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UNC Modification Proposal 0164

Bi-Directional Connection Point Overrun Charge Calculation

Dear Julian,

Thank you for your invitation seeking representation with respect to the above Modification Proposal.

National Grid NTS is against the implementation of Modification Proposal 0164 as it undermines the fundamental principles of the current Capacity booking regime and, in our opinion, does not better facilitate the relevant objectives. The comments below provide our detailed views on the Proposal.

Rationale

This proposal undermines the 'ticket to ride' principle where each Shipper User is strongly encouraged to secure sufficient system capacity to meet its individual need based on its portfolio of activities. The Proposal also undermines the principle that such 'ticket to ride' is secured before gas is flowed. A Shipper User may not require Capacity for every day in a period and an unintended consequence of this Proposal may be that Shipper Users therefore choose not to book long term capacity, leading to insufficient investment signals being provided. National Grid can only build transmission capability to match the longer term signals provided at entry and the ARCA provisions at exit. Each signal will need to be considered in isolation because no relevant data about the extent that entry flows will offset exit flows is available at the time the investment decision is made. The dilution of investment signals may also result in the non-existence of the facilities required to support flows.

Under the UNC regime, a User is responsible for its own activities on the System. Introducing an arrangement whereby multiple Users' positions are combined to diversify their system usage requirement would result in a number of undesirable outcomes in relation to the relevant objectives, namely:

- Increasing individual User risk, as the individual User's position and liability for charges becomes exposed to the actions of others. Costs would therefore not be appropriately targeted leading to distortions in competition between shippers.
- Under the rules proposed a group of Users could combine to aggregate their requirements and avoid costs to the detriment of competition between shippers.
- The proposal also introduces separate treatment of capacity bookings, holdings and overrun charges for Users shipping gas through a single type of System Point. National Grid NTS consider that this Proposal is therefore discriminatory in favour of such Users.

- It is unclear whether this proposal applies to all bi-directional sites or just Storage Connection Points. If the Proposal were to include all bi-directional sites there are likely to be unintended consequences on the Downstream Capacity Holder process at IUK.
- The proposal also does not take account of a situation where allocations are not solely undertaken at a bi-directional point i.e. the bi-directional point is part of a larger ASEP or exit point. Rules to deal with this situation would need to be developed.

Comments on Detail of Overrun Calculation

The Proposal requires considerable further development in terms of the calculation methodology of overruns. The current Proposal is ambiguous and open to interpretation. The proposed calculation goes further than the purpose of the Modification Proposal (which is to ensure that charges are not levied on gas that has not physically flowed), in that in some extreme cases it would appear that Users could flow gas without booking capacity and avoid incurring overrun charges, due to the offsetting of flows against each other. This clearly undermines the 'ticket to ride' principle and is discriminatory towards those users at uni-directional sites, to which this Proposal does not apply.

Extent to which implementation of Modification Proposal 0164 would better facilitate the achievement (for the purposes of each Transporter's Licence) of the Relevant Objectives

- in respect of Standard Special Condition A11 paragraph 1 (a) (the efficient and economic operation of the pipe-line system to which this licence relates), the proposal results in lower overrun charges for users at bi-directional sites and appears to weaken the incentive to book capacity in advance. If a user chooses to vary their flow within-day, this proposal allows them to offset the lesser of the two flows, thereby negating the need to book capacity in that direction. This could lead to increased constraint management costs and inefficient balancing actions being taken, as the Transporter has not received sufficient information from the capacity booking process in order to perform, in the most economical manner, its system operator role in the short term and its transportation owner (i.e. investor) role in the long term.
 - » An example would be where a bi-directional System Point flowed 100 units of gas into the System for the first 8 hours of a Gas Day on behalf of shipper A and then turned round gas flows and offtook 100 units of gas for the last 8 hours of the Gas Day for shipper B. In exchange for this use of System Capacity neither Shipper User would have to pay Capacity charges as the net flow position would be zero. Whereas in relation to their cashout position and exposure to System Clearing charges both shipper A and B would have their energy imbalance positions adjusted as though they had flowed gas separately. This Proposal would therefore also introduce a distortion between the principles applying to the Capacity booking regime and the energy balancing regime which are currently aligned in relation to the individuality of each shipper's treatment and assessment of system usage.
- in respect of Standard Special Condition A11 paragraph 1 (d) (i) (the securing of effective competition between relevant shippers), the proposal seems to distort competition between shippers at bi-directional sites and uni-directional sites, as the Modification's proposal of aggregating overruns at bi-directional sites is not replicated at uni-directional sites. Competition is also affected between users within bi-directional sites, as their capacity booking and overrun positions become subject to the actions of others.

Implications of implementing the Modification Proposal

a) Implications for operation of the system

As stated above, it appears that the Proposal could result in the incentive to book capacity being weakened to such an extent that National Grid NTS is provided with less accurate forecasts of system utilisation and weakened investment signals, which could result in facilities to support gas flows not existing.

b) Development and capital cost and operating cost implications

Although the Modification Proposal recognises the system difficulties associated with its implementation, xoserve has confirmed that any manual workaround would impact on its invoicing processes. A full assessment would have to be undertaken to look at the time / cost etc implications.

National Grid NTS can understand the reasoning behind the raising of this Modification Proposal but, based on the above, cannot support its implementation due to it not better achieving the relevant objectives and its effects on the capacity booking regime.

Regards

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