

**Modification Report**  
**Extension of the Current Sunset Clauses for Registration of Capacity at NTS Exit Points**  
**Modification Reference Number 0198**  
**Version 3.0**

This Modification Report is made pursuant to Rule 9.3.1 of the Modification Rules and follows the format required under Rule 9.4.

**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 regards 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:

1. Firm Capacity Applications for NTS Exit Points (under TPD Section B3.9); and
2. NTS Offtake Capacity registration for NTS/LDZ Offtakes and provision of the Offtake Capacity Statement (under TPS 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 1 October 2008. However on 24 June 2005 the Authority announced a delay to the implementation of the Enduring Arrangements until September 2007 with respect to release of NTS Capacity Rights from Gas Year 2010/11 in order 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.

In order to facilitate the implementation of Enduring Arrangements, National Grid NTS raised Modification Proposal 0116V “Reform of the NTS Offtake Arrangements”, which the Authority subsequently directed be implemented with an effective date of 1 April 2008. The Authority recognised that this delay was likely to require further Modifications to the UNC in order to establish capacity booking arrangements for Gas Year 2010/11. Consequently National Grid NTS raised, and the Authority subsequently approved, Modification Proposal 0142 “Extension of the Current Sunset Clauses for Registration of Capacity at NTS Exit Points”. The result of this proposal was

to extend the application of the sunset clauses until September 2011.

After the direction to implement Proposal 0142 to extend the sunset clauses contained within the UNC, the Competition Commission received an appeal, which it subsequently upheld, in relation to the Authority's decision to implement Proposal 116V. Consequently the Authority is now reconsidering the five Modification Proposals that were raised in relation to Reform of the NTS Offtake Arrangements.<sup>1</sup> Review Group 166 has also raised an additional Modification Proposal (0195 – Introduction of Enduring NTS Exit Capacity Arrangements) with the intention of this being considered alongside the five other Proposals. In light of these developments, National Grid NTS recognises that the exit process is unlikely to be completed and the respective Proposal implemented by 1 April 2008, thereby creating some uncertainty around capacity booking arrangements for Gas Year 2011/12.

National Grid NTS is therefore raising this Modification Proposal in order to extend the sunset clauses currently contained within the UNC for a further one year in order to clarify the capacity booking arrangements for Gas Year 2011/12 and provide time for the exit process to conclude. The following changes are proposed:

#### 1. Firm NTS Capacity Applications

It is proposed that the current arrangements for Firm NTS Capacity Applications be extended until 30 September 2012. 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.

#### 2. NTS Offtake Capacity Registration Process

In accordance with current UNC provisions, Distribution Network Operator (DNO) Users have NTS Offtake Capacity allocations for each of their NTS/LDZ Offtakes for each Gas Year up to and including Gas Year ending 30 September 2011. 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 Pressures.

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 their NTS/LDZ Offtakes beyond 30 September 2011 to 30 September 2012. Therefore for 2008, it is proposed that DNO Users would apply for initial amounts of NTS Offtake Capacity for Gas Year 2011/2012 during the normal June/July Application Window.

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<sup>1</sup> Modification Proposals 116V, 116VD, 116A, 116BV and 116CVV

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 2008/09, 2009/10, 2010/11 in June/July 2008.

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 IExCR to extend its applicability beyond 30 September 2011 up to 30 September 2012.

It is proposed that Assured Offtake Pressures for Gas Years beyond 30 September 2011 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 2008	2008/09 2009/10 2010/11	2011/12	30 September 2008
June/July 2009	2009/2010 2010/2011 2011/2012		30 September 2009
June/July 2010	2010/2011 2011/2012		30 September 2010
June/July 2011	2011/2012		30 September 2011

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 DNs. 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 (i.e. facilitation through an ARCA) in place for NTS Supply Points and NTS CSEPs allowing Shipper Users, where NTS investment is required, to obtain the required rights for capacity ahead of and for longer periods than the formal UNC registration process allows, is 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 when common capacity products and registration processes would be introduced across all NTS Exit Points.

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

- For DNO Users to apply for, and National Grid NTS to confirm, NTS Offtake Capacity requirements beyond September 2011, such that Transporters are able to finalise their respective investment plans and ensure compliance with their Licence and Safety obligations.
- For Shipper Users to continue to request increases in Firm NTS 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 2011, which would allow National Grid NTS to undertake better informed investment decisions and thereby better facilitate the achievement of this relevant objective.

National Grid Distribution commented that this would also enable DNO Users to undertake better informed investment decisions in their own networks and thereby better facilitate the efficient and economic operation of their pipeline systems.

Scotia Gas Networks pointed out that it would also enable the signalling of pressure commitments which would similarly facilitate the planning process.

*Standard Special Condition A11.1 (b): so far as is consistent with subparagraph (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 and pressure commitments to support their respective investment decisions beyond September 2011 and thereby better facilitate the achievement of this relevant objective.

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

Implementation would promote the economic and efficient development and operation of the system which might be expected to facilitate the achievement of this relevant objective.

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

Implementation of this Proposal 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 2011. This will 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:**

Implementation would not adversely affect the operation of the System.

**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:**

Not applicable.

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

No such consequences 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**

Implementation would not have any consequences on the level of contractual risk of each Transporter.

**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 impact on the UK Link System or related computer systems of each Transporter has 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)*

Implementation would not have any additional implications on the administrative or operational processes and procedures.

*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.

*Consequence for the level of contractual risk of Users*

Implementation would not have any consequences on 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**

No adverse implications identified.

**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 consequences identified.

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

**Advantages**

Implementation 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 2011. This would support the Transporter's undertaking of co-ordinated, efficient and economic investment decision and ensure sufficient transportation capability is available to meet the peak demand; and
- Allow for the extension of the Transitional Arrangements until the Enduring Arrangements are implemented, without fundamental changes to the Shipper User capacity registration processes.
- Provide a means of securing pressure commitments from National Grid

NTS beyond 30 September 2011.

- Remove uncertainty regarding how shipper Users or developers may reserve firm capacity up to 30 September 2012 when parties are planning investment in CCGT plant.
- Help to avoid premature and ill considered decision making in relation to the future shape of NTS Exit arrangements.

**Disadvantages**

No disadvantages identified.

**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:

<b>Organisation</b>	<b>Position</b>
Association of Electricity Producers	Supports
British Gas Trading	Supports
Centrica Storage Ltd	Supports
E.ON UK	Supports
National Grid Distribution	Supports
National Grid NTS	Supports
RWE Npower	Qualified Support
Scotia Gas Networks	Supports
Scottish and Southern Energy	Supports
Scottish Power	Supports
Wales & West Utilities	Supports

Of the 11 responses received 10 offered support and 1 offered qualified support of implementation.

RWE Npower offered qualified support and expressed concerned over the effect that extending the sunset clause would have on both the functioning and security of the system and competition, particularly when the interaction between NTS Exit Reform and other UNC Modifications already implemented by Ofgem is taken into consideration. It expressed particular concern regarding the interaction and impact of Modification 90 (“Revised DN Interruption Arrangements” – implementation 01 April 2008), as this removes Section I5 of the Offtake Arrangements Document which currently allows National Grid NTS to require DNOs to interrupt at LDZ level to deal with a constraint on the NTS.

National Grid Distribution observed that, “although Modification Proposal 0090, Revised DN Interruption Arrangements, is a standalone proposal the delay in enduring reform does mean that DNs will have to make an estimate of the costs of the relevant NTS Exit Capacity if they wish to enter into interruptible contracts with contract periods from October 2012 onwards.”

Two parties commented on the number of times an extension to the sunset

clauses has been required, suggesting the continued uncertainty increases risk for participants and is detrimental to competition. E.ON UK also commented on the inadvisability of the principle of including sunset clauses within the UNC and pointed out that implementation of 0116A (which was currently under reconsideration) would remove the relevant sunset clauses entirely.

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

Not required.

**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**

Not required.

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

Not required.

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

Modification Panel decide upon recommendation	20/03/08
Ofgem decision expected	01/05/08
Proposed implementation date	01/06/08

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

None 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 20 March 2008, of the 10 Voting Members present, capable of casting 10 votes, 10 votes were cast in favour of implementing this Modification Proposal. Therefore the Panel recommended 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**

The following text has been provided at the request of Ofgem:

**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 2012~~4~~) 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 2012~~4~~, 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**