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### **Modification Proposal 0119: 'Amendment to the Entry Overrun Charge'**

Dear Julian,

Thank you for your invitation seeking representations with respect to the above Modification Proposal. National Grid (UK Distribution), ("UKD") has the following comments to make with respect to certain sections of the Draft Modification Report circulated to the industry for comment:

#### **The Proposal**

UKD believes that the proposal has merit but is unable to support it fully as we believe the new rules create disproportionate additional risk for shippers making use of zero-rated entry capacity.

If the capacity regime is viewed in isolation, there is an argument that shippers should advise NTS of their intended use of zero-rated capacity. However, the NTS does not operate solely on information obtained from capacity bookings. Under Section C of the UNC, even though a shipper may not have booked capacity, it is still obliged, (and incentivised), to make entry gas flow nominations. Therefore, if the proposed incentive is placed on a shipper to book zero-rated capacity by the introduction of a non-zero overrun charge, the shipper would be sending two separate notices to NTS that it intended to flow on a day.

However, we do recognise that the lack of a meaningful overrun charge fails to establish a suitable incentive for a shipper to turn-down where it has had a buy-back accepted but see this as an issue for the enforcement of the buy-backs, rather than a need for additional capacity booking rules.

Overall, we believe implementation would create inefficient additional obligations and place additional risk on a shipper with only a marginal improvement to the information available to the NTS SO on intended gas flows. If providing a suitable incentive for shippers to turn-down following a buy-back is the problem, then the proposal should have been more tailored to resolving this particular issue.

#### **Relevant Objectives**

We believe that the operation of the buy-back regime would operate more efficiently if shippers were appropriately incentivised to keep to their side of the buy-back bargain. However, it is our understanding that buy-backs are a relatively infrequent occurrence and any improvements to the buy-back regime, which would convey benefit in enforcing contractual rigour, would come bundled with additional risk and administration costs for shippers. It is our opinion that the draw-backs resulting from a non-zero overrun charge would exceed the benefits to the buy-back regime, and hence, implementation would not, on balance, benefit competition or improve overall market efficiency.

**Operation of the System**

We believe that the information relating to the operation of the system should already be provided by the shipper through the gas flow nomination regime.

Increased operational certainty would flow where the NTS SO could be more certain that buy-backs against zero-rated capacity would be honoured.

**Advantages and Disadvantages****Advantages**

- Implementation would provide an incentive to shippers to book (zero-rated) capacity.
- Implementation would provide an incentive for shippers to honour accepted buy-backs when awarded against zero-rated capacity.
- Implementation may provide a marginal improvement to the quality of intended flow information available to NTS SO

**Disadvantages**

- At present, where a zero overrun charge exists, the capacity must originally have been acquired at zero-rate; we believe it would be disproportionate and inappropriate to increase the risk associated with the use of this free service.
- Implementation would set up a regime that would apply a double incentive to shippers to provide NTS with a single piece of information relating to its intention to flow gas.

**Implementation**

No comment.

**Text**

No comment.

**Summary**

UKD is unable to support fully the implementation of this proposal due to the process inefficiencies and disproportionate risks that implementation would create for users.

Yours sincerely

Phil Lawton  
Distribution Regulation Manager