and 0116VD**

The business rules provided with Modification Proposal 0116V included a statement that the current certification process for interconnectors would be discontinued. This provision helps to prevent hoarding of capacity and so protects the three jurisdictions (Northern Ireland, the Republic of Ireland and the Isle of Man) downstream of Moffat. A Shipper using the Moffat Interconnector expressed concern that this would adversely affect security of supply to these three jurisdictions, and no Shipper may be willing to supply gas at all in light of the increased administration and operating costs.

Respondents commented that these effects may be contrary to Treaties governing the allocation of capacity rights in the Irish Interconnector and more generally may represent an impediment to trade between member states of the European Union and go against harmonisation principles and development of effective European transit regimes.

The use of an “Overrun Agent” to deal with flexibility for connected loads with multiple shippers and for bi-directional sites would involve contractual risk and complexity

Respondents also identified that new contractual arrangements would be required in relation to all classes of NTS Exit points and that Transporters would need to ensure they can secure their 1 in 20 system security obligations under whatever changed arrangements were implemented.

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

## **Modification Proposal 0116V and 0116VD**

### **The Proposers identified the following Advantages**

- Provides all Users (Shippers and DNO Users) with the ability to:
  - obtain the same type of Capacity products in the same Capacity registration processes for Capacity utilisation over the same periods and thereby avoid scope for unfair or unduly discriminatory arrangements;
  - signal their long term Capacity requirements, backed by a financial commitment, to support efficient and economic NTS investment planning;
  - place their value on NTS Exit Capacity and the costs of constraint management;
  - provide certainty to Users by confirming holdings well in advance of gas flow.
- Provides National Grid NTS with a range of system management tools to better manage the NTS in a safe, economic and efficient manner;
- Provides Users with aggregated information in respect of Capacity applications and bookings to better inform User intentions in respect of future use of the NTS;
- Provides a better fit of NTS Exit Capacity arrangements under a divested industry structure that exists following the sale of a number of distribution networks in 2005.

The following additional advantages for Modification Proposal 0116A were identified within the responses

- Better co-ordinate Users project planning, development and construction with that of National Grid NTS's for new prevailing NTS Exit (Flat) Capacity.
- Reduced uncertainty in the NTS Exit capacity regime post 2010, with ARCAs providing a more cost effective solution than auctions for investment signals.
- Negligible implementation costs.
- Allows different treatment of classes of Users to help ensure no undue discrimination.
- Reduced likelihood of Stage 2 emergency as only this Proposal has continuation of interruptible site status.
- Retains a low cost price certain interruptible capacity product for bi-directional NTS connections and avoids potentially misleading investment signals from such sites.
- Maintains competitive signals between Shippers and Suppliers.
- Reduces or avoids the need for regulatory intervention potentially at the European level.

Some respondents also expressed avoidance of effects of the other Proposals as advantages of this Proposal

### **Modification Proposal 0116BV**

- **The Proposer stated the following advantages of implementation of this alternative Proposal:**

- Provides all Users (Shippers and DNO Users) with the ability to:
  - obtain the same type of Capacity products in the same Capacity registration processes for Capacity utilisation over the same periods and thereby avoid scope for unfair or unduly discriminatory arrangements;
  - signal their long term Capacity requirements, backed by a financial commitment, to support efficient and economic NTS investment planning;
  - better co-ordinate their project planning, development and construction with that of National Grid NTS's for new Prevailing NTS Exit (Flat) Capacity;
  - place their value on NTS Exit Capacity and the costs of constraint management where appropriate;
  - passively manage their NTS Exit (Flexibility) Capacity requirements on non constrained days if they so choose, by reducing their exposure to overrun and commodity charges.
- Provides National Grid NTS with a range of system management tools to better manage the NTS in a safe, economic and efficient manner;
- Provides Users with aggregated information in respect of Capacity applications, bookings and utilisation to better inform User intentions in respect of future use of the NTS.

#### **Modification Proposal 0116CV.**

The Proposer stated the same advantages of implementation in respect of this alternative Proposal and included the following additional advantage:

- Provides Users with aggregated information (at Zonal level) of system Flexibility usage to facilitate the industry to make a objective judgment of the need for more complex arrangements

In addition, the following advantages were identified in the representations:

- Promotes long term User commitment encouraging the efficient, economic and coordinated development of the NTS system.
- Introduces capacity buy-back products
- Does not artificially constrain flexibility.
- Maintains current competitive signals between Shippers and Suppliers.
- Discriminates between classes of Users when discrimination is due.

#### **Modification Proposal 0116VD**

The Proposer stated the same advantages of implementation in respect of this alternative Proposal and included the following additional advantages.

- changes to NTS Exit (Flexibility) Capacity tolerance levels better reflect the dynamics of the network and a DNO's operational control, particularly at pressure controlled offtakes. This will ensure Users are not inappropriately penalised for something they can't control;

- arrangements take account of positive and negative NTS (Exit) Flexibility Capacity, thereby taking account of the full impact on the system;
- changes to timescales for requesting changes in pressure commitments will ensure capacity and pressure requests can be co-ordinated, improving efficiency in arrangements. They will also ensure DNO's are not held liable for capacity that can not be fully utilised where corresponding pressure is not provided;
- changes to overrun arrangements will ensure National Grid NTS is still incentivised to take all appropriate steps to ensure they continue to deliver gas and remove the double jeopardy, ensuring the overrunning party is not exposed to disproportionate penalties.

### **Modification Proposals 0116V and 0116VD**

The Proposer identified the following disadvantages

- More complex systems and processes are required to manage NTS Exit Capacity arrangements.
- May have a knock-on effect on electricity balancing since CCGTs may be discouraged from operating flexibly
- Potentially conflicts with EU Regulations and developments
- Has a disproportionate impact on bi-directional sites
- Potentially damages security of supply
- Discourages competition among Shippers and Suppliers
- Imposes significant complexity and industry costs

In addition, the following disadvantages were identified in the representations:

- Does not recognise the interaction between flat capacity at different nodes
- Reduces efficient investment by reliance on User commitment rather than planning and alignment with investment in connected loads.
- Applies uniform arrangements for different classes of Users generating unfair competition but discriminates between Users in terms of pressure commitment bookings.
- Complexity and shortcomings of the flexibility product may detract from efficient operation of the system and zero reserve price of flexibility implies there is no economic principle for unbundling flat and flexible exit capacity.
- Removal of interruptible capacity impacts Emergency Procedures through removal of the option for the NEC to curtail NTS interruptible demand and may discourage provision and retention of alternative fuel arrangements.
- Potentially discriminates between DN-connected loads and NTS-connected loads.
- Introduces the uncertainty of a daily interruptible and flexibility capacity regime
- Provides no relief from flexibility overruns in the event of intertrips and forced outages.

- Increases the level of security required from Users.
- Discriminates against Storage Users who would not have an opportunity to sell back capacity to NG NTS.
- Duplicates the investment signals provided by bi-directional sites that already provide these through Entry capacity auctions.
- Parties may signal the need for additional flexibility capacity but there is no provision for NTS to release incremental flexibility in the unconstrained period.
- Connected parties and Users would have inadequate access to information and understanding of their flexibility requirements to make rational decisions

#### **Modification Proposal 0116A**

The following disadvantages were identified in the representations:

- Does not afford all Users the same opportunities and mechanisms to register NTS Exit Capacity
- Shipper Users would be unable to signal their long term requirements via UNC backed by financial commitment.
- Provides no additional constraint management tools.
- Provides no additional information to Users.

#### **Modification Proposal 0116BV**

The Proposer stated the following disadvantage of implementation of this alternative Proposal:

- Despite steps designed to allow Users to passively manage their NTS Exit (Flexibility) Capacity requirements Users may still have to implement complex systems and processes and to employ more resources regardless.

In addition, the following disadvantages were identified in the representations:

- Introduces potential deterioration in accuracy of OPNs if Users surrender their flexibility holdings.
- Introduces only a weak incentive on Users to book and flow within their flexibility capacity holdings.
- Artificially constrains a seasonal product by releasing it on an annual basis, with associated impacts on system security and the electricity system.
- Applies uniform arrangements for different classes of Users generating unfair competition but discriminates between Users in terms of pressure commitment bookings.

#### **Modification Proposal 0116CV**

The Proposer stated the following disadvantage of implementation of this alternative Proposal:

- This Proposal may dilute the control over System Flexibility that the original Modification Proposal 0116 would afford the System Operator. However, it is asserted that this Flexibility is currently not constrained and the provisions of this Alternate Proposal would provide the necessary data to make an objective judgment of the need for more complex arrangements. In this respect this is not considered a disadvantage at this time.

In addition, the following disadvantage was identified in the representations

- Lack of opportunity for shippers to obtain rights to vary their offtake flows.

### Modification Proposals 0116VD

The following disadvantages were identified in the representations

- Creates a risk of gaming by Users at bi-directional sites that could purposely create negative flexibility
- Adds further complexity and still does not resolve the problem of fair allocation of flexibility rights.

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

There were 27 responses and the views in terms of support or otherwise for each of the five Modification Proposals are detailed in the table below. Some respondents took up the suggestion of ranking their preference for Proposals (1 for first preference to 5 for least acceptable) and in this exercise some parties only ranked their first and second preferences. Some of the parties, who stated preferences, emphasised that some of their higher preferences should be described as “least worst” rather than “best”.

Totals	0116V	0116VD	0116A	0116BV	0116CV
In Support	0	0	21	0	2
Qualified Support	2	4	2	1	4
Not in Support	22	20	2	21	17
No view /comments	3	3	2	5	4
Organisation					
Association of Electricity Producers	Not in Support 5	Not in Support 4	In Support 1	Not in Support 3	Not in Support 2
Bord Gais Networks	Not in Support	Not in Support	In Support 1	Not in Support	Not in Support 2
British Gas Trading (BGT)	Not in Support 5	Not in Support 3	In Support 1	Not in Support 4	In Support 2

Joint Office of Gas Transporters

Centrica Storage	Not in Support	Not in Support	In Support 1	Not in Support	Not in Support 2
Chemical Industries Association	Not in Support	Not in Support	In Support 1	Not in Support	Not in Support
ConocoPhillips	Not in Support	Not in Support	In Support 1	Not in Support	Not in Support 2
EDF Energy (EDFE)	Not in Support 5	Comment 4	In Support 1	Comment 3	In Support 2
EDF Trading	Not in Support	Not in Support	In Support 1	Not in Support	Not in Support
Electricity Supply Board	Not in Support 5	Not in Support 4	In Support 1	Not in Support 3	Not in Support 2
Energywatch	Not in Support				
EON UK	Not in Support 5	Not in Support 4	In Support 1	Not in Support 3	Not in Support 2
Gas Storage Operators (GSO)	Not in Support 3=	Not in Support 3=	In Support 1	Not in Support 3	Not in Support 2
Gaz de France	Not in Support 5	Not in Support 4	In Support 1	Not in Support 3	Not in Support 2
International Power	Not in Support 5	Not in Support 4	In Support 1	Not in Support 3	Not in Support 2
Major Energy Users Council			In Support 1		
National Grid Distribution (NG UKD)	Qualified Support 2	Qualified Support 1	Not in Support	Not in Support	Not in Support
National Grid NTS (NG NTS)	Qualified Support	Not in Support	Qualified Support	Not in Support	Qualified Support
Northern Gas Networks		Qualified Support 1			

Northern Ireland Authority for Energy Regulation	Not in Support	Not in Support	In Support 1	Not in Support	Qualified Support 2
RWE	Not in Support 5	Not in Support 4	In Support 1	Qualified Support 3	Qualified Support 2
Scotia Gas Networks	Not in Support 3	Qualified Support 1	Not in Support 4=	Not in Support 2	Not in Support 4=
Scottish & Southern Energy	Not in Support	Not in Support	In Support 1	Not in Support	Not in Support 2
Shell Gas Direct	Not in Support	Not in Support	In Support 1	Not in Support	Not in Support
Statoil UK (STUK)	Not in Support 5	Not in Support 4	In Support 1	Not in Support 3	Not in Support 2
Total Gas & Power and Total E&P	Not in Support 5	Not in Support 4	In Support 1	Not in Support 3	Qualified Support 2
Viridian	Not in Support 5	Not in Support 3=	In Support 1	Not in Support 3=	Not in Support 2
Wales & West Utilities		Qualified Support 1	Qualified Support 2		

In addition to the issues summarised elsewhere in this report the following aspects were raised in the representations:

### Storage Operation

GSO expressed:

- Exit capacity at Storage Connection Points is not used at peak and the proposed arrangements increase uncertainty for availability of interruptible capacity,
- Mechanisms for allocation of prevailing rights at storage sites have not been appropriately defined given the extent of Shipper churn at such sites.

### Legal Text

NG UKD provided specific comments on NG NTS's legal drafting.

### Potential Development of Proposal 0116CV

Respondents that expressed qualified support for Proposal 0116CV identified the following areas where development would be beneficial:



- Allocation of prevailing rights should be addressed for storage and other similar connections that are subject to shipper churn
- The rules surrounding buy-backs and the way in which investment signals are generated and interpreted should be clarified for storage and similar connections
- Shippers' rights to vary their offtake flow rates during a Gas Day and NG NTS mechanism for ensuring adequate availability of flexibility for DNs should be set out explicitly.
- User incentives to respond to constraint management actions need to be developed in the absence of a flexibility buy-back capacity system management tool.
- Further detail is required to define how Users could request and obtain the delivery of capacity beyond set timescales.

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

**Modification Proposals 0116V, 0116BV and 0116VD**

Implementation is not required to enable each Transporter to facilitate compliance with safety or other legislation. Changes to the Transporters' Safety Cases would need to be considered and amended as necessary, subject to HSE consideration.

**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**

**All Proposals**

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.

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

**Modification Proposals 0116V, 0116BV, 0116BV, 0116CV, 0116VD**

No programme of works has been provided but it is anticipated that the system changes identified in Section 6 above would be major. Proposal 0116CV would be the simplest of these Proposals.

Other items identified included:-

- Users would need to develop strategies to participate within new processes.
- Evaluation by consumers of the value of capacity to their business.
- Revision of methodology statements by Transporters and prices available for any DN interruption auctions.
- Adjustments to the Transporters' safety cases.

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

**Modification Proposal 0116V**

The proposed transitional timetable in respect of system development is described in Table 2 of the Proposal.

Some respondents argued there was inadequate time between the forecast decision date by the Authority of February/March 2007 and the first auctions scheduled for July 2007.

**Modification Proposal 0116A**

The Proposer stated that this alternative Modification Proposal would need to be implemented in advance of the effect of the impending sunset clauses, such that the Gas Year ending 30 September 2010 can be considered in any Offtake Capacity Statement issued by National Grid NTS pursuant to Section B paragraph 6.2.1, made not later than 30 September 2007 and pursuant to revisions requested by DNO Users in the Application Window 1 June to 31 July 2007, thereby allowing any requisite investment signal to be made to National Grid NTS and/or DNO Users in a timely fashion.

**Modification Proposal 0116CV**

The Proposer suggested that the proposed transition timetable set out in respect of Modification Proposal 0116V would apply to this alternative Proposal with the exception of NTS Exit (Flexibility) Capacity utilisation information.

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

No implications of implementing these Modification Proposals upon existing Code Standards of Service have been identified.

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

At the Modification Panel meeting held on 21 December 2006, of the 10 Voting Members present, capable of casting 10 votes:

- 9 votes were cast in favour of implementing Modification Proposal 0116A. Therefore, the Panel recommended implementation of Modification Proposal 0116A.
- 2 votes were cast in favour of implementing Modification Proposal 0116V. Therefore, the Panel did not recommend implementation of Modification Proposal 0116V.
- 3 votes were cast in favour of implementing Modification Proposal 0116VD. Therefore, the Panel did not recommend implementation of Modification Proposal 0116VD.
- No votes were cast in favour of implementing Modification Proposal 0116BV. Therefore, the Panel did not recommend implementation of Modification Proposal 0116BV.

The Panel then proceeded to vote on the extent, relative to each other, to which these four Modification Proposals and Modification Proposal 0116CV (which, following a variation,

would be subject to further consultation as Proposal 0116CVV) would be expected to better facilitate achievement of the Relevant Objectives. Panel Members emphasised that this should not be interpreted as implying that all the Proposals would better facilitate the Relevant Objectives if implemented. Of the 10 Voting Members present, capable of casting 10 votes:

- 7 votes were cast in favour of implementing Proposal 0116A in preference to the other Modification Proposals.
- 2 votes were cast in favour of implementing Proposal 0116V in preference to Proposal 0116A.
- 7 votes were cast in favour of implementing Proposal 0116A in preference to Proposal 0116V.
- 1 vote was cast in favour of implementing Proposal 0116V in preference to Proposal 0116VD.
- 8 votes were cast in favour of implementing Proposal 0116VD in preference to Proposal 0116V.
- 5 votes were cast in favour of implementing Proposal 0116BV in preference to Proposal 0116VD.
- 3 votes were cast in favour of implementing Proposal 0116VD in preference to Proposal 0116BV.
- Subject to the forthcoming consultation, 6 votes were cast in favour of implementing 0116CVV in preference to any of 0116V, 0116VD or 0116BV.

Therefore, the Panel indicated the following order of preference by which each Modification Proposal would better facilitate the achievement of the Relevant Objectives in comparison with the other related Modification Proposals, with implementation of only 0116A having been recommended by the Panel:

0116A (most favoured), 0116CV, 0116BV, 0116VD, 0116V (least favoured).

## **18. Transporter's Proposal**

This Modification Report contains the Transporter's proposal not to modify the Code and the Transporter now seeks direction from the Gas and Electricity Markets Authority in accordance with this report.

**19. Text**

At the request of Ofgem, legal text has been provided and forms part of this Final Modification Report. However, in view of the size of documents associated with this Modification Proposal, the text has been published separately alongside this Report.

For and on behalf of Relevant Gas Transporters:

**Tim Davis**

**Chief Executive, Joint Office of Gas Transporters**