

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

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.

EDF Energy suggest implementation of this proposal would encourage long term bookings as Shippers would have the certainty that they could allocate capacity to other Shippers to meet the operational requirement of the Supply Point. This will therefore provide long term investment signals to NGG NTS.

National Grid NTS assert that the introduction of a Partial Assignment process to be utilised by Users when managing their contractual requirements at an NTS Exit Point does not provide National Grid NTS with information that cannot be provided via the existing TBE and Exit Reform processes.

Standard Special Condition A11.1 (b): so far as is consistent with sub-

paragraph (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.

EDF add that implementation of this proposal would allow consumers to vary their contractual arrangements to meet their operational requirements, and potentially reduce their gas supply costs.

BGT suggest implementation should go some way to assuaging some of the concerns expressed by Users of the Irish pipeline system connected at Moffat; they ought to benefit from more fluid movement and utilisation of capacity than is currently allowed

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)

Representations were received from the following:

Association of Electricity Producers	AEP	Support
British Gas	BGT	Support
EDF Energy	EDF	Support
E.ON UK	EON	Support
National Grid NTS	NGNTS	Not in Support
Scottish and Southern Energy	SSE	Support

Of the six responses received, five respondents were in support of implementation and one respondent was not in support of implementation. In addition, a confidential response has been submitted which offers qualified support.

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

At the Modification Panel meeting held on 19 November 2009, of the 10 Voting Members present, capable of casting 10 votes, 9 votes were cast in favour of implementing this Modification Proposal. Therefore the Panel recommends implementation of this Proposal.

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

UNIFORM NETWORK CODE – TRANSPORTATION PRINCIPLE DOCUMENT

SECTION B – SYSTEM USE AND CAPACITY

Amend paragraph 6 to read as follows:

6 CAPACITY ASSIGNMENT

6.1 Basis of assignment

6.1.1 A User (the "**Assignor User**") may assign all or part of its:

(a) Registered Enduring Annual NTS Exit (Flat) Capacity; and/or

(b) Registered Annual NTS Exit (Flat) Capacity;

(but not both under the same System Capacity Assignment notification) in respect of an NTS Exit Point to another User ("**Assignee User**") by a System Capacity Assignment.

6.1.2 For the purposes of the Code a "**System Capacity Assignment**" is an assignment of System Capacity in accordance with paragraph 6.1.1.

6.1.3 ~~A~~An Assignor User may not make a System Capacity Assignment where the ~~Assigned System Capacity exceeds the Assignor User's~~

Registered Capacity:

- (a) Assigned System Capacity comprising:
 - (i) Registered Enduring Annual NTS Exit (Flat) Capacity exceeds the remaining Registered Enduring Annual NTS Exit (Flat) Capacity; or
 - (ii) Registered Annual NTS Exit (Flat) Capacity exceeds the remaining Registered Annual NTS Exit (Flat) Capacity;

on any Day in the Assignment Period at the Assignment System Point ~~(after taking; and~~
- (b) Assigned System Capacity (which has been adjusted to take account of any deduction of any prior System Capacity Assignment ~~under this paragraph 6)~~ exceeds its Registered Net Capacity on any Day in the Assignment Period ~~at the Assignment System Point.~~

6.1.4 In respect of a System Capacity Assignment or proposed System Capacity Assignment:

- (a) the "**Assigned System Capacity**" is the amount of Registered Enduring Annual NTS Exit (Flat) Capacity or the amount of Registered Annual NTS Exit (Flat) Capacity which is (or is to be) assigned;
- (b) the "**Assignment Period**" is the Day or Days commencing on the Day on which the System Capacity Assignment is to be effective and ending on the last Day on which the Assignor User is registered as holding the Assigned System Capacity;
- (c) the "**Assignment System Point**" is the NTS Exit Point at which the NTS Exit (Flat) Capacity is to be assigned;
- (d) the "**Registered Net Capacity**" is the amount of NTS Exit Flat Capacity determined by National Grid NTS in accordance with paragraph 6.1.5;
- (e) "**remaining Registered Enduring Annual NTS Exit (Flat) Capacity**" is the Registered Enduring Annual NTS Exit (Flat) Capacity remaining after taking account of any deductions of any prior System Capacity Assignment in respect of Registered Enduring Annual NTS Exit (Flat) Capacity;
- (f) "**remaining Registered Annual NTS Exit (Flat) Capacity**" is the Registered Annual NTS Exit (Flat) Capacity remaining after taking account of any deductions of any prior System Capacity Assignment in respect of Registered Annual NTS Exit (Flat) Capacity;

(g) “User Commitment” shall have the meaning given to it in the Exit Capacity Release Methodology Statement.

6.1.5 National Grid NTS shall determine the Registered Net Capacity by deducting from the aggregate amount of remaining Registered Enduring Annual NTS Exit (Flat) Capacity and remaining Registered Annual NTS Exit (Flat) Capacity the sum of:

(a) the Transferred System Capacity which is effective on any Day in the Assignment Period, where the Assignor User was the Transferor User (but not where the Assignor User was the Transferee User); and

(b) the amount of any Registered Enduring Annual NTS Exit (Flat) Capacity and Registered Annual NTS Exit (Flat) Capacity which has been or may be surrendered to National Grid NTS on any Day in the Assignment Period pursuant to an Exit Capacity Management Agreement.

6.1.6 Any deductions of any prior System Capacity Assignment shall be made having regard to paragraph 6.3.2.

6.2 Procedure

6.2.1 Where a User proposes to make a System Capacity Assignment, each of the Assignor User and the Assignee User must notify the System Capacity Assignment to National Grid NTS specifying:

(a) the identity of the Assignor User and Assignee User;

(b) the Assignment System Point;

(c) the ~~amount~~class of the Assigned System Capacity; ~~and~~

(d) the amount in respect of the class of Assigned System Capacity;
and

(e) the commencement date in the Assignment Period on which the System Capacity Assignment is to be effective in respect of the class of Assigned System Capacity;

(f) where the System Capacity Assignment is for Registered Annual NTS Exit (Flat) Capacity, the Gas Year (or remaining part thereof) for which the Registered Annual NTS Exit (Flat) Capacity is held and in such case a separate System Capacity Assignment notice must be submitted in respect of each Gas Year.

6.2.2 A proposed System Capacity Assignment must be notified to National Grid NTS by not later than the fifth Business Day prior to the first Day of the Assignment Period.

6.2.3 National Grid NTS may reject a System Capacity Assignment:

- (a) where either the Assignor User or the Assignee User does not notify the System Capacity Assignment to National Grid NTS in accordance with paragraph 6.2.1 or 6.2.2;
- (b) in accordance with Section V3-;
- (c) where the Assigned System Capacity comprising Registered Enduring Annual NTS Exit (Flat) Capacity exceeds the remaining Registered Enduring Annual NTS Exit (Flat) Capacity or the Assigned System Capacity comprising Registered Annual NTS Exit (Flat) Capacity exceeds the remaining Registered Annual NTS Exit (Flat) Capacity;
- (d) where the Assigned System Capacity (which has been adjusted to take account of any deduction of any prior System Capacity Assignment) exceeds its Registered Net Capacity on any Day in the Assignment Period at the Assignment System Point.

6.2.4 A System Capacity Assignment shall be effective if it is approved by National Grid NTS or is not rejected by National Grid NTS by the start of the fourth Business Day after it was notified by the Assignor User or (if later) the Assignee User under paragraph 6.2.1.

6.3 Effect of Assignment

6.3.1 The Assignee User will be treated for each Day throughout the Assignment Period as the registered holder of the Assigned System Capacity.

6.3.2 A User's Registered NTS Exit (Flat) Capacity at an NTS Exit Point on a Day is its Registered NTS Exit (Flat) Capacity, adjusted in respect of any System Capacity Assignment(s) (for which that point is an Assignment System Point and the Assignment Period includes that Day) by adding the Assigned System Capacity where the User was the Assignee User, and deducting the Assigned System Capacity where the User was the Assignor User.

6.3.3 With effect from the first Day of the Assignment Period (and in respect of each subsequent Day in such period):

- (a) the Assignor User shall cease to be liable for Capacity Charges in respect of the Assigned System Capacity;
- (b) the Assignee User shall be liable for Capacity Charges in respect of the Assigned System Capacity;
- (c) the Capacity Charges payable by the Assignee User shall be the same Capacity Charges that were payable by the Assignor User

for the Assigned System Capacity.

- 6.3.4 ~~Where~~The treatment of the User Commitment associated with the Assigned System Capacity shall be as set out in the Exit Capacity Release Methodology Statement and, for purposes of the User Commitment, where a System Capacity Assignment is made which comprises Enduring Annual NTS Exit (Flat) Capacity the Assignee User shall be deemed to have been allocated the Enduring Annual NTS Exit (Flat) Capacity (comprising the Assigned System Capacity) with effect from the time from which, in accordance with paragraphs 3.2.8(c) and 3.2.12, a User was first registered as holding the Enduring Annual NTS Exit (Flat) Capacity.
- 6.3.5 A System Capacity Assignment shall be without prejudice to the operation of paragraphs 3.2.14 to 3.2.24 (inclusive) in respect of any reduction in the amount of Enduring Annual NTS Exit (NTS) Capacity held by the Assignor User and the Assignee User following a System Capacity Assignment.
- 6.3.6 No consequences other than those described in this paragraph 6 are intended by the use of the term 'assignment' in this paragraph 6.

For and on behalf of the Relevant Gas Transporters:

Tim Davis

Chief Executive, Joint Office of Gas Transporters