

Review Group Report
Review Proposal Reference Number 0166
Review of necessary reform of NTS Offtake Arrangements
Version 1.0

This Review Group Report is presented for the UNC Modification Panel's consideration. Both a Modification Proposal (the "**Main Proposal**") and associated Detailed Business Rules have been submitted for consideration.

The Main Proposal seeks to establish Enduring Exit Capacity Arrangements taking as its starting point the "**Interim Arrangements**", which in the UNC are subject to "**sunset clauses**".

This Proposal incorporates certain elements of Proposal 0116CVV "Reform of the NTS Offtake Arrangements", including the principle of a four year User commitment. It can be considered as being more closely aligned to 0116CVV than the other 0116 Proposals, ie 0116A, 0116V, 0116BV and 0116VD. The three main elements of 0116CVV have been retained. These are:

- Enduring Firm NTS Exit Capacity Arrangements based on a four year commitment.
- Enduring Interruptible Exit Capacity Arrangements, which incorporate, long term NTS Capacity Buyback, Daily NTS Exit Capacity Buyback and Daily use it or lose it.
- Information requirements on availability and usage of within-Day flexibility using the principle of NTS Exit Zones NTS Exit Areas set-out in Proposal 0116V.

In addition, one of the Review Group members has prepared a further Modification Proposal, (the "**Second Proposal**") which would retain the current arrangements, which allow Users to nominate NTS Supply Points as Interruptible in revised form. This has been discussed and developed by this Review Group but unlike the Main Proposal no consensus was reached.

Whilst the Main Proposal has been discussed and developed at this Review Group, it is recommended that it be referred to a Workstream to provide Users the opportunity of reviewing the associated Detailed Business Rules before proceeding to the consultation phase.

1 Review Proposal

British Gas Trading raised Review Proposal 0166, for which the Terms of Reference are in Appendix 1.

2 Review Process

In accordance with the Modification Rules, at its meeting on 16 August 2007, the Modification Panel determined that this Review Proposal should be referred to a Review Group for progression. This Review Group Report was subsequently compiled by the Joint Office of Gas Transporters, and approved by Review Group attendees.

3 Areas Reviewed

The Review Group discussions focussed on the following areas:

a) Decision of the Competition Commission (CC)

E.ON UK had appealed against the decisions of the Authority in respect of Modification Proposals 0116A and 0116V. The CC decided, after hearing the appeal, to quash the Authority's decision to implement 0116V but did not make any order to implement 0116A, which would have extended the Interim Arrangements indefinitely.

The Review Group received a presentation from E.ON UK that explored some of the detail within the CC decision and sought to draw some lessons on the form that

enduring Exit Arrangements might take. Particular emphasis was given to how Interruptible arrangements would facilitate the use of spare NTS capacity. Ofgem took the opportunity of emphasising to the Review Group the importance of reading the full CC report, rather than relying upon any presentations that might be made on the subject.

b) Agreement on Way Forward

After receiving the Presentation, the Review Group concluded that it should concentrate on three main areas:

- i) Enduring Arrangements for Firm Exit Capacity
- ii) Enduring Arrangements for Interruptible Exit Capacity
- iii) Arrangements for Flexible Exit Capacity that reflect the current availability of Within-Day flexibility.

All these elements are contained in the Main Proposal. The process followed was as follows:

- i) In consultation with the Proposer, for each of the three main areas, the Joint Office issued a questionnaire (which became known as “homework”) to Review Group Members.
- ii) This was completed by Review Group Members and formed the basis of discussion at the following meetings.
- iii) Based on the substantial consensus reached in the Review Group discussion, outline proposals were formed on the three main areas.
- iv) These were all consolidated into one Main Proposal and associated Detailed Business Rules by a sub-group convened for this purpose.
- v) Following two further meetings of the full Review Group, the final version of the Main Proposal and Detailed Business Rules were developed.

c) The Main Proposal

The final meeting of the Review Group received a presentation from Steve Rose of RWE Npower that summarised the consensus reached and highlighted the differences between the Main Proposal and Modification Proposal 0116CVV. These are summarised below:

i) General

- All the relevant dates have been rolled forward by twelve months on the assumption that the “**Transitional Arrangements**” will end on 30 September 2011
- The term “**Enduring Exit (Flat) Capacity**” has been used instead of “**Prevailing Exit (Flat) Capacity**” but the essential meaning is unchanged.
- Reference is made, where possible, to defined UNC terms such as “**quantity**”.
- The Introduction section makes it clear that the consensus of the Review Group was that the Main Proposal should be considered alongside the 0116 Proposals, as varied.
- This section also sets out the types of NTS Exit Points reflecting the Detailed Business Rules developed for Modification Proposal 0116 and for this Main Proposal.

ii) **Section 1 – NTS Exit Capacity Products**

- NTS Exit (Flat) Capacity defined as comprising of both NTS Exit Capacity and NTS Offtake (Flat) Capacity.
- NTS Exit (Flexibility) Capacity defined as equivalent in all respects to NTS Offtake (Flexibility) Capacity as defined currently in the UNC and applied to DNO Users only.

iii) **Section 2 – Initial Allocation, Annual Application and Reduction**

- Users at Shared Supply Meter Points and CSEPs may appoint an “**Exit Capacity Booking Agent**”, who may also be the Overrun Agent, to set their initial Enduring NTS Exit (Flat) Capacity subject to agreement of all Users.
- Applications for reductions in Enduring Exit Capacity may specify a “**User Requested Reduction Date**” from which that User is prepared to accept the reduction requested, if National Grid NTS can use the relinquished capacity to satisfy a request for capacity elsewhere.
- If National Grid NTS can use the relinquished capacity, the User Commitment term, otherwise set at four years, ceases at the reduction date.
- National Grid NTS may invite ad hoc reductions to reduce Enduring NTS (Flat) Capacity in response to requests outside the “**Annual Application Window**”.

iv) **Section 2 – Alternative Application Process**

- Each Gas Year, between October and the following June, Users may apply for Enduring NTS Exit (Flat) Capacity at new NTS Exit Points and at existing NTS Exit Points where the increase in capacity would be greater than 25% of baseline or greater than 10 GWh/d.
- Applicants may specify the earliest and latest dates for which capacity is required. The earliest date may not be less than six months from application, the latest date may not be later than that which would have been applied if the application had been made within the Annual Application Window.
- National Grid NTS would have ninety days in which to offer the capacity and the User would have thirty days to accept that offer.
- National Grid will, within ten days of acceptance of a capacity offer under this process, notify all Users.
- The four year User commitment will apply four years from the date for which capacity was reserved.
- If NTS investment were required; National Grid NTS may set a “**Demonstration Date**”. This corresponds to the latest date National Grid NTS would award binding contracts for the NTS investment and requires the User to demonstrate its ability to use the capacity reserved.
- If the User either fails in such demonstration or is subject to a credit restriction, National Grid NTS may delay the NTS investment and extend both the Demonstration Date and the date for which capacity is reserved. These extensions shall be for one year unless mutually agreed otherwise.

- If a User fails in such demonstration due to the inability of National Grid NTS to build the connecting pipe on time the Demonstration Date shall not be extended; nor shall the date for which capacity is reserved.
 - Developers may apply to reserve NTS Exit Capacity through a similar process under an “**Advanced Reservation of Capacity Agreement (ARCA)**”.
- v) Section 2 – Annual and Daily Allocation**
- The Annual Application Window will apply to both enduring and annual capacity and shall be in July of each year.
 - Allocation of Annual NTS Exit (Flat) Capacity will not be subject to an auction.
 - If applications exceed the capacity available, allocation shall be pro-rated to the quantities applied for.
 - Applications and subsequent allocation may be for up to the next three Gas Years.
 - Users will be informed within five Business Days of the closure of the Annual Application Window.
- vi) Section 3 – Release of Flexibility**
- DNO Users will continue to acquire NTS Exit (Flexibility) Capacity through the current OCS process.
 - There was little support in the Review Group for flexibility services to be applied to all Users as set-out in Modification Proposals 0116V, 0116BV and 0116VD. Therefore, Shipper Users will not be required to acquire NTS Exit (Flexibility) Capacity and will continue to access flow rate variations via OPNs.
 - OPNs will continue to be accepted if they can be accommodated within the system capability and will not give rise to Operational Balancing Requirements.
- vii) Section 4 – Transfers and Assignments**
- Restrictions on transfers around the Annual Allocation Window have been removed.
 - As Exit Capacity Neutrality no longer exists as a concept all references have been removed.
- viii) Section 5 – Exit Capacity Management**
- No change
- ix) Section 6 – Liabilities and User Obligations**
- National Grid required to buy back NTS Exit (Flat) Capacity if it cannot make capacity available, subject to capped buyback price for delayed investment stated in its licence.
 - No change to the proposal on pressure as consensus was not reached on the amendment to the timetable suggested.
- x) Section 7 – Charges**
- For overrun charging, a number of suggestions were discussed including retention of the current UNC terms based on applying the annual charge to the highest overrun quantity in the month concerned.

Finally, consensus was reached on adopting the daily overrun charging principles currently applied to NTS Entry Capacity and included in 0116CVV etc.

- For failure to interrupt, after consideration, it was agreed that no specific charge would be applied other than the overrun charge. This would take into account any interruption/buyback exercised on the Day by National Grid NTS and is the approach adopted for 0116CVV etc.

xi) Section 7 – Credit Arrangements

- Following the direction to implement Modification Proposal 0144AV “Quantification of Value At Risk (VAR) to determine a User’s minimum Code Credit Limit Requirement”, the concept of “**Value at Risk (VAR)**” has been adopted. This contrast with concepts of “**indebtedness**” that applied to 0116CVV etc.
- Breach to be notified where VAR exceeds 70% of credit limit and rejection of capacity bids and assignments at 100%. This accords with Modification Proposal 0145 “Management of Users Approaching and Exceeding Code Credit Limit”, for which there is a direction to implement and contrasts with limits of 70% and 85% in 0116CVVetc.
- Instances where National Grid NTS may take action once VAR exceeds 100% of credit limit are referred to as “**Credit Restrictions**”.
- Credit Restrictions extended to include right for National Grid NTS to refuse to accept offers under the alternative process and not to proceed with investment to make capacity available.

xii) Section 8 – Other Impacts

- Low Demand Days provisions to be retained. This is being discussed separately in the Offtake Arrangements Workstream.

xiii) Section 9 – Information Provision

- With effect from 01 October 2008, National Grid NTS to publish on its website by 12.00 D+1, Daily offtake and flexibility data, for each Day D, by NTS Exit Zone. Revised data to be published at D+6.
- With effect from 01 October 2009, National Grid NTS to publish on its website by 12.00 D+1, opening linepack position and closing linepack, for each Day D, by NTS Linepack Area. Revised data to be published at D+6.

xiv) Transitional Timetable

- Revised to reflect changes in other Sections.

d) The Second Proposal

This sought to give rights for Users at NTS Exit Points to have an Interruptible service providing they could demonstrate that the requirement was truly Interruptible. To safeguard the rights of Users at Firm NTS Exit Points there would be a requirement at these Interruptible Exit Points for Users to self-interrupt where the national demand exceeded a set threshold. If they did not comply with this obligation they would be deemed to have applied for Firm NTS Capacity for four years from the date that capacity was provided. It is expected that a Modification Proposal incorporating these elements will be raised shortly.

4. . Recommendation

The Modification Panel is invited to accept this Report and the recommendation that the Main Modification Proposal be referred to a Workstream for discussion on the associated Detailed Business Rules.

Appendix 1 Terms of Reference

1. Background

Following the decision of the Competition Commission to uphold the appeal against the decision to implement Modification Proposal 0116V it is clear that the industry should consider what alternative NTS offtake arrangements should be brought forward.

2. Purpose

This Review Group shall consider:

- How best to monitor the availability of, and variation in, NTS linepack and the adequacy of arrangements for managing within-day flow variation for all NTS users.
- The size, duration and flexibility of user commitments for incremental NTS capacity taking into account the primary needs of National Grid NTS and Users to make efficient investment decisions. This shall include arrangements for all Users to secure capacity in advance.
- The need to consider User requirements and NTS requirements or characteristics and their effect on the design of relevant exit capacity products. The appropriateness and compatibility of these products for example, for exports through interconnectors, injections into storage and back-up supplies to directly connected customers shall be considered. In particular, cost reflectivity of exit capacity products that provide access, given different patterns of usage, shall be considered. The design of products should also involve, inter alia, consideration of overrun rules, initial prevailing rights allocations and accommodation of any party operating at such an exit point that has been granted an exemption by the Secretary of State.
- How interruptible services shall be offered to NTS users. This shall include consideration of the implications of Transmission Access Regulation EC NO 1775/2005 and the Third Directive.
- Compensation arrangements should exit capacity not be made available.
- Relevant consequential impacts on Gas Distribution Networks.
- Exit capacity overrun arrangements
- The release mechanisms for exit capacity.

3. Scope and Deliverables

The Review Group's remit is to focus on changes to the Uniform Network Code and relevant ancillary documents. Where there are likely to be interactions with other industry documents that are not subject to UNC Governance such as the charging methodologies, the Incremental Capacity Release Statement and Procurement Guideline the group shall suggest possible amendment for consideration by National Grid.

The Review Group shall endeavour to complete its deliberations in time for the UNC Panel of 20 December 2007. The target deliverable shall be to submit any fully drafted Modification Proposal that enjoys consensus support of the Review Group.

Monthly process reports shall be provided to the UNC Panel.

4. Limits

The Review Group shall seek to develop proposals that are cost effective and focus on reforms that are proportionate, targeted and necessary. It is not proposed that the Review Group should undertake a detailed cost-benefit analysis, but the Group should seek to gather as much evidence and data as possible in support of any resulting Modification Proposal, and to inform any subsequent Ofgem Impact Assessment.

5. Composition

As the implications of changes to the NTS offtake arrangements are wide-ranging it is important that the group membership is drawn from a cross-section of industry representatives and relevant stakeholders. Thus in addition to National Grid NTS, Distribution Networks and UNC Users, the regulator, interconnector users, storage operators and directly connected customers have been invited to participate.

Name	Organisation	Alternate
Tim Davis	Joint Office of Gas Transporters	
John Bradley	Joint Office of Gas Transporters	Lorna Dupont
Mike Young (Proposer)	British Gas Trading	Chris Wright
Avian Egan	Bórd Gáis Networks	
Beverley Grubb	Scotia Gas Networks	
Christian Hill	RWE Npower	Steve Rose
Christiane Sykes	Statoil UK	Richard Street
Conor Purcell	Electricity Supply Board	
Eddie Proffitt	Major Energy Users Council	
Graham Thorne	Canatxx	John Baldwin
Jeff Chandler	Scottish and Southern Energy	
Julie Cox	Association of Electricity Producers	
Lee Foster	xoserve	Karen Healy
Liz Spierling	Wales & West Utilities	
Mark Feather	Ofgem	Paul O'Donovan
Mark Freeman	National Grid Distribution	
Martin Watson	National Grid NTS	Steve Fisher
Nick Wye	WatersWye Associates	Rekha Patel
Peter Bolitho	E.ON UK	Richard Fairholme
Phil Broom	Gaz de France ESS	
Robert Cameron-Higgs	Northern Gas Networks	Keith Dixon
Roddy Monroe	Centrica Storage	Stuart Waudby
Stefan Leedham	EDF Energy	

A Review Group meeting will be quorate providing at least 2 Transporter and 2 User representatives are present.

The Review Group may invite specialists to attend as necessary

6. Information Sources

- Uniform Network Code – Section B
- National Grid Gas plc, Gas Transporter Licence in respect of the NTS.
- Relevant public domain papers provided by parties to the Competition Commission during the 0116V/0116A appeals process and papers provided subsequently by the Commission itself.

7. Timetable

- Frequency of meetings – at least monthly. The frequency of meetings will be subject to review and potential change by the Review Group.
- Meetings will be administered by the Joint Office and conducted in accordance with the Chairman's Guidelines.