

**Draft Modification Report**  
**Enabling the Assignment of a Partial Quantity of registered NTS Exit (Flat) Capacity**  
**Modification Reference Number 0263**  
**Version 1.0**

This Draft Modification Report is made pursuant to Rule 9.1 of the Modification Rules and follows the format required under Rule 9.4.

**1 The Modification Proposal**

**Background**

Implementation of Modification Proposal 0195AV established the basis for the reform of NTS exit capacity booking arrangements that, in full, are scheduled to come into effect on 1 October 2012.

As part of the package of new arrangements, National Grid will facilitate the assignment of Registered NTS Exit (Flat) Capacity between Users. However, assignments are to be restricted such that an Assignor User can only assign to an Assignee User its full capacity holding at a given exit point. In assigning capacity, the Assignor User will also assign any outstanding User Commitment, pertaining to the assigned capacity, to the Assignee User.

Therefore, under the current rules it is not possible for an Assignor User to assign, or an Assignee User to receive, a partial holding of capacity. This is unnecessarily restrictive and not conducive to the efficient utilisation of the capacity.

In particular, the restriction is likely to prohibit the efficient utilisation of capacity at interconnectors, storage facilities and shared supply points, limiting Users' ability to efficiently manage capacity *inter se* when end user customers require a change in NTS shipper, sometimes at short notice.

**Summary of this proposal**

The proposal is that, subject to the rules set out below, an Assignor User will be allowed to assign to another User (the Assignee User) at a given exit point

- (a) all or part of its quantity of Registered NTS Exit (Flat) Capacity and
- (b) the relevant proportion of any outstanding User Commitment pertaining to the assigned quantity of Enduring Annual NTS Exit (Flat) Capacity and the period of the assignment.

The main features of this proposal are as follows:

1. Only Enduring Annual NTS Exit (Flat) Capacity and Annual NTS Exit (Flat) Capacity can be assigned and the assignment process will clearly identify (for the benefit of all parties including National Grid) which of the two products is to be assigned; if both products are to be assigned for a given exit point then two separate assignments will be exercised.
2. Where Enduring Annual NTS Exit (Flat) Capacity is to be assigned then any User Commitment associated with the assigned capacity will be transferred from the Assignor to the Assignee.

The Assignor will retain a User Commitment for its remaining capacity

in proportion to the capacity it retains. The User Commitment Amount will be proportionately reduced for the Assignor User.

The Assignee User will obtain the User Commitment associated with the proportion of capacity it receives from the assignment and:

if the Assignee User already holds Enduring Annual NTS (Exit) Flat Capacity at the exit point and that capacity has no User Commitment attached to it then the total capacity holding following the assignment will be subject to a User Commitment based on the remaining time of the assigned User Commitment and the User Commitment Amount will be increased proportionately

or

if the Assignee User already holds Enduring Annual NTS (Exit) Flat Capacity at the exit point and that capacity has User Commitment attached to it then the total capacity holding following the assignment will be subject to a User Commitment based on the longest remaining of the existing capacity and assigned capacity User Commitments and the User Commitment Amount will be established for the total capacity holding on the same basis

3. Where assigned Enduring Annual NTS (Exit) Flat Capacity has no User Commitment attached to it and the Assignee's existing registered holding also has no User Commitment attached to it then the Assignee's capacity holding at the exit point will have no User Commitment attached to it.
4. An assignment will not be permitted where it conflicts with any capacity transfer or trade already in place and accepted by National Grid.
5. National Grid may reject a proposed assignment where to do so would result in a reduced capacity amount being available to National Grid under any existing forward or options contract, or a lower level of certainty about the accessibility to National Grid of the capacity under any relevant forwards or options contracts.
6. Assignments will be subject to credit checks by National Grid in accordance with the UNC.
7. Assignments will be in perpetuity in the case of Enduring Annual NTS Exit (Flat) capacity and, for Annual NTS Exit (Flat) Capacity, will be for the full remaining term of the capacity holding.

The process and timescales for effecting partial capacity assignment will remain as currently set out in the UNC for full capacity assignment.

### **Suggested Text**

None provided.

## **2 User Pays**

**a) Classification of the Proposal as User Pays or not and justification for classification**

The current assignment rules are too restrictive and this problem ought to have been foreseen during the development of the exit reform Modification Proposals.

Implementation of the proposal would bring benefits to National Grid NTS and Users. However, since National Grid NTS is required to cover the cost of delivering enduring exit reform and this Proposal seeks to remedy a flaw in the originally envisaged arrangements, it is reasonable to expect National Grid NTS to cover the costs in this case.

However, National Grid NTS disagree and consider that the Proposal should be classified as User Pays.

**b) Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification**

In accordance with the above justification, the full cost of implementation of this proposal would be met by National Grid NTS.

**c) Proposed charge(s) for application of Users Pays charges to Shippers**

Not applicable.

**d) Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from xoserve**

Not applicable.

**3 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;***

By allowing for more efficient utilisation of capacity among shippers, implementation would reduce the possibility of National Grid NTS receiving unnecessary and misleading investment signals from (incoming) shippers and hence facilitate the achievement of this relevant objective.

***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 not be expected to better facilitate 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;***

Achievement of this relevant objective would also be facilitated by potential reductions in requests from Users for daily exit capacity, who would instead avail themselves of longer term products. This would be expected to reduce the workload of National Grid NTS in this area.

***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;***
- (ii) between relevant suppliers; and/or***
- (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers;***

Implementation would be expected to facilitate the achievement of this relevant objective for the following reasons:

- Users would have more flexibility and confidence in the management of Registered NTS Exit (Flat) Capacity. In particular, it would allow Assignor Users the opportunity to assign capacity within relatively short timescales to Assignee Users in response to end user customers' needs. Such needs are likely to arise at interconnector exit points where an NTS User provides services to a number of downstream customers over different time periods.
- In the event that a customer chooses to transfer to another (incoming) NTS User the current rules do not allow the current (outgoing) User to assign a portion of its capacity to the incoming User to meet its and the customer's requirements (the current User will need to retain some capacity to meet the needs of its other customers). Consequently, incoming Users and their newly acquired customers would need to rely on shorter term capacity products (not guaranteed to be available) or plan years in advance to secure enduring capacity.

***Standard Special Condition A11.1 (e): so far as is consistent with subparagraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers;***

Implementation would not be expected to better facilitate this relevant objective.

***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 not be expected to better facilitate this relevant objective.

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

No implications on security of supply, operation of the Total System or industry fragmentation have been identified.

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

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

None identified.

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

Implementation could give rise to minor development costs by way of marginal changes to the planned assignment regime.

National Grid NTS consider that it is premature to suggest that the development costs would be minor.

Operating costs may be incurred through facilitating partial assignments. However, this could be offset by reduced workload associated with daily capacity requests (a possible consequence of not allowing partial assignments).

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

No additional cost recovery is proposed. However National Grid NTS consider that the development costs should be recovered from Users through Users Pays.

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

None anticipated.

**6 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**

It is not envisaged that implementation would result in any change to the level of contractual risk to National Grid NTS.

**7 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**

It is envisaged that National Grid NTS would further develop the Gemini system to accommodate partial assignments. However, National Grid NTS could opt for off-line processes depending on the anticipated volume of transactions. Similarly, Users would individually decide how best to manage and monitor their holdings of exit capacity.

**8 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)***

Greater operational flexibility would be afforded to Users as a result of more customer-focused assignment rules. In turn, administrative burdens on Users would, in the round, be reduced as implementation would better meet the needs of end user customers – otherwise, more involved contractual and capacity procurement measures would be required.

Users would individually decide how best to manage and monitor their holdings of exit capacity.

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

These are expected to be *de minimus*.

***Consequence for the level of contractual risk of Users***

No such consequences have been identified.

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

Consumers would have more confidence that capacity holdings would be assigned to shippers and locations where it was needed.

**10           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**

None identified.

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

**Advantages**

As above.

**Disadvantages**

None identified.

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

Written Representations are now sought in respect of this Draft Report.

**13           The extent to which the implementation is required to enable each**

**Transporter to facilitate compliance with safety or other legislation**

Implementation is not required to enable each Transporter to facilitate compliance with safety or other legislation.

- 14 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**

None identified.

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

Changes to Gemini would be required but it is considered that these would be made as part of one of the existing exit reform releases in 2011.

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

The implementation timetable would be determined by the UK Link Committee on the advice of National Grid NTS.

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

None identified.

- 18 Recommendation regarding implementation of this Modification Proposal and the number of votes of the Modification Panel**

- 19 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.

- 20 Text**

**Representations are now sought in respect of this Draft Report and prior to the Transporters finalising the Report.**

For and on behalf of the Relevant Gas Transporters:

**Tim Davis**

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