

Modification Report
"Use it or lose it"(UIOLI) Interruptible Capacity only to be released when there is at most 10% unsold firm entry capacity
Modification Reference Number 0285
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

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).*

For clarification this Modification Proposal* covers the release of daily average unutilised firm capacity* known as Use It Or Lose It (UIOLI) Interruptible capacity (as detailed in section B2.5.11 of the UNC TPD)

Background

TO NTS Entry Commodity Charges* have increased year on year. This is due to growing under-recovery of TO Entry Capacity Revenue as a result, in part, of the large quantities of zero reserve priced capacity.

A reserve price* is set for entry capacity released via auctions i.e. Quarterly NTS Entry Capacity* (QSEC), Monthly NTS Entry Capacity* via the annual and rolling monthly* (AMSEC & RMTTSEC) auctions, and Daily NTS Entry Capacity* via the day-ahead and within-day (DADSEC & WDSEC) auctions. A 33% discount is applied to the day-ahead daily firm NTS Entry Capacity auction reserve prices and the within-day firm NTS Entry Capacity auction has a zero reserve price (100% discount) in compliance with the NTS Licence obligation to hold at least one clearing auction for each Aggregate System Entry Point * (ASEP) for each day.

Currently, Daily Interruptible NTS Entry Capacity* (DISEC) is released with a zero reserve price at the day ahead stage and any resulting revenue is treated as SO revenue in accordance with the NTS Licence. This may be a factor in how much NTS Entry Capacity* Shipper Users* procure via the longer term auctions. The under recovery of TO capacity revenues via the NTS Entry Capacity Charges* impacts the TO Commodity Charge*. Any shortfall in the recovery of revenues by National Grid NTS* through entry charges is picked up through the TO Commodity Charge which is paid by all Shipper Users.

The Interruptible quantity to be made available is currently defined as the daily average unutilised firm capacity, referred to as the UIOLI quantity, plus a discretionary amount of NTS Entry Capacity which National Grid NTS determines and is currently released at zero price. National Grid NTS is concerned that this interruptible capacity can be released while firm capacity remains unsold, potentially making the interruptible capacity firm (if the unsold

firm capacity is not procured) due to the low likelihood of curtailment.

Industry concern about the increased TO Entry Commodity Charges led to National Grid NTS launching a fundamental review of the entry charging principles through the formation of the industry entry charging review group (ECRG).

A major priority identified by the review group was to reduce the significant quantities of NTS Entry Capacity which are auctioned at zero reserve price. This could be achieved by the removal of the firm NTS Entry Capacity discounts, and by amending the circumstances under which Daily Interruptible NTS Entry Capacity is released, hence reducing the circumstances under which Interruptible NTS Entry capacity is made available.

The removal of the firm capacity discounts will be covered by a further UNC Modification Proposal and by an NTS Charging Methodology Proposal.

Proposal

National Grid NTS proposes that National Grid NTS only releases UIOLI interruptible Capacity at an Aggregate System Entry Point* (ASEP) when there is at most 10% Unsold NTS Entry Capacity* (UNC B2.1.5(c)(iii)) (expressed as a percentage of the NTS Entry Capacity that National Grid NTS is obliged to release in accordance with Licence Special Condition C8D(C)) remaining at the relevant ASEP prior to the daily auctions. The unsold quantity would be established prior to daily auctions.

i.e UIOLI will only be released at the relevant ASEP when the unsold ratio (calculated prior to the daily auctions) is less than or equal to 10%.

Unsold ratio equals $A/(B+C)$, or zero where $(B+C)$ equals zero.

Where:

A = Unsold NTS Entry Capacity (UNC B2.1.5(c) (iii))

B= NTS SO baseline Entry Capacity (UNC B2.1.5(a))

C = Incremental NTS Entry Capacity (UNC B2.1.5(b))

Supporting information

This does not impact on the trade and transfer process. The quantity unsold already takes into account the rolling monthly trade and transfer process (introduced by UNC Mod 187A).

Placing a limit on the circumstances under which Daily Interruptible NTS Entry Capacity is released would reduce the quantities of entry capacity auctioned at zero reserve price. The 10% unsold threshold is consistent with the proportion of obligated capacity held back from the QSEC auctions and is designed to avoid the circumstances when a small quantity of firm capacity remains unsold which would have resulted in no interruptible capacity being released.

For the avoidance of doubt this proposal does not affect the ability of National Grid NTS to release discretionary amounts of Daily Interruptible NTS Entry Capacity. This proposal does not place any restrictions on the circumstances when the discretionary amount might be released to avoid a potential scenario where the release of such quantities might have a positive impact on security of

supply.

For the avoidance of doubt, on the day the release of Available Daily Capacity* (section B2.4.13(a) of the UNC) would be assessed throughout the Gas Day, on an hourly basis, via the firm daily allocation process. The Available Daily Capacity (other than the element of any additional Daily NTS Entry Capacity which National Grid NTS may choose to make available in its sole discretion) would be reduced within Day to take into account the implied hourly rate for the remainder of the Day.

For the avoidance of doubt, the zero reserve price for Daily Interruptible NTS Entry Capacity would still apply.

Transmission Workstream Discussion

The following has been raised at the Transmission Workstream and is included for information only.

Consideration has been given to the possible inclusion of the daily quantities in the sold out quantity. Due to the close out of the Day Ahead Auctions (DADSEC) at 0200 at D-1 there is insufficient time remaining, prior to the 0600 close of day, to hold the interruptible auction (DISEC) and so it would not be possible to include the full DADSEC allocation within the calculation of the at most 10% unsold figure. An alternative of including the first DADSEC allocation only (2pm) has also been considered but there is again insufficient time prior to the 3pm allocation of DISEC.

An alternative to the restriction of the release of UIOLI was discussed at the Entry Charging Review meetings. This would be to continue to release the UIOLI as now but to put a reserve price on the UIOLI above the present zero value. This would not require a UNC Modification but a Charging Consultation instead. National Grid NTS would be happy to progress this as an alternative if Users consider it a more appropriate solution.

Suggested Text

Transportation Principal Document

Section B – System Use and Capacity

Amend paragraph 2.5.4 to read as follows:

“2.5.4 For each Day, in respect of each Aggregate System Entry Point:

- (a) by not later than 12:00 hours on the Preceding Day National Grid NTS will:
 - (i) determine whether the amount of Available Interruptible Capacity under paragraph 2.5.10(a) will be made available for release in accordance with this paragraph 2.5 and such amount will only be made available for release where the ratio determined in accordance with paragraph 2.5.12 (the “user ratio”) is less than or equal to 10%.
 - (ii) notify Users of the amount of Available Interruptible Capacity ~~by not later than 12:00 hours on the Preceding~~

Day; and

- (b) Daily Interruptible NTS Entry Capacity (up to the amount if any of the Available Interruptible Capacity) will be allocated pursuant to daily interruptible capacity bids in accordance with paragraph 2.7."

Add new paragraph 2.5.12 to read as follows:

"2.5.12 The user ratio is $A/(B + C)$ (or zero where $B + C$ is equal to zero)

Where:

A = Unsold NTS Entry Capacity

B = NTS SO Baseline Entry Capacity

C = Incremental NTS Entry Capacity."

2 User Pays

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

No changes to xoserve systems or processes have been identified and therefore this Proposal is not a User Pays proposal.

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

No User Pays charges applicable.

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

No User Pays charges applicable to Shippers.

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

No charges applicable for inclusion in ACS.

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;

Some respondents believed that implementation of this Proposal would encourage earlier booking of entry capacity because UIOLI interruptible capacity may not be available; this would assist system operation, because information on likely flows would be available earlier. Therefore, implementation would be consistent with the economic and efficient operation of the system. However, others felt system operation would be driven by Nominations, rather than capacity bookings, and so implementation would be neutral with respect to this relevant objective.

SSE considered that implementation would discourage maintenance of declining offshore fields and would therefore adversely affect the achievement of this 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;

Some respondents believed that, provided Proposal 0284 and the associated charging methodology change were implemented (such that reserve prices for daily capacity were no longer zero), implementation of this Proposal would avoid undue preference and so facilitate the achievement of this relevant objective. Unlike existing entry points, interruptible capacity is not made available at potential new entry points, so this option for purchasing capacity with a zero reserve price is not available. By reducing the occasions on which interruptible capacity is released, the occasions on which different treatment occurs at existing and potential new entry points would be reduced, thereby helping to avoid undue preference.

EDFE viewed this argument in respect of new entry points as disingenuous as capacity is not released at these entry points because they do not exist and there is no physical connection present. It is therefore impossible to release any capacity at these non-existent entry points, including AMSEC, DADSEC or WDDSEC.

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 of this Proposal would reduce the occasions on which Interruptible NTS Entry Capacity would be released and could be used by Shippers. Firm capacity utilisation would therefore be encouraged, and secondary capacity market trading may be encouraged, as firm capacity holdings would have an increased value. Some respondents believed that implementation would therefore facilitate competition between Shippers since it would facilitate a common price being paid for entry capacity.

Some respondents believed the reduced availability of interruptible capacity

could discourage use of the system by some categories of Shipper, such as those looking to support short term, low value uses. For example, if a marginal gas field is to be developed, this may be discouraged by implementation of the Proposal. Others saw this as creating a level playing field, removing an existing benefit for marginal fields, which would be consistent with facilitating competition.

While the impact of this Proposal alone may be limited, this Proposal is part of a suite of changes that are seeking to reduce the level of the TO Entry Commodity charge and hence seeking to avoid potential cross subsidies which may arise when this commodity charge represents a significant proportion of TO entry revenue. Removing potential cross subsidies is consistent with this objective.

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

Measures which reduce the level and volatility of the TO Entry Commodity Charge would be expected to make the GB a more attractive destination for gas through increased charging certainty.

Reducing the number of days on which interruptible capacity is released may discourage the development of marginal fields and so adversely impact security of supply.

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

a) Implications for operation of the System:

National Grid NTS believes that the operation of the system would not be adversely affected. This Proposal could prove beneficial to the operation of the system as more capacity could be booked long term thereby creating greater certainty. SSE considered that implementation would discourage maintenance of declining offshore fields and would therefore adversely affect system operation.

b) Development and capital cost and operating cost implications:

No cost implications have been identified.

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

Not Applicable.

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

Revenue associated with interruptible capacity is accounted for as SO revenue. If increased volumes of firm capacity are acquired ahead of the day, this would transfer revenue to TO rather than SO revenue.

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

No such consequences have been 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

No changes to UK Link, NTS systems or User systems have been identified.

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)

Shippers relying on interruptible capacity at present would face minor administrative or operational implications to the extent they would be acquiring firm capacity in future, potentially in different timescales.

Development and capital cost and operating cost implications

Nugatory development, capital and operating cost implications have been identified.

Consequence for the level of contractual risk of Users

EDF Energy identified that there would be an increase in contractual risk if contractual positions expose Shippers to production variations that are presently mitigated through the anticipated availability of zero cost interruptible capacity.

Other Shippers suggested they could face reduced contractual risk because of

greater certainty and lower costs in the form of TO Commodity Charges – which would reduce risks where these costs cannot be passed through to customers.

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

Individual consumers with transportation cost pass through contracts could see higher or lower charges, although the total level of charges would remain unchanged.

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

A number of respondents not supporting implementation considered that implementation might need to be reversed due to incompatibility with expected changes in European regulations.

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

Advantages

- as above

Disadvantages

- as above

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 parties:

Organisation		Position
BG Gas Services Ltd	(BG)	Support
British Gas Trading Limited	(BGT)	Support
E.ON UK plc	(E.ON)	Not in Support
EDF Energy plc	(EDFE)	Not in Support
EDF Trading Markets Limited	(EDFT)	Not in Support
ExxonMobil Exploration UK Limited, ExxonMobil Exploration and Production Norway AS, and ExxonMobil Gas Marketing Europe Limited	(EM)	Support
Gazprom Marketing and Trading Limited	(GP)	Not in Support
National Grid NTS	(NGNTS)	Support
RWE Npower plc, and RWE Supply and Trading GmbH	(RWE)	Support

Scottish and Southern Energy plc	(SSE)	Not in Support
Scottish Power	(SP)	Support
Statoil (UK) Limited	(STUK)	Support
Total E&P UK Limited	(TEP)	Support

Thus eight responses supported implementation and five did not support implementation.

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

No programme for works 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)

It is proposed that this Proposal would apply for capacity released on all gas days from and including 1 October 2010.

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

At the Modification Panel meeting held on 20 May 2010, of the 9 Voting Members present, capable of casting 10 votes, 7 votes were cast in favour of implementing this Modification Proposal. Therefore the Panel recommends implementation of this Proposal.

T Davis summarised that, were the Proposal to be implemented, UIOLI interruptible entry capacity would only be released when no more than 10% of

firm entry capacity remained to be sold. As a result of interruptible capacity not being available, either gas will not flow or Shippers will book more firm entry capacity. Since firm capacity will be available (at least 10% is unsold) and the reserve price is the same as for interruptible (zero) in the same timescale, the latter may be regarded as more probable. Encouraging the purchase of firm rather than interruptible capacity may also lead to some buying further ahead of the day, thereby encouraging longer term bookings.

Panel Members recognised that the arguments in favour of implementation were similar to those for Proposal 0284, with the key judgement being whether the securing of effective competition would be facilitated or harmed. Firm capacity utilisation would be encouraged, and secondary capacity market trading may be encouraged since firm capacity holdings would have an increased value. However, reduced availability of interruptible capacity could discourage use of the system by some categories of Shipper, such as those looking to support short term, low value uses. Some Panel Members saw this as creating a level playing field - removing an existing benefit for marginal fields – such that implementation would be consistent with facilitating competition.

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**

Transportation Principal Document

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 - (i) determine whether the amount of Available Interruptible Capacity under paragraph 2.5.10(a) will be made available for release in accordance with this paragraph 2.5 and such amount will only be made available for release where the ratio determined in accordance with paragraph 2.5.12 (the “user ratio”) is less than or equal to 10%.
 - (ii) notify Users of the amount of Available Interruptible Capacity ~~by not later than 12:00 hours on the Preceding Day;~~ and
- (b) Daily Interruptible NTS Entry Capacity (up to the amount if any of the Available Interruptible Capacity) will be allocated pursuant to daily interruptible capacity bids in accordance with paragraph 2.7.”

Add new paragraph 2.5.12 to read as follows:

0285: "Use it or lose it"(UIOLI) Interruptible Capacity only to be released when there is at most 10% unsold firm entry capacity

"2.5.12 The user ratio is $A/(B + C)$ (or zero where $B + C$ is equal to zero)

Where:

A = Unsold NTS Entry Capacity

B = NTS SO Baseline Entry Capacity

C = Incremental NTS Entry Capacity."

For and on behalf of the Relevant Gas Transporters:

Tim Davis
Chief Executive, Joint Office of Gas Transporters