

Draft Modification Report
Amendments to UNC TPD OCS Process and Long Term Allocation of Capacity in the
Transitional Period
Modification Reference Numbers 0139/139A

Version 2.0

This Draft Modification Report is made pursuant to Rule 9.1 of the Modification Rules and follows the format required under Rule 9.4.

1 The Modification Proposal

Proposal 0139 is as follows:

“UNC TPD Section B6 sets out provisions relating to the allocation of NTS Offtake Capacity at NTS/LDZ Offtakes. DNO Users are currently able to “apply” for NTS Offtake (Flat) Capacity and NTS Offtake (Flexibility) Capacity at each NTS/LDZ Offtake, or increase previous allocations, by submitting an application each year during the Application Window (which runs from 1 June to 31 July) for periods commencing the following Gas Year through to 30 September 2010 e.g. applications submitted during the Application Window in 2007 would be for the period commencing Gas Year 1 October 2007 through to 30 September 2010.

National Grid NTS is required to consider and accept applications in so far as they determine it is feasible to make gas available for offtake. National Grid NTS is required to notify DNO Users of allocations by 30 September following the Application Window by issuing an Offtake Capacity Statement setting out the NTS Offtake (Flat) and NTS Offtake (Flexibility) Capacity allocated for each NTS/LDZ Offtake for each Gas Year along with Assured Offtake Pressures. DNO Users are required to operate within these levels in order to avoid Overruns.

The current UNC TPD arrangements do not require discussion between National Grid NTS and DNO Users before allocations are finalised. Where National Grid NTS has taken the full amount of time to assess applications and notified DNO Users of allocations on the last date i.e. 30 September, this has created problems where allocations are less than requested. In particular:

- No information is made available to DNO Users within the process to help them understand constraints or the maximum level of capacity that may be available.
- Arrangements do not provide an opportunity to seek clarification from National Grid NTS.
- Arrangements do not allow DNO Users to amend requests or allow National Grid NTS to amend allocations to ensure the most efficient outcome.

As such, DNO Users are forced to rely on provisions under UNC TPD J 7.3 relating to short-term increase in capacity through the OPN process, until the next Application Window the following Gas Year.

Alternatively UNC TPD B6.3.2 (a) (ii) allows DNO Users to apply to increase NTS Offtake Capacity but only in relation to the **first Gas Year (or remaining part thereof)** in so far as the DNO Users might otherwise be “unable to comply with the

relevant conditions of its Transporter Licence". But again, **this gives no long term right or commitment** and it is not clear what scenarios this is intended to cover.

Confusion has also arisen where DNO Users' OCS requests under UNC TPD Section B have been linked with forecast information provided by DNO Users under UNC OAD Section H which relates to Long Term Demand Forecasting. OAD Section H 2.1 requires DNO Users to provide forecast offtake information to National Grid NTS over a 5 year timeframe (Gas Years 1 to 5) by the "end of July", for use in the planning process. Unlike UNC TPD Section B, it is not limited to 30 September 2010. Information is submitted in accordance Section H 2.7.1 and Part 3 of Annex H-1 for various scenarios:

- 1 in 20 peak day demand
- day 13 of 1 in 50 load duration curve
- day 46 of average load duration curve
- day 150 of average load duration curve and
- day 300 of average load duration curve.

This forecast process is completely separate from the OCS capacity booking process, including contractual obligations and liabilities set out in the UNC TPD. However, where National Grid NTS has been unable to allocate a DNO User's request under the OCS process set out in the TPD, National Grid NTS has used the forecast information submitted under OAD Section H. One of the scenarios has been used as a default capacity request rather than enter into dialogue with the DNO. This is inappropriate; the resulting allocation (both flat and flexibility capacity) does not take any account of the DNO User's planning assumptions, system dynamics or possible other more efficient alternatives which could be achieved through dialogue in determining capacity commitments under the UNC TPD Section B, or possible liabilities.

Given the above, Scotland Gas Networks plc and Southern Gas Networks plc (together SGN) believe that the current arrangements for DNO Users requesting, and National Grid NTS allocating offtake capacities are unnecessarily restrictive and inefficient. Therefore, SGN proposes the following changes to ensure the most economic and efficient allocation of capacity:

- It is proposed that the Application Window should be shortened by one week to run from 1st June to 24th July and that National Grid NTS should be required to provide an initial capacity notification by 15th September. This allows a 2 week window at the end of the process for DNO Users to raise queries, amend capacity applications and for National Grid NTS to reconsider before OCS allocations are finalised on 30 September. It is proposed that following the initial capacity notification on 15th September DNO Users would have 5 Business Days to resubmit their request. National Grid NTS would then have 5 business Days to consider and finalise the OCS allocation.

It should be noted that this should not in any way preclude parties from entering in to dialogue at any other time during the application process.

- It is proposed that there should be a general obligation for National Grid NTS to inform DNO Users as soon as possible after they become aware that they may be unable to meet a capacity request at an individual offtake.
- It is proposed that DNO Users should be able to submit capacity applications outwith the annual Application Window (following a request from a customer connected to the LDZ for new or additional capacity) and **where capacity is available** National Grid NTS should allocate capacity as requested for any Gas Year(s) or parts thereof up to 30 September 2010. This would ensure that where a customer wishes to connect to an LDZ or an existing customer wishes to increase capacity and it is available on the LDZ but insufficient capacity has been booked and allocated through the OCS process for the NTS/LDZ Offtake, DNO Users would be able to provide firm capacity rights on a long term basis. At present this could not be done until the next Application Window. The site may not be able to connect or may be required to be interruptible in the meantime, even when that capacity is available. This is inefficient.
- At present there is no timescale for National Grid NTS to respond to a request under UNC TPD B6.3.2 (a) (ii). SGN proposes that National Grid NTS should be required to respond within 15 Business Days or sooner where possible. We believe this should be achievable as much of the analysis will have been carried out as part of the annual OCS process.

SGN believes the above amendments will help improve the efficiency of the current process and help ensure the most economic and efficient allocation of capacity and ultimately operation of the pipeline system.

Suggested Text

UNIFORM NETWORK CODE – TRANSPORTATION PRINCIPAL DOCUMENT

SECTION B – SYSTEM USE AND CAPACITY

6.2 Offtake Capacity Statement

- 6.2.1 National Grid NTS will issue to each DNO User, not later than 30 September in each Gas Year, a statement ("**Offtake Capacity Statement**") specifying, for each DNO User, for each of the Gas Years (each a **relevant** Gas Year) up to and including the Gas Year ending 30 September 2010, in relation to each NTS/LDZ Offtake:
- (a) an amount of NTS Offtake (Flat) Capacity;
 - (b) an amount of NTS Offtake (Flexibility) Capacity;
 - (c) Assured Offtake Pressures (in accordance with Section J2.5).
- 6.2.2 The Offtake Capacity Statement prevailing at the UNC Implementation Date has been issued to DNO Users.
- 6.2.3 The Offtake Capacity Statement may be revised (as to any relevant Gas Year) in accordance with paragraph 6.3.

6.2.4 The Offtake Capacity Statement issued in any Gas Year will, as respects each relevant Gas Year, contain the same details as were specified in the preceding year's statement for that Gas Year, subject to any revision pursuant to paragraph 6.3 or, in the case of Assured Offtake Pressures Section J2.5.

6.3. Registration

6.3.1 Subject to the further provisions of this paragraph 6.3, for each relevant Gas Year (or part thereof) a DNO User shall be registered as holding in respect of each relevant NTS/LDZ Offtake the amount of:

(a) NTS Offtake (Flat) Capacity

~~(b(a))~~ NTS Offtake (Flexibility) Capacity

specified in respect of each Gas Year (or part thereof) in the prevailing Offtake Capacity Statement.

6.3.2 A DNO User may apply:

(a) to increase its NTS Offtake Capacity at an NTS/LDZ Offtake:

(i) in relation to any relevant Gas Year (year Y) or any relevant Gas Year after Year Y by submitting an application to National Grid NTS during the period (The **Application Window**) 1 June to ~~24 July 31 July~~ in Gas Year Y-1;

(ii) in relation to any relevant Gas Year(s) ~~(year Y)~~ or the remaining part thereof, out with the Application Window, as a result of a request for new or additional capacity at a Supply Point, where the DNO User might otherwise be unable to comply with the relevant conditions of its Transporter's Licence, by submitting an application to National Grid NTS ~~at any time after the end of the Application Window in Gas Year Y-1;~~

(b) for an amount of NTS Offtake Capacity at an NTS/LDZ Offtake in relation to any relevant Gas Year (year Y) by submitting an application to National Grid NTS during the Application Window 1 June to ~~24 July 31 July~~ in Gas Year Y - 4;

subject to and in accordance with this paragraph 6.

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

(a) the identify of the User;

(b) the relevant NTS/LDZ Offtake;

(c) the relevant Gas Year or Gas Years (or parts thereof) in respect of which the application is made;

(d) the amount or increased amount of NTS Offtake (Flat) Capacity and /or the amount or increased amount of NTS Offtake (Flexibility)

Capacity applied for.

- 6.3.4 National Grid NTS may reject, or accept in part only, an application for an amount of or an increase in NTS Offtake Capacity in respect of an NTS/LDZ Offtake where, or (as the case may be) to the extent that, National Grid NTS determines that it would not be feasible to make gas available for offtake at the NTS/LDZ Offtake on the basis of such amount or increased amount of NTS Offtake Capacity throughout the period for which the application is made.
- 6.3.5 In making any determination under paragraph 6.3.4 in relation to applications made within an Application Window, National Grid NTS will take into account all applications received by National Grid NTS within the Application Window from DNO Users for an amount of or an increase in NTS Offtake Capacity and from any Shipper User for an amount of or an increase in NTS Exit Capacity at an NTS Exit Point other than an NTS/LDZ Offtake (and where relevant the provisions of paragraph 3.9).
- 6.3.6 National Grid NTS will in the case of an application made under paragraph 6.3.2:
- (a) ~~in the case of an application made under paragraph 6.3.2(a)(i) or (b), as soon as reasonably by 30 September following the relevant Application Window; and~~ practicable thereafter notify DNO Users where they believe they are unlikely to be able to meet the application in full, providing details of:
 - (i) ~~the in full~~ circumstances surrounding any restrictions and
 - (ii) the maximum available capacity;
 - (b) ~~in the case of an application under paragraph 6.3.2(a)(ii), as soon as reasonably practicable after receiving the application~~ in the case of an application made under paragraph 6.3.2(a)(i) or (b) any event, no later than the following 15 September provide an indicative statement (Offtake Capacity Statement) notifying the DNO User whether its application is accepted in whole, in part, or rejected, specifying the indicative amount of NTS Offtake (Flat) Capacity and / or NTS Offtake (Flexibility) Capacity and Assured Offtake Pressure for each NTS/LDZ Offtake and each Gas Year and maximum available NTS Offtake (Flat) Capacity and / or NTS Offtake (Flexibility) Capacity and associated Assured Offtake Pressures;
 - (c) A DNO User will then have an opportunity to seek clarification, reconsider and resubmit its application within 5 Business Days, following notification from National Grid NTS under 6.3.6(b) above;
 - (d) ~~National Grid NTS will use reasonable endeavours to consider and where necessary discuss take account of such information and where necessary seek to discuss~~ an application made under 6.3.6(c) with a DNO User with a view to agreeing an to reach a suitable compromise afore issuing the Offtake Capacity Statement in relation to an

~~application made under paragraph 6.3.2(a)(i) or (b) by on 30 September in accordance with 6.2.1. obligations. Such statement will confirm whether the User's notify the User whether its application is accepted in whole or in part, or rejected.~~

- (e) ~~In the case of an application under paragraph 6.3.2(a)(ii) National Grid NTS must within 15 Business Days of such application provide a statement to the DNO User in accordance with B 6.2 (except with regard to date of 30 September). Such statement will for the purpose of 6.2.3 be deemed to be an Offtake Capacity Statement revision. specifying (where the application is accepted in part) the amount of NTS Offtake (Flat) Capacity and or NTS Offtake (Flexibility) Capacity for which the application is accepted~~

The remaining paragraphs 6.3.7 through to 6.3.10 remain unchanged. A new paragraph 6.3.11 should be inserted as detailed below.

6.3.11 The provisions set out in this section B should not be confused with provisions set out in the UNC OAD Section H relating to NTS Long Term Demand Forecasting. Information provided by DNO Users under UNC OAD Section H2 should not be construed as an application for the purposes of this paragraph 6.3. Similarly information provided by National Grid NTS under UNC OAD Section H to DNO Users should not be construed as an allocation for the purpose of paragraph 6.2 or 6.3 above."

Proposal 0139A is as follows:

"SGN have raised Modification Proposal 139 to amend the UNC TPD OCS Process and Long Term Allocation of Capacity in the transitional period.

RWE Trading (RWET), not being a DNO User, has no basis for assessing the adequacy of the current OCS Process in the transitional period, which SGN's proposal is seeking to address. However, RWET is interested in the outcome of the OCS Process and the Long Term Allocation of Capacity in the transitional period because of its potential relevance to the enduring period.

Currently, and as proposed under Modification Proposal 139, National Grid NTS are required to issue to each DNO User, not later than 30th September in each Gas Year during the transitional period, in relation to each NTS/LDZ Offtake an amount of NTS Offtake (Flat) Capacity and NTS Offtake (Flexibility) Capacity, along with Assured Offtake Pressures. This alternative Modification Proposal 139A is to make such information available to all Users by 30th September each Gas Year. This could be via Gemini, National Grid's website or in hard copy form whichever National Grid NTS is able to implement within the timescales.

All other aspects of Modification Proposal 139, with the exception of this proposed change to the requirement to publish information, would remain unchanged.

In order for Users to assess their NTS Offtake Flat Capacity and NTS Offtake Flexibility Capacity requirements in the enduring period it will be necessary, amongst other things, for them to understand what NTS Offtake Capacity has been allocated to DN Users during the transitional period, as this may be a proxy for their

0139/139A: "Amendments to UNC TPD OCS Process and Long Term Allocation of Capacity in the Transitional Period"

requirements going forward. This was recognised during discussions at Ofgem's Enduring Offtake Working Group (see minutes of EOWG 14 dated 9th August 2006 which are available on Ofgem's website).

The original OCS prevailing at the UNC Implementation Date was made available to all Users. Transitional and enduring NTS Offtake Flat Capacity baselines for each NTS/LDZ Offtake are also available in Ofgem's Transmission Price Control Review: Final Proposals. However, without ongoing information during the transitional period, Users will be unable to determine the extent to which DNO Users's requirements for NTS Offtake Capacity is changing and how this may impact their ability to secure the NTS Offtake Capacity they require."

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

Standard Special Condition A11.1 (a): *the efficient and economic operation of the pipe-line system to which this licence relates;*

Both Proposals

Implementation would help to ensure the most economic and efficient operation of the Distribution Networks and the overall pipeline system.

Standard Special Condition A11.1 (b): *the co-ordinated, efficient and economic operation of (i) the combined pipeline system and (ii) the pipe line system of one or more other relevant gas transporters;*

Both Proposals

Implementation would help to ensure the optimum allocation of capacity, thereby facilitating the most economic and efficient operation of the Distribution Networks and the overall pipeline system.

Standard Special Condition A11.1 (c): *so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;*

Proposal 0139A

Implementation, by requiring National Grid NTS to publish NTS/LDZ Offtake capacity information to all Users, would remove any possibility of discrimination.

Standard Special Condition A11.1 (d): *so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers;*

Proposal 0139A

Implementation, by publishing NTS/LDZ Offtake capacity information to all Users

such that they can use this information to assess the extent to which they may be able to secure NTS Offtake Capacity in any future allocation or auction process applicable to the enduring period, would facilitate achievement of this objective.

Standard Special Condition A11.1 (f): *so far as is consistent with sub-paragraphs (a) to (e,) the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code.*

Both Proposals

Implementation would help to promote efficiency in implementation and administration of the Uniform Network Code and the processes set out in it, by improving the administration and efficiency of the current Offtake Capacity Statement (OCS) process.

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

Both Proposals

Implementation of this Modification Proposal should have no impact on security of supply but should improve overall efficiency in terms of development and operation of the system by allowing DNO Users to better understand capacity availability and secure capacity requirements on a long term basis where their original request cannot be met.

Based on an interpretation of the suggested text, if National Grid NTS made an additional capacity allocation in response to a DN request in the Winter Period, this might, in very rare but possible circumstances, lead to a breach of one or more safety monitors and initiation of a Gas Supply Emergency. This is not the intention of the Proposal and the UNC text should therefore allow for the expectation that National Grid NTS would turn down an application which would otherwise create this outcome. The Proposer has committed to review the legal text to ensure it is clear on this point and that there would be no unintended adverse safety implications were the Proposal to be implemented.

There are no implications for industry fragmentation.

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

a) implications for operation of the System:

Both Proposals

Implementation would positively contribute to efficient and economic operation of the System.

b) development and capital cost and operating cost implications:

Both Proposals

No cost implications have been identified.

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

Both Proposals

Not applicable.

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

Both Proposals

The contractual risk for DNO Users would be reduced, as DNO Users would be better placed to meet customer capacity requirements in the timescales required and in the most economic and efficient way possible, without any increased risk for National Grid NTS.

- 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**

Both Proposals

Not applicable.

- 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**

Both Proposals

Not applicable.

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

Administrative and operational implications (including impact upon manual processes and procedures)

Both Proposals

No direct implications for Shipper Users have been identified but implementation should improve operational and administrative arrangements associated with the OCS process for DNO Users.

Development and capital cost and operating cost implications

Both Proposals

There are unlikely to be any significant cost implications associated with implementation of this Modification Proposal.

Consequence for the level of contractual risk of Users

Both Proposals

There would be no direct consequences for Shipper Users but the level of contractual risk for DNO Users would be reduced as the outcome of the OCS process would improve the understanding of capacity availability and requirements between Transporters and maximise utilisation, taking account of system capability.

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

Both Proposals

No direct implementation implications for the parties listed above have been identified but there would ultimately be benefits associated with efficient allocation of capacity and improvement in a DNO's ability to meet requests for new or an increase in existing capacity within the LDZ, where there are implications for NTS/LDZ Offtake 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

Both Proposals

Transporters, particularly DNO Users, would be better placed to meet obligations in relation to their ability to ensure economic and efficient development and operation of the pipeline system.

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

Advantages

Both Proposals

- Provides opportunity for National Grid NTS to better understand DNO Users capacity requirements.
- Provides opportunity for DNO Users to better understand NTS capabilities and available capacity.
- Helps avoid potential for misunderstanding and confusion between the UNC TPD OCS process and the NTS Long Term Demand Forecasting Process

under UNC OAD Section H.

- Provides opportunity for dialogue at the end of the OCS process to agree an efficient capacity allocation.
- Ensures DNO Users are better placed to meet customer requirements at the earliest opportunity out with the Application Window.
- Maximises use of available system capacity.
- Improves overall efficiency of the OCS process.
- Improves overall efficiency in terms of capacity allocation, utilisation and operation of the system.

Proposal 0139A

- Provides common information to all Users, thus preventing any potential for discrimination and encouraging competition between relevant shippers and DNO Users in the enduring period.

Disadvantages

Both Proposals

- Reduces the initial amount of time that DNO Users have to develop and submit capacity requests relative to current arrangements.
- Reduces the initial amount of time that National Grid NTS has to consider and respond to DNO Users' capacity requests.
- May impact storage monitor levels.

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

Representations are now invited.

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

No such requirement has been identified.

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

Both Proposals

No such requirement has been identified.

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

Modification Proposal

Both Proposals

No programme for works has been identified that would affect the timely implementation of this Proposal.

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

Both Proposals

It is recommended that the approved Modification Proposal be implemented in June 2007 at the start of the Application Window and before 24th July 2007 when it is proposed the Application Window for this Gas Year would close.

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

Both Proposals

No such implications have been identified.

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

18 Transporter's Proposal

This Modification Report contains the Transporter's proposal to modify the Code and the Transporter now seeks direction from the Gas and Electricity Markets Authority in accordance with this report.

19 Text

The Modification Panel did not determine that text was required for inclusion in this Modification Report. However, suggested text has been provided as part of Proposal 139 (see section 1 above) but not as part of Proposal 0139A.

For and on behalf of the Relevant Gas Transporters:

Tim Davis
Chief Executive, Joint Office of Gas Transporters