

CODE MODIFICATION PROPOSAL No 0263
Enabling the Assignment of a Partial Quantity of Registered NTS Exit (Flat) Capacity
Version 3.0

Date: 28/09/2009

Proposed Implementation Date:

Urgency: Non Urgent

1 The Modification Proposal

a) Nature and Purpose of this 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.
8. The process and timescales for effecting partial capacity assignment will remain as currently set out in the UNC for full capacity assignment.

b) Justification for Urgency and recommendation on the procedure and timetable to be followed (if applicable)

This proposal is non-urgent and should, upon submission, follow the established timetable for such proposals. However, it is recommended that a decision by the Authority on whether to instruct National Grid to implement the proposal is delivered before the end of 2009 to enable Users to plan the use of assignments as part of their capacity booking strategies.

c) Recommendation on whether this Proposal should proceed to the review procedures, the Development Phase, the Consultation Phase or be referred to a Workstream for discussion.

This proposal has been discussed at the August and September Transmission Workstreams, and will again be discussed (following amendment) at the October Transmission Workstream. If, following that discussion, the Workstream considers that the proposal is sufficiently clear, it is recommended that the proposal proceeds to the Consultation Phase.

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 and Users. However, since National Grid 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 to cover the costs in this case.

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 Gas.

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 this Modification Proposal would better facilitate the achievement (for the purposes of each Transporter's Licence) of the Relevant Objectives

The Proposer believes that by allowing for more efficient utilisation of capacity among shippers, this proposal will reduce the possibility of National Grid receiving unnecessary and misleading investment signals from (incoming) shippers. This will further relevant objective A11.1(a) – the efficient and economic operation of the NTS.

To the extent that implementation of this proposal might reduce requests by Users for daily exit capacity who would instead avail themselves of longer-term products, this proposal would reduce National Grid's administrative workload and therefore better facilitate relevant objective A11.1 (c) – the efficient discharge of the Licensee's obligations.

For the reasons given below, the Proposer believes that this proposal will better facilitate relevant objectives A11.1 (d) (i) and (ii):

- Users will have more flexibility and confidence in the management of Registered NTS Exit (Flat) Capacity. In particular, it will 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 will need to rely on shorter-term capacity products (not guaranteed to be available) or plan years in advance to secure enduring capacity. Such a course might also fail

to provide National Grid with clear and proper signals about capacity requirements and thus give rise to inefficient investment.

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

None identified.

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

a) The implications for operation of the System:

None identified.

b) The development and capital cost and operating cost implications:

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

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

c) Whether it is appropriate to recover all or any of the costs and, if so, a proposal for the most appropriate way for these costs to be recovered:

All costs ought to be met by National Grid.

d) The consequence (if any) on the level of contractual risk of each Transporter under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal

It is not envisaged that the proposal will result in any change to the level of contractual risk to National Grid Gas.

6 The extent to which the implementation is required to enable each Transporter to facilitate compliance with a safety notice from the Health and Safety Executive pursuant to Standard Condition A11 (14) (Transporters Only)

Not applicable.

7 The development implications and other implications for the UK Link System of the Transporter, related computer systems of each Transporter and related computer systems of Users

It is envisaged that National Grid will further develop the Gemini system to accommodate partial assignments. However, National Grid could opt for off-line

processes depending on the anticipated volume of transactions. Similarly, Users will individually decide how best to manage and monitor their holdings of exit capacity.

8 The implications for Users of implementing the Modification Proposal, including:

a) The administrative and operational implications (including impact upon manual processes and procedures)

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

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

b) The development and capital cost and operating cost implications

These are expected to be *de minimus*.

c) The consequence (if any) on the level of contractual risk of Users under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal

None identified.

9 The implications of the implementation for other relevant persons (including, but without limitation, Users, Connected System Operators, Consumers, Terminal Operators, Storage Operators, Suppliers and producers and, to the extent not so otherwise addressed, any Non-Code Party)

No such consequences have been identified.

10 Consequences on the legislative and regulatory obligations and contractual relationships of the Transporters

No such consequences have been identified.

11 Analysis of any advantages or disadvantages of implementation of the Modification Proposal not otherwise identified in paragraphs 2 to 10 above

Advantages

As above.

Disadvantages

None identified.

12 Summary of representations received as a result of consultation by the Proposer (to the extent that the import of those representations are not reflected elsewhere in this Proposal)

None received

13 Detail of all other representations received and considered by the Proposer

None received

14 Any other matter the Proposer considers needs to be addressed

None

15 Recommendations on the time scale for the implementation of the whole or any part of this Modification Proposal

16 Comments on Suggested Text

17 Suggested Text

Code Concerned, sections and paragraphs

Uniform Network Code

Transportation Principal Document

Section(s)

Proposer's Representative

Chris Wright

Proposer

Chris Wright (British Gas Trading Limited)