

Modification Report
Facilitating the Reduction of Enduring Annual NTS Exit (Flat) Capacity by a value less than
100,000 kWh
Modification Reference Number 0288
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 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.

National Grid NTS* calculated, for each User* at each NTS Exit Point*, an initialised value of Enduring Annual NTS Exit (Flat) Capacity* the Users initialised value was calculated in accordance with UNC TDIIC Section 8.2. National Grid NTS then notified each User of their allocation of initialised Enduring Annual NTS Exit (Flat) Capacity at each NTS Exit Point prior to/by the 1st May 2009. This may, for certain Users at certain NTS Exit Points, have resulted in a User/s being allocated less than 100,000kWh of Enduring Annual NTS Exit (Flat) Capacity.

In accordance with the Exit Capacity Release Methodology Statement a four year user commitment is applied to requests for increases in Enduring Annual NTS Exit (Flat) Capacity however this user commitment is not applied to initialised Enduring Annual NTS Exit (Flat) Capacity bookings. Users were able to reduce their initialised values in the July 2009 reduction window (1st to 15th July) and can continue to do so at subsequent reduction windows (subject to lead times and the Exit Capacity Release Methodology Statement) until July 2011. However any request for a Reduction Amount* must be for an amount that is equal to or greater than the Minimum Eligible Amount* (100,000kWh per day) as such the UNC currently does not allow a User to request a Reduction Amount that is less than 100,000 kWh per day (UNC B3.1.4).

Proposal

National Grid NTS proposes to remove the Minimum Eligible Amount requirement for all Capacity reduction requests. This will enable any User with an Enduring Annual NTS Exit (Flat) Capacity quantity that is less than 100,000 kWh at an NTS Exit Point, to reduce their Enduring Annual NTS Exit (Flat) Capacity quantity, at that NTS Exit Point, in the reduction window or via an ad-hoc reduction request. This Proposal will also enable any User with an Enduring Annual NTS Exit (Flat) Capacity quantity that is greater than 100,000 kWh, at an NTS Exit Point, to request a Reduction Amount* of less than 100,000kWh, at that NTS Exit Point.

This Proposal does not propose to amend the Minimum Eligible Amount for NTS Exit (Flat) Capacity applications or for any NTS Entry Capacity mechanisms or to allow a User to apply for, bid for or offer to surrender NTS Exit Capacity of less than 100,000 kWh outside of the Capacity reduction window or ad-hoc reduction request, therefore this proposal will only apply to Enduring Annual NTS Exit (Flat) Capacity reduction requests.

For the avoidance of doubt National Grid NTS does not intend to make any changes to the User commitment rules detailed in the Exit Capacity Release Methodology Statement which will continue to apply to any and all Enduring Annual NTS Exit (Flat) Capacity reduction requests.

2 User Pays

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

The User Pays Service* that is being proposed in this Modification Proposal is the development and implementation necessary to allow Users to request a less than 100,000 kWh Reduction Amount of Enduring Annual NTS Exit (Flat) Capacity that accurately reflects their requirements. It is the view of National Grid NTS that this Proposal is a change/addition to the services provided by xoserve and as such National Grid NTS is of the view that this is a User Pays Proposal. Other Workstream attendees did not believe the Proposal met the definition of a User Pays Proposal in the UNC or User Pays Guidance Document. In addition, Ofgem initially indicated that costs of Exit Reform should be funded by National Grid and, as such, some Workstream attendees felt this should not be classified as a User Pays Proposal.

This change will provide a potential benefit for exit capacity holders and National Grid NTS. There are particular benefits for those Users that have been initialised with values less than 100,000 kWh who wish to reduce their Registered NTS Exit (Flat) Capacity holding and for those Users who at a future date may also find themselves with a Registered NTS Exit (Flat) Capacity holding that is less than 100,000 kWh who again wish to reduce their holdings. As a result of Users being able to reduce their holdings by less than 100,000 kWh, this would enable National Grid NTS to make available and potentially allocate such NTS Exit (Flat) Capacity.

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

xoserve has confirmed that the facility for National Grid NTS to enable Users to reduce their Enduring Annual NTS Exit (Flat) Capacity where their holding is less than 100,000 kWh may be catered for under the current Exit Reform system development and as such may be done at zero cost.

National Grid NTS proposes due to the reasons outlined above, that the split of the recovery of Implementation Costs should be:

50% Shipper Users* 50% Transporters

Other Workstream attendees felt that Transporters should bear 100% of costs.

National Grid NTS proposes that the Shipper User element of the Implementation costs be recovered via a one off implementation charge that is met by those Shipper Users who have

NTS Exit (Flat) Capacity holdings and would therefore benefit from this Proposal.

The Shipper User 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 that enable this change, in effect:

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

EDF Energy, RWE npower and Scottish and Southern Energy did not agree with the proposed User Pays split. RWE npower and Scottish and Southern Energy believed that any costs should be met by the Transporter. Scottish and Southern Energy acknowledged Shippers will benefit from this proposal but they believed that the proposed changes result from Exit reform implementation. Consequently costs should be incurred by the Transporter whom has already been funded through the DN sales process.

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

Any final individually invoiced amount would 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 estimate provided by xoserve, gives the following cost:

Cost per unit of capacity held 0.0000p/kWh

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

Any charge applied would be based on the formula outlined in Section 2 b) above and would 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;

SGN consider implementation of this Modification Proposal to be a pragmatic approach in allowing Users to reduce their Enduring Annual NTS Exit (Flat) Capacity value to zero which would accurately reflect their actual Capacity requirements. This in turn would enable National Grid NTS to make available any unsold NTS Exit (Flat) Capacity to other Users at an NTS Exit Point.

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 sub-paragraphs (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 sub-paragraphs (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 enable Users to reduce exit capacity holdings by less than 100,000kWh and so better reflect their requirements. This would lead to Shippers only paying for the capacity they require, with more accurate cost allocation facilitating effective competition.

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

National Grid NTS does not believe that this Proposal, if implemented will have any cost implications with regards to system implementation and operating costs provided the direction to implement is received prior to systems development being completed, which is

expected to be in June.

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:

Not applicable.

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

National Grid NTS would need to undertake development of the UK-Link system to accommodate this Proposal. National Grid NTS raised a ROM (Rough Order of Magnitude) request with xoserve to ascertain the indicative costs, xoserve's response has indicated that the change could be done at zero cost.

Please note the following:

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

As such, any charge is 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)

Workstream attendees felt any impact would be nugatory.

Development and capital cost and operating cost implications

No costs have been identified.

Consequence for the level of contractual risk of Users

No consequences on the level of contractual risk 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

Some consumers would face lower charges because capacity held on their behalf would better meet their requirements.

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 seven parties, who were all in support:

Organisation	Position
EDF Energy	Supports
National Grid Distribution	Supports
National Grid Transmission	Supports
RWE npower	Supports
Scotia Gas Networks	Supports
Scottish and Southern Energy	Supports
Scottish Power	Supports

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

To be part of the wider Exit Reform programme of works.

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

The Proposal could be implemented with immediate effect following direction from Ofgem. Since the Proposal would be incorporated within systems development as part of Exit Reform, an Ofgem direction by June would help to avoid implementation costs.

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, 10 votes were cast in favour of implementing this Modification Proposal. Therefore the Panel recommends implementation of this Proposal.

T Davis summarised that the Proposal seeks to remove the Minimum Eligible Amount requirement for all Capacity reduction requests. Implementation would therefore enable Users to reduce exit capacity holdings by less than 100,000kWh and so better reflect their requirements. This would lead to Shippers only paying for the capacity they require rather than being unable to reduce holdings by less than 100,000kWh. This would in turn lead to more accurate cost allocation, which would facilitate the securing of effective competition between relevant shippers.

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

UNC, Transportation Principle Document, Section B

Amend paragraph 3.1.4 as follows:

3.1.4 Subject to paragraph 3.2.15(d), a User may not apply for, bid or offer to surrender NTS Exit (Flat) Capacity at an NTS Exit Point in an amount less than 100,000 kWh per day (the "**minimum eligible amount**").

Amend paragraph 3.2.15 as follows:

- 3.2.15 A notice of reduction of Enduring Annual NTS Exit (Flat) Capacity may be given no earlier than 08:00 hours or later than 17:00 hours on a Business Day in the period 1 July to 15 July (inclusive) in any Gas Year (Y) and shall specify:
- (a) the identify of the User;
 - (b) the NTS Exit Point;
 - (c) subject to paragraph 3.2.16, the date, being the first day of a calendar month, on which the User wishes the reduction to be effective ("**User Reduction Date**");
 - (d) the amount of Enduring Annual NTS Exit (Flat) Capacity (which, notwithstanding paragraph 3.1.4, may be being not less than the minimum eligible amount) which the User no longer wishes to be registered as holding ("**reduction amount**");
 - (e) the remaining amount (which may not be less than zero) of Enduring Annual NTS Exit (Flat) Capacity which the User wishes to be registered as holding.

Amend paragraph 3.2.22 as follows:

- 3.2.22 A notice of reduction in respect of an invitation under paragraph 3.2.21 shall, in addition to the details referred to in paragraph 3.2.15 specify:
- (a) a User Reduction Date which is not earlier than the date specified in paragraph 3.2.21(b);
 - (b) the minimum amount of Enduring Annual NTS Exit (Flat) Capacity (~~being not less than the minimum eligible amount~~) in respect of which National Grid NTS may give effect to the notice of reduction ("**minimum reduction amount**").

For and on behalf of the Relevant Gas Transporters:

Tim Davis
Chief Executive, Joint Office of Gas Transporters