

Modification Report
Scheduling Charges calculation for Gas Flow Days 22, 23, 24, 25 & 26 October 2007
Modification Reference Number 0181
Version 2.0

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

- There is a real likelihood of significant commercial impact upon shippers and ultimately customers if the proposed modification is not urgent; and that
- The Proposal is linked to an imminent date related event, insofar as the calculation of Scheduling Charges will commence 22 November 2007.

Procedures Followed:

The procedures agreed with Ofgem for this Proposal were:

Process	Date
Proposal issued for consultation	06/11/2007
Close out of representations (3 Business Days)	09/11/2007
Urgent Modification Report issued	12/11/2007
Modification Panel decide upon recommendation	15/11/2007
Ofgem decision expected	20/11/2007
Proposed implementation date	20/11/2007

1 The Modification Proposal

Where capitalised words and phrases are used within this Modification Proposal, those words and phrases shall usually have the meaning given within the Uniform Network Code (UNC) (unless they are otherwise defined in this Modification Proposal). Key UNC defined terms used in this Modification Proposal are highlighted by an asterisk () when first used. This Modification Proposal*, as with all Modification Proposals, should be read in conjunction with the prevailing UNC.*

GEMINI is an information exchange computer system allowing the electronic transfer of information including energy and capacity transactions between UNC parties. This system is generally referred to in the UNC as UK Link*, of which GEMINI is one part. Following the return to service of the GEMINI system after a planned UK Link downtime on Sunday 21st October 2007, Users* reported the existence of functional errors within GEMINI. These errors resulted in National Grid NTS* suspending User access to the GEMINI system during the course of the afternoon of Gas Flow Day* 22nd October 2007. On the same Day* Code Contingency* arrangements were established and notified to Users by National Grid NTS. These arrangements allowed Users to provide National Grid NTS with their gas flow Nominations* for National Grid NTS to manually upload onto the GEMINI system until full User access to the system was restored. In so far as possible under such Code

Contingency arrangements, this enabled Users to continue to provide information to, and receive information from, National Grid NTS and the GEMINI system.

The Code Contingency arrangements were in place during Gas Flow Days 22nd, 23rd, 24th, 25th and 26th October 2007 (subsequently in this proposal these will be referred to as “**the affected Gas Flow Days**”). National Grid NTS is concerned that during this period, Users’ ability to provide timely Nominations was unavoidably and adversely affected which in turn could have a detrimental impact on the appropriateness of the Scheduling Charges* calculation within the October 2007 Balancing Invoice*, due to be issued in December 2007. National Grid NTS considers that if such Scheduling Charges were to be levied without adjustment, it could lead to inappropriate charge allocation.

It is therefore proposed to amend the basis upon which Scheduling Charges are levied for the affected Gas Flow Days. Instead of calculating the Scheduling Charges for the affected Gas Flow Days using the Nominations currently held in the GEMINI system for that period, we propose to calculate, separately for each User, in relation to each of the User’s scheduling related System Points*, the average daily Scheduling Charge for the weekdays (Monday to Friday) for the period 1st to 21st October 2007 inclusive (subsequently referred to as the “**averaging period**”); and apply this average daily value to the affected Gas Flow Days for that same User and scheduling related System Points.

We believe that using the Scheduling Charges derived from this averaging period reflects both the most current User portfolio position, given that a number of supply contracts will have been amended from 1 October, and also the User’s most recent scheduling performance for the type of Day affected by the GEMINI issues, i.e. weekdays rather than weekends, whilst at the same time maximising the data set on which to base the averaging calculation without including those Days affected by the Code Contingency arrangements.

Having completed a high-level historical analysis of Users’ scheduling performance over the last 4 years, we believe that basing the average on the same type of days as the affected Gas Flows Days (i.e. weekdays), would provide a more reflective average.

In developing this Modification Proposal, National Grid NTS considered and rejected a number of alternative options, summarised below:

Disapply the Scheduling Charges for the affected Gas Flow Days

We do not believe that setting the Scheduling Charges to zero for this period would better facilitate the relevant objective of securing effective competition between relevant shippers, as it would mean that those shippers who would have normally received revenue from the redistribution of the Scheduling Charges through the neutrality process would not do so.

Alternative Scheduling Charges calculations for affected Gas Flow Days

Prior to selecting the proposed basis for calculating the Scheduling Charges to be applied to the affected Gas Flow Days, we considered a number of alternatives, including a 365 day average, and a 28 or 30 day average. These options were not considered to be most representative of recent shipper

performance as they cover a longer time period and would therefore potentially include many contract and portfolios changes.

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

Standard Special Condition A11.1 (d): so far as is consistent with subparagraphs (a) to (c) the securing of effective competition:

(i) between relevant shippers...

By amending the basis for levying Scheduling Charges for the affected Gas Flow Days, relevant Users will be able to more accurately assess their financial impact over the period in question, thereby providing a stable and equitable basis for competition.

Amending the basis for levying Scheduling Charges for the affected Gas Flow Days will also remove the risk of applying potentially erroneous charges and replace them with charges which are likely to be more reflective of Users' most recent scheduling performance thereby improving the accuracy and cost reflectivity of these charges, which in turn facilitates competition between shippers.

However, BGT did not share this view believing that Users had the opportunity to nominate and should continue to be financially accountable for their actions and inactions.

Other respondents did not believe that the averaging basis proposed was appropriate and identified that they would have supported one of the alternatives discarded by the Proposer, i.e. setting the Scheduling Charges concerned to zero.

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

Implementation would be expected reduce the time and effort resolving invoice queries arising from application of Code Contingency arrangements and thereby 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

No such implications are anticipated.

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

a) Implications for operation of the System:

No such implications are anticipated.

b) Development and capital cost and operating cost implications:

A small increase in operating costs would be associated with the need to calculate the average daily Scheduling Charge. This would be offset by an anticipated reduction in time and effort responding to invoice queries.

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

Cost recovery is not proposed.

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

No such consequences are anticipated.

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 is anticipated.

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 on these systems are anticipated. If this Proposal were to be implemented, the October 2007 Balancing Invoice would show the amended Scheduling Charges and would be accompanied by explanatory notes as to the amended charges.

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 are anticipated.

Development and capital cost and operating cost implications

Scheduling costs for the Code Contingency period would be expected to be lower, for certain Users although this would be reflected in lower Balancing Neutrality income for these and other Users.

Consequence for the level of contractual risk of Users

No such consequence is anticipated.

8 The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers,

producers and, any Non Code Party

No such implications are anticipated.

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 are anticipated.

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

Advantages

- Removes potential for erroneous charges.
- Reduces industry time and effort raising and responding to invoice queries.
- Provides charges which are more reflective of recent User scheduling performance and which are not affected by the Code Contingency arrangements that were in place on the affected Gas Flow Days.

Disadvantages

- Within the Code Contingency period, Scheduling Charges, that reflected Nominations and allocations, would not be collected. Therefore Users would not be financially accountable for their actions, and lack of actions, in respect of Nominations within that period.
- Neutrality credits and debits associated with the Scheduling Charges would be affected by application of a different calculation methodology.

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

Representations were received from the following:

British Gas Trading	(BGT)	Not in support
EDF Energy	(EDFE)	Support
E.ON UK	(EON)	Support
ExxonMobil Gas Marketing Europe Limited	(EGME)	Not in support
Gaz de France ESS	(GdF)	Not in support
National Grid Gas Distribution	(NGD)	Support
National Grid NTS	(NGNTS)	Support
RWE Npower	(RWE)	Qualified support
Scottish and Southern Energy plc	(SSE)	Not in support
ScottishPower	(SP)	Not in support
Shell Gas Direct Ltd	(SGD)	Support

Thus five respondents supported implementation, one offered qualified support and five were not in support of implementation.

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

No such requirement is anticipated.

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 is anticipated.

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

Some work would be required on the Balancing Invoice but this need not delay implementation.

15 Proposed implementation timetable (including timetable for any necessary information systems changes and detailing any potentially retrospective impacts)

It is recommended that this Modification Proposal be implemented on no later than 20th November 2007, prior to the calculation of the Invoice Amounts on 22nd November 2007.

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

No such implications are anticipated.

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

At the Modification Panel meeting held on 15 November 2007, of the ten Voting Members present, capable of casting ten votes, five votes were cast in favour of implementing this Modification Proposal. Therefore the P2anel did not 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 direction from the Gas and Electricity Markets Authority in accordance with this report.

19 Text

UNIFORM NETWORK CODE – TRANSITION DOCUMENT

PART IIC – TRANSITIONAL RULES

Add new paragraph 1.8 to read as follows:

“1.8 TPD Section F paragraph 3

1.8.1 For the purposes of Section F paragraph 3, the Scheduling Charges payable in respect of the Gas Flow Days 22nd, 23rd, 24th, 25th, and 26th, October 2007 (the **“Contingency Period”**) will be calculated by National Grid NTS in respect of each User as follows:

- (a) National Grid NTS will add the input Scheduling Charges (calculated in accordance with Section F, paragraph 3.2) incurred by such User on each Gas Flow Day which is a Business Day in the period from 1st October to the 21st October 2007 (inclusive) to produce a total amount and divide such total amount by 15 to produce an average input Scheduling Charge (**“average input Scheduling Charge”**);
- (b) National Grid NTS will add the output Scheduling Charges (calculated in accordance with Section F , paragraph 3.3) incurred by such User on each Gas Flow Day which is a Business Day in the period from 1st October to the 21st October 2007 (inclusive) to produce a total amount and divide such total amount by 15 to produce an average output Scheduling Charge (**“average output Scheduling Charge”**);
- (c) The input Scheduling Charge payable by such User for each Gas Flow Day in the Contingency Period shall be regarded as equal to the average input Scheduling Charge;”
- (d) The output Scheduling Charge payable by such User for each Gas Flow Day in the Contingency Period shall be regarded as equal to the average output Scheduling Charge.”

For and on behalf of the Relevant Gas Transporters:

Tim Davis
Chief Executive, Joint Office of Gas Transporters