

CODE MODIFICATION PROPOSAL No 0276

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

Version 1.0

Date: 28/11/2009

Proposed Implementation Date: To be confirmed following a detailed assessment of the
timeframe required for system implementation
following Ofgem determination

Urgency: Non Urgent

1 The Modification Proposal

a) Nature and Purpose of this 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.

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

Urgent procedures are not requested

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.

The Proposer requests that this Proposal is placed on the agenda at the next Modification Panel and would also request that the Panel Members are asked to confirm whether or not they would be prepared to take this Proposal as an agenda item for discussion at the extra Panel meeting currently arranged for 11th December 2009. We also request that this Proposal be sent directly to Consultation.

2 User Pays

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

It is the view of National Grid NTS that this Proposal does not form part of Enduring Exit Reform and it's omission from the UNC Modification Proposal 0195AV was not a flaw in the Proposal. Having reviewed the minutes of the meetings relating to UNC Review Group 166 National Grid NTS has been unable to find any 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 National Grid NTS that this was subsequently removed both because of the complexity involved and the lack of discussion within Review Group 166. This is supported by the lack of references to Partial Assignment within either the Review Group 166 minutes or the subsequent business rules that were developed.

As this is a change/addition to the services provided by xoserve National Grid NTS is of the view that this is a User Pays Proposal.

In addition National Grid NTS does not believe that partial assignment will provide a clear benefit for either DNO Users or National Grid NTS. Whilst there is a clearly discernable benefit for Shipper Users in the utilisation of their NTS Exit (Flat) Capacity it is National Grid NTS' view that the introduction of a Partial Assignment process will not realise any benefits to Transporters in addition to those already provided through existing processes i.e. 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**

National Grid NTS is of the view (due to the reasons outlined above) that this is a User Pays Proposal, we further propose due to the reasons outlined above, that the split of the recovery of Implementation Costs should be:

100% Shipper Users 0% Transporters

It is expected that there will be a one off implementation cost. National Grid NTS proposes that this cost is 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 this Modification Proposal would better facilitate the achievement (for the purposes of each Transporter’s Licence) of the Relevant Objectives

Standard Special Condition A11.1 (a): the efficient and economic operation of the pipe-line system to which this licence relates; Not applicable

Standard Special Condition A11.1 (b): so far as is consistent with the sub-paragraph (a), the co-ordinated, efficient and economic operation of (i) the combined pipe-line, and/or (ii) the pipe-line system of one or more other relevant gas transporters; Not applicable

Standard Special Condition A11.1 (c): so far as is consistent with the sub-paragraphs (a) and (b), the efficient discharge of the licensee’s obligations under this licence; Not applicable

Standard Special Condition A11.1 (d): so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers;

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 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.

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 development costs by way of change to the planned assignment regime.

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:

As detailed in section 2 all costs to 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) 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 NTS.

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

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

Based on the 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:

$$\text{Cost (p/kWh)} = \text{Cost (£)} / \text{Capacity (kWh)} * 100$$

Based on Minimum ROM Costs

$$\underline{\underline{£355,000.00}} * 100 = 0.0092\text{p/kWh}$$

3,858,470,680 kWh

Based on Maximum ROM Costs

$$\underline{\underline{£685,000.00}} * 100 = 0.01775\text{p/kWh}$$

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

0276: Alternative User Pays approach to – UNC Modification Proposal 0263 - Enabling the Assignment of a Partial Quantity of Registered NTS Exit (Flat) Capacity that Shipper Users currently hold and will be subject to change

As such the above charges are indicative only.

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

b) The development and capital cost and operating cost implications

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

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)

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

14 Any other matter the Proposer considers needs to be addressed

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

Proposal submitted to Mod Panel	11 December 2009
Proposal issued for consultation	14 December 2009
Closeout for representations	7 January 2010
Modification Panel decide upon recommendation	21 January 2010
FMR submitted to Ofgem	22 January 2010

16 Comments on Suggested Text

To be advised

17 Suggested Text

To be advised

Code Concerned, sections and paragraphs

Uniform Network Code

Transportation Principal Document

Section(s) Section B – System Use and Capacity

Proposer's Representative

Name (Organisation) Fergus Healy

Proposer

Name (Organisation) National Grid NTS