

**Draft Modification Report**  
**Alternative User Pays approach to – UNC Modification Proposal 0263 - Enabling the**  
**Assignment of a Partial Quantity of Registered NTS Exit (Flat) Capacity**  
**Modification Reference Number 0276**  
**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**

*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 (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 Uniform Network Code\* (UNC).*

### **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 NTS\* 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 NTS Exit (Flat) Capacity\* holding at a given NTS Exit Point\*. In assigning NTS Exit (Flat) Capacity, the Assignor User will also assign any outstanding user commitment (as defined within the ExCR), pertaining to the Assigned System 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, less than an Assignor Users total holding of NTS Exit (Flat) Capacity at an NTS Exit Point. Some Shipper Users\* may find that the introduction of a partial assignment process would further enhance their ability to utilise NTS Exit (Flat) Capacity in a manner which provides additional efficiencies, in particular when utilising NTS Exit (Flat) Capacity at interconnectors, Storage Facilities\* and Shared Supply Meter Points\*.

### **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 NTS Exit Point:

- (a) all or part of its quantity of Registered Annual NTS Exit (Flat) Capacity\* and
- (b) the relevant proportion of any outstanding user commitment pertaining to the assigned quantity of Annual NTS Exit (Flat) Capacity and the time period of the assignment.

The main features of this Proposal are as follows:

1. Only Annual NTS Exit (Flat) Capacity can be assigned. For clarification Annual NTS Exit (Flat) Capacity also includes Enduring Annual NTS Exit (Flat) Capacity. The partial assignment process will clearly identify (for the benefit of all parties) which of the two products is to be assigned; if both products are to be assigned for a given NTS Exit Point then two separate assignments will be required.
2. Where Enduring Annual NTS Exit (Flat) Capacity is to be assigned then any user commitment associated with the assigned Enduring Annual NTS Exit (Flat) Capacity will be transferred from the Assignor to the Assignee.
3. The Assignor will retain a user commitment for their remaining Enduring Annual NTS Exit (Flat) Capacity in proportion to the Enduring Annual NTS Exit (Flat) Capacity they retain. The user commitment amount will be proportionately reduced for the Assignor User.
4. The Assignee User will obtain the user commitment associated with the proportion of Enduring Annual NTS Exit (Flat) Capacity it receives from the assignment and:

if the Assignee User already holds Enduring Annual NTS Exit (Flat) Capacity at the NTS Exit Point and that Enduring Annual NTS Exit (Flat) Capacity has no user commitment attached to it then the total Enduring Annual NTS Exit (Flat) 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 NTS Exit Point and that Enduring Annual NTS Exit (Flat) Capacity has user commitment attached to it then the total enduring Annual NTS Exit (Flat) Capacity holding following the assignment will be subject to a user commitment based on the longest remaining user commitment of :

- i) the existing Enduring Annual NTS Exit (Flat) Capacity
- ii) and the assigned Enduring Annual NTS Exit (Flat) Capacity

The user commitment amount will be established for the total Enduring Annual NTS Exit (Flat) Capacity holding on the same basis.

5. Where assigned Enduring Annual NTS Exit (Flat) Capacity has no user commitment attached to it and the Assignee's existing registered holding of Enduring Annual NTS Exit (Flat) Capacity also has no user commitment attached to it then the Assignee's registered holding of Enduring Annual NTS Exit (Flat) Capacity at the NTS Exit Point will have no user commitment attached to it.
6. A partial assignment will not be permitted where it conflicts with any NTS Exit (Flat) Capacity Transfer\* (Trade) already in place and accepted by National Grid NTS.
7. All NTS Exit (Flat) Capacity which is subject to a Demonstration Date\* will be excluded from this assignment process.

8. National Grid NTS may reject a proposed assignment where to do so would result in a reduced amount of NTS Exit (Flat) Capacity being available to National Grid NTS under any existing Exit Forward Agreement\* or Exit Option Agreement\*, or where National Grid NTS' access to the NTS Exit (Flat) Capacity available under an existing Exit Forward Agreement or Exit Option Agreement cannot be guaranteed.
9. National Grid NTS may reject a partial assignment in accordance with UNC TPD Section V3.
10. A partial assignment 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 that the assigned Annual NTS Exit (Flat) Capacity holding was acquired for.
11. The process and timescales for effecting a partial assignment of NTS Exit (Flat) Capacity will remain as currently set out in under UNC TPD Section B6 for the full assignment of Registered NTS Exit (Flat) Capacity

For clarification, should Modification Proposal 0263 be implemented prior to the implementation of this Proposal, it is proposed that this Proposal will override all aspects (as detailed) of Modification Proposal 0263.

## 2

### User Pays

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

It is the Proposer's view that this Proposal does not form part of Enduring Exit Reform and its omission from UNC Modification Proposal 0195AV was not a flaw in the Proposal. From reviewing the minutes of the meetings, relating to UNC Review Group 0166, there is no evidence that the concept of partial assignment was discussed at any stage. Whilst there was a reference to partial assignment in an early version of UNC Modification Proposal 0195AV, it is the view of the Proposer that this was subsequently removed both because of the complexity involved and the lack of discussion within Review Group 0166. This is supported by the lack of references to partial assignment within either the Review Group 0166 minutes or the subsequent business rules that were developed.

As this is a change/addition to the services provided by xoserve the Proposer's view is that this is a User Pays Proposal.

User Pays is justified because partial assignment would provide no clear benefit for either DNO Users or National Grid NTS. Whilst there would be a clearly discernable benefit for Shipper Users in the utilisation of their NTS Exit (Flat) Capacity, the introduction of a partial assignment process would not realise any benefits to Transporters, in addition to those already provided through existing processes ie Transporting Britain's Energy (TBE) process, Capacity Reduction and Transfer Processes.

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

Due to the reasons outlined above, this is a User Pays Proposal. It is proposed that the split of the recovery of implementation costs would be:

100% Shipper Users 0% Transporters

It is expected that there would be a one off implementation cost. It is proposed that this cost be wholly met by Shipper Users who have NTS Exit (Flat) Capacity holdings and would therefore benefit from this Proposal.

The above costs would be pro rated between Shipper Users based on their NTS Exit (Flat) Capacity holdings as a proportion of the total NTS Exit (Flat) Capacity holdings held by all Shipper Users as of the 1st October 2012 as registered by National Grid NTS on the implementation date of this Modification Proposal. These charges will be one off charges invoiced in the month following the introduction of the systems and processes enabling partial assignment, in effect:

$$\frac{\text{Shipper User NTS Exit (Flat) Capacity holdings}}{\sum \text{all Shipper Users NTS Exit (Flat) Capacity holdings}} * \text{Implementation Costs}$$

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

The final individually invoiced amount will be subject to an assessment of the NTS Exit (Flat) Capacity held by Shipper Users for the 1 October 2012 on implementation of this Modification Proposal and the final system implementation costs. Utilising the current levels of NTS Exit (Flat) Capacity held by Shipper Users (for the 1 October 2012) and the ROM Cost estimates provided by xoserve gives the following cost range:

Minimum cost per unit of capacity held 0.0092p/kWh

Maximum cost per unit of capacity held 0.01755p/kWh

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

Any charge applied will be based on the formula outlined in Section 2 b) above and will be dependent upon actual costs received from xoserve.

**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;*

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

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

***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 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 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 interconnectors where an NTS User provides services to a number of downstream customers over different time periods.
- In the event that a customer chooses to assign to another (incoming) NTS User the current rules do not allow the current (outgoing) User to assign a portion of its NTS Exit (Flat) Capacity to the incoming User to meet its and the customer's requirements (the current Shipper User may need to retain some NTS Exit (Flat) Capacity to meet the needs of its other customers). Consequently, incoming Shipper Users and their newly acquired customers will need to rely on shorter-term NTS Exit (Flat) Capacity products (not guaranteed to be available) or plan years in advance to secure NTS Exit (Flat) 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 development costs by way of change to the planned assignment regime.

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

As detailed in Section 2 above, all costs would be met proportionately by Shipper Users based on their NTS Exit (Flat) Capacity holdings as at the 1st October 2012 and invoiced in the month following implementation of the above system development.

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

None identified.

**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**

None identified.

**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**

National Grid NTS would need to undertake development of the UK Link system to accommodate partial assignments. National Grid NTS raised a ROM request with xoserve to ascertain the indicative costs, the results of which are as follows:

**Minimum Cost      Maximum Cost**



<b>Analysis and Design Costs</b>	<b>£25k</b>	<b>£60k</b>
<b>Technical Solution Delivery Costs</b>	<b>£200K</b>	<b>£450k</b>
<b>Application Support Costs</b>	<b>£5k</b>	<b>£25k</b>
<b>National Grid Support Costs to xoserve for System Development</b>	<b>£125k</b>	<b>£150k</b>
<b>Total Costs</b>	<b>£355k</b>	<b>£685k</b>

Based on these ROM costs and the Total quantity of NTS Exit (Flat) Capacity that Shipper Users are currently registered as holding for the 1 October 2012, this would equate to the following cost per unit of NTS Exit (Flat) Capacity held:

**Cost (p/kWh) = Cost (£)/ Capacity (kWh) \* 100**

Based on Minimum ROM Costs

**£355,000.00 \* 100 = 0.0092p/kWh**  
**3,858,470,680 kWh**

Based on Maximum ROM Costs

**£685,000.00 \* 100 = 0.01775p/kWh**  
**3,858,470,680 kWh**

Please note the following:

- that the costs utilised are Rough Order of Magnitude Costs and will be subject to change
- that the NTS Exit (Flat) Capacity figure used reflects the level of capacity that Shipper Users currently hold and will be subject to change

As such the above charges are indicative only.

**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 Shipper Users would, in the round, be reduced as partial assignment would better meet the needs of their end user customers – otherwise, more involved contractual and NTS Exit (Flat) Capacity procurement measures may be required.

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

None identified

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

None identified.

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

None identified.

**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**

Implementation is not 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.

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



A UK Link Modification would be required as a consequence of implementing the Modification Proposal.

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

An implementation timetable would have to be submitted and approved by the UK Link Committee.

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

No implications of implementing this Modification Proposal upon existing Code Standards of Service have been 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**

The Modification Panel did not determine that text was required for inclusion in this Modification Report.

**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**