

**Modification Report**  
**Extension of the Current Sunset Clauses for Registration of Capacity at NTS Exit Points**  
**Modification Reference Number 0142**  
Version 3.0

This Modification Report is made pursuant to Rule 10.1 of the Modification Rules and follows the format required under Rule 10.2.

**Circumstances Making this Modification Proposal Urgent:**

In accordance with Rule 10.1.2, Ofgem agreed that this Modification Proposal should be treated as Urgent because it considered that this Proposal is linked to an imminent date related event, the date being commencement of the 2007 Offtake Capacity Statement (OCS) process on 1 June 2007.

**Procedures Followed:**

The procedures agreed with Ofgem for this Proposal were:

<b>Process</b>	<b>Date</b>
Proposal issued for consultation	19/04/2007
Close out of representations	03/05/2007
Urgent modification report issues	10/05/2007
Modification Panel decide on upon recommendation	17/05/2007
Revised urgent Modification Report sent to Ofgem	17/05/2007
Ofgem Decision Expected	24/05/2007
Proposed implementation date	01/06/2007

**1 The Modification Proposal**

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

- “Interim Arrangements” to establish the new commercial framework recognising the new NTS/DN interface; and
- “Enduring Arrangements” (by September 2005) to introduce more market based arrangements effective from Gas Year 2008/09 consistent with the Authority’s November 2004 Final Impact Assessment with regard to NTS exit capacity reform.

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

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

It was envisaged that the Enduring Arrangements would be introduced shortly after completion of the DN sales process, facilitated by a UNC Modification Proposal, to define the NTS Exit Capacity Regime to apply in respect of booking and utilisation of NTS Exit Capacity for the period from 1st

October 2008. However, on 24 June 2005 the Authority announced the delay to the implementation of the Enduring Arrangements until September 2007 for release of NTS Exit Capacity rights from Gas Year 2010/11 to permit more time to consider and refine the detail of these arrangements. As a result of this National Grid NTS raised, and the Authority subsequently approved implementation of Modification Proposal 0046 “Extension of the Sunset Clauses for Registration of Capacity at NTS Exit Points”. This extended the Transitional Arrangements by an additional 2 years. National Grid NTS raised Modification Proposal 0116V “Reform of the NTS Offtake Arrangements” to facilitate the enduring arrangements. In the Authority’s decision letter dated 05 April 2007 the Authority directed the implementation of Modification Proposal 0116V with an effective date of 01 April 2008. The Authority recognised that such a delay was likely to require further Modifications to the UNC in order to establish capacity booking arrangements for Gas Year 2010/11.

National Grid NTS therefore proposes the following changes to the UNC to reflect the implementation date detailed in the Authority’s implementation notice: -

a) Firm Capacity Applications

It is proposed that the current arrangements for Firm Capacity Applications be extended to continue until 30 September 2011. This will allow Shipper Users to continue to request increases in Firm Capacity or redesignation of an Interruptible Supply Point as Firm for utilisation over an extra Gas Year.

b) NTS Offtake Capacity Registration Process

In accordance with current UNC provisions, Distribution Network Operator (DNO) Users have NTS Offtake Capacity allocations for each of its NTS/LDZ offtakes for each Gas Year up to and including Gas Year ending 30 September 2010. These allocations are contained within the relevant Offtake Capacity Statement. DNO Users are able to request an increase or decrease to these allocations during June/July each year (“the Application Window”). National Grid NTS then informs the DNO User whether its application has been accepted in whole or in part, or rejected, through issuing a revised Offtake Capacity Statement (OCS) by 30 September following the Application Window. The Offtake Capacity Statement contains the allocated NTS Offtake (Flat) Capacity and NTS Offtake (Flexibility) Capacity for each of its NTS/LDZ offtakes together with the Assured Offtake Pressure.

It is proposed to extend these arrangements over the period of the Transitional Arrangements such that DNO Users are able to apply on an annual basis for initial amounts of NTS Offtake Capacity at each of its NTS/LDZ offtakes beyond 30 September 2010 to 30 September 2011. Therefore for 2007, it is proposed that DNO Users would apply for initial amounts of NTS Offtake Capacity for Gas Year 2010/11 during the normal June/July Application Window.

Amendments to previously allocated NTS Offtake Capacity amounts are proposed to continue on the same basis as the current arrangements over the transitional period. This would mean, for example, that DNO Users would be able to apply for changes to existing allocations for Gas Years 2007/08, 2008/09 and 2009/10 in June/July 2007.

National Grid NTS will make determinations of any request to amend capacity allocations or for an initial amount of capacity in accordance with the Incremental Exit Capacity Release (IExCR) Methodology Statement. National Grid NTS intends to consult on the changes to the current interim IExCR to extend its applicability beyond 30 September 2010 up to 30

September 2011. This will include an approach for treatment of applications for the release of incremental capacity that require NTS investment and thus require consideration as to when it is appropriate to invest in the NTS and/or contract for demand management to enable increases in the availability of capacity within the NTS.

As there are no agreed Assured Offtake Pressures for Gas Years beyond 30 September 2010, it is proposed that such values are set for each NTS/LDZ offtake at the same level as specified for the previous Gas Year, subject to any revisions agreed in accordance with existing mechanisms under TPD Section J2.5.

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

<b>Application Window</b>	<b>Requests for Amended Capacity – Relevant Gas Years</b>	<b>Requests for Initial Capacity – Relevant Gas Year</b>	<b>National Grid NTS Response to Capacity Request</b>
June/July 2007	2007/08 2008/09 2009/10	2010/11	30 September 2007
June/July 2008	2008/09 2009/10 2010/11		30 September 2008
June/July 2009	2009/10 2010/11		30 September 2009
June/July 2010	2010/11		30 September 2010

It is recognised that Shipper Users at NTS Supply Points and NTS CSEPs can only formally register NTS Exit Capacity requirements under the current UNC provisions for shorter periods and closer to the gas flow day compared to the proposals set out above for DNOs. However, Shipper Users and/or developers may be able to “reserve” future capacity requirements that would require specific investment in the NTS via the execution of an Advanced Reservation of Capacity Agreement (ARCA) as explained in the National Grid statement of “Principles and Methods to be used to Determine Charges for National Transmission System Connection Services” (available on National Grid’s website). An ARCA obliges National Grid NTS to accept Shipper User applications for firm capacity (or a load increase or transfer) in respect of the relevant NTS Exit Point up to the level in the ARCA over a specified period. National Grid NTS therefore considers that the current arrangements in place for NTS Supply Points and NTS CSEPs allow Shipper Users, where NTS investment is required to obtain the required rights, although indirectly, for capacity ahead of and for longer periods than the formal UNC registration process allows and is thus comparable to the proposals put forward in this Modification for DNO Users. This therefore allows, in National Grid NTS’s view, for a corresponding delay in the fundamental changes in the Shipper User UNC registration processes until the Enduring Arrangements are implemented, in accordance with the Authority’s implementation notice dated 05 April 2007, when common capacity products and registration processes would be introduced across all NTS Exit Points with effect from 01 April 2008 (for Gas Year 2011/12 onwards).

If this Proposal were not implemented in the indicated timescales, there would be no mechanism:

- for DNO Users to apply for, and National Grid NTS to confirm, NTS Offtake Capacity requirements beyond September 2010, such that Transporters are able to finalise their

respective investment plans and ensure compliance with their Licence and Safety Case obligations.

- for Shipper Users to continue to request increases in Firm Capacity or redesignation of an Interruptible Supply Point as Firm for utilisation over an extra Gas Year.

## **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;***

Implementation would enable DNO Users to register their NTS/LDZ Offtake Capacity requirements beyond September 2010, which would allow National Grid NTS to undertake better informed investment decisions and thereby better facilitate the achievement of this objective.

### **Standard Special Condition A11.1 (b): *so far as is consistent with sub-paragraph (a), the coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters;***

Implementation would enable National Grid NTS and DNO Users to formally confirm NTS/LDZ Offtake Capacity levels to support their respective investment decisions beyond September 2010 and thereby better facilitate the achievement of this objective.

### **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;***

Implementation, by allowing National Grid NTS to undertake better informed investment decisions, would promote the economic and efficient development of the system and thereby better facilitate the achievement of this objective.

### **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...***

Subject to the Competition Commission decision on its current appeal, in respect of Modification Proposal 0116A and 0116V, E.ON believed that implementation would remove the uncertainty resulting from absence of rules for Firm Capacity Allocations between 1 October 2010 and 30 September 2011. This would better facilitate the achievement of this objective.

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

Implementation would benefit security of supply by ensuring DNO Users are able to request NTS Offtake Capacity requirements and National Grid NTS is able to

confirm allocations to DNO Users for one Gas Year beyond September 2010. This would support the Transporter's undertaking of investment decisions in a co-ordinated manner and ensure sufficient transportation capability is available to meet the peak demand.

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

**a) Implications for operation of the System:**

Operation of the System might be enhanced as a result of the more efficient investment identified below. No adverse implications have been identified.

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

Implementation would facilitate the efficient and economic formulation of each Transporter's investment programmes, thereby allowing investments to be undertaken in a more cost effective and efficient manner.

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

Users would be expected to benefit from any beneficial impacts in investment or operational efficiency through their Transportation charges.

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

No such consequences have been identified.

**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**

No such consequence has been identified.

**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**

No such implications have been identified.

**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)**

No such implications have been identified.

### **Development and capital cost and operating cost implications**

No such implications have been identified.

### **Consequence (if any) on the level of contractual risk of Users under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal**

Removing the uncertainty resulting from the absence of rules in respect of Firm Capacity Applications between October 2010 and September 2011 would be expected to reduce the level of contractual risk of Users.

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

The reduction of risk level for Users identified in paragraph 7 above would be expected to be reflected in an equivalent reduction of risk level for Suppliers and Consumers.

### **9 Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal**

No such consequences have been identified.

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

#### **Advantages**

- Would allow DNO Users to apply for NTS Offtake Capacity requirements and National Grid NTS to confirm capacity allocations to DNO Users for an additional Gas Year beyond 30 September 2010. This will support the Transporter's undertaking of co-ordinated, efficient and economic investment decisions and ensure sufficient transportation capability is available to meet the peak demand; and
- Would allow for the extension of the Transitional Arrangements until the Enduring Arrangements are implemented, with effect from 01 April 2008 for Gas Year 2011/12 onwards, without fundamental changes to the Shipper User capacity registration processes.

#### **Disadvantages**

- EDFE pointed out that it would continue to provide different arrangements for

DNs and Shippers, except in the case that an ARCA was agreed, due to identification of an NTS investment requirement.

- EDFE also expressed concern in the principle of extending sunset clauses where a previous extension has occurred.

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

Representations have been received from the following:

British Gas Trading	BGT	Support
EDF Energy	EDFE	Comments
E.ON UK	EON	Comments
National Grid Distribution	NGD	Support
National Grid NTS	NGNTS	Support
Northern Gas Networks	NGN	Support
RWE Npower plc	RWE	Support
Scotia Gas Networks	SGN	Support
Wales & West Utilities	WWU	Support

Of the nine responses received, seven supported implementation and two offered comments, which have been summarised in this report.

Whilst expressing support for its current appeal on Modification Proposals 0116A and 0116V, which prevented it from supporting this Proposal, EON did acknowledge that this Proposal should be implemented if the Competition Commission did not find in favour of the appellant.

**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**

No such requirement has been identified.

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

No programme for works has been identified.

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

An implementation date of 1 June 2007 has been proposed.

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

No such implications 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 17 May 2007, of the 10 Voting Members present, capable of casting 10 votes, 9 votes were cast in favour of implementing this Modification Proposal. Therefore the Panel recommend implementation of this Proposal.

**18 Transporter's Proposal**

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

**19 Text**

**UNIFORM NETWORK CODE - TRANSPORTATION PRINCIPAL DOCUMENT**

**SECTION B – SYSTEM USE AND CAPACITY**

*Amend paragraph 3.9.3(b) (ii) to read as follows:*

- "(ii) the period (commencing on the date specified under paragraph (i) and ending not later than 30 September 20~~10~~11) for which it applies for the relevant amount or increased amount of System Capacity or (as the case may be) redesignation of the Interruptible Supply Point as Firm;"

*Amend paragraph 6.2.1 to read as follows:*

"6.2.1 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 20~~10~~11, 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)."

For and on behalf of the Relevant Gas Transporters:

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