

Draft Modification Report
To determine the amount of Annual NTS Exit (Flat) Capacity to be released where the quantity of unsold NTS Exit Capacity fluctuates within the Gas Year.
Modification Reference Number 0289
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 these arrangements Users* will be able to apply for Annual NTS Exit (Flat) Capacity* rights in a July Annual Application Window * in Gas Year* (Y) for use from Gas Year Y+1, Y+2 or Y+3 onwards where the effective start date of the capacity will be the 1 October for each year.

However Enduring Annual NTS (Flat) Exit Capacity* can be both increased and reduced outside of the July Annual Application Window via an adhoc process between 1st October and the 30th June in each year, where this occurs and a request is accepted it may have an effective start date other than the 1 October thereby creating volumes of NTS Exit (Flat) Capacity* that are not then available for a full Gas Year. This can occur where:

- Enduring Annual NTS (Flat) Capacity increases and reductions are undertaken via the following processes:
 - Increases via an ad-hoc request and Advanced Reservation of Capacity Agreement* (ARCA) applications.
 - Decreases requested within the 1-15 July Annual Reduction window.
 - Decreases via an ad-hoc request made in response to an invitation issued by National Grid NTS.
- The use of permits. National Grid NTS is allowed, in accordance with incentive in its Gas Transporter's Licence*, a limited quantity of permits whereby it can extend or reduce the 38 month default lead time for the delivery of Enduring NTS Exit (Flat) Capacity in accordance with the Exit Capacity Release Methodology Statement*.

Where these scenarios occur resulting in effective start dates other than the 1 October for Enduring Annual NTS Exit (Flat) Capacity, there is an impact on the Remaining Available NTS Exit (Flat) Capacity* that is then made available in the Annual NTS Exit (Flat) Capacity application process i.e. this means that the remaining quantity that is available at a NTS Exit

Point* will fluctuate within the Gas Year and therefore the same set quantity would not be available for each and every day of a Gas Year.

Proposal

National Grid NTS proposes that only NTS Exit (Flat) Capacity which is available for the whole Gas Year i.e. can be made available for each day within the Gas Year, will be released as Annual NTS Exit (Flat) Capacity i.e. it will be the lowest quantity that is available at an NTS Exit Point at any point during the Gas Year.

For the avoidance of doubt if a quantity of NTS Exit (Flat) Capacity is available for a period of less than 12 months it will not be included in any Annual NTS Exit (Flat) Capacity offered for release in the Annual Application Window in July. For clarity, all ad hoc applications received (and not rejected) prior to the issue by National Grid NTS of the Annual Capacity Notification* will have an impact on and therefore reduce the amount of Annual NTS Exit (Flat) Capacity subject to the Annual Capacity Notification. However any NTS Exit (Flat) Capacity that has been excluded for these reasons and remains unsold will be made available via the Daily Invitation* process and may be obtained as Daily NTS Exit (Flat) Capacity* (as detailed in section B3.5 and Annex B-1 of the UNC).

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 is a change/addition to the service provided by xoserve and as such National Grid NTS is of the view that this is a User Pay Proposal.

National Grid NTS believe that this change will provide a clear benefit for all parties: DNC Users*, Shipper Users* and National Grid NTS. There are clearly discernable benefits for all industry parties in National Grid NTS providing clarity with regards to the quantities of Annual NTS Exit (Flat) Capacity that will be made available.

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 Pay Proposal, xoserve have confirmed that the facility for National Grid NTS to determine the amount of Annual NTS Exit (Flat) Capacity to be released where the quantity of unsold NTS Exit Capacity fluctuates within the Gas Year 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

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:

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

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

Any 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 level 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 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;

For the reasons given below, the Proposer believes that this Proposal will better facilitate relevant objectives A11.1 (a):

This Proposal will provide clarity with regards to the quantities of Annual NTS Exit (Flat) Capacity that will be made available in the July Annual Application Window, this will aid Users when determining their application strategies which may otherwise result in an inefficient outcome due to the lack of clarity around both the release mechanism and the quantity to be made available.

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 not be expected to better facilitate this relevant objective.

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 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;

National Grid NTS believes that in respect of Standard Special Condition A11(f), the promotion of efficiency in the implementation and administration of the network code and of the uniform network code would be improved by the implementation of this proposal.

This proposal would add clarity to the release arrangements of Annual NTS Exit (Flat) Capacity, providing clear and transparent rules as to the determination of the amount of NTS Exit (Flat) Capacity to be released via the Annual Application Window.

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:

National Grid NTS believes that the operation of the System* would not be adversely affected. Determining the release process of Annual NTS Exit (Flat) Capacity, where unsold NTS Exit (Flat) Capacity is not available for the whole Gas Year and so is released as Daily NTS Exit (Flat) Capacity, would optimize the release of NTS Exit Capacity.

b) Development and capital cost and operating cost implications:

National Grid NTS does not believe that this Proposal, if implemented will have cost implications with regards to system implementation and operating costs.

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

National Grid NTS believes that the Proposal will have no material impact on the level of contractual risk of each Transporter.

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 will 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 can 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 will be 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)

National Grid NTS believes there are no administrative or operational implications associated with this proposal. All unsold NTS Exit (Flat) Capacity remaining can be obtained in the Daily NTS Exit (Flat) Capacity auctions process.

Development and capital cost and operating cost implications

National Grid NTS is not aware of any such implications but would welcome responses from Users in this area.

Consequence for the level of contractual risk of Users

National Grid NTS is not aware of any such implications but would welcome responses from Users in this area.

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

Party

National Grid NTS is not aware of any implications, but would welcome responses from Users in this area.

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

National Grid NTS is not aware of any such consequences.

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

Advantages

National Grid NTS believes that the advantages of implementing this proposal would be:

- It provides a method to determine the quantity of Annual NTS Exit (Flat) Capacity which is a yearly product, to be released where the quantity of unsold NTS Exit (Flat) Capacity fluctuates within the Gas Year.
- It simplifies a potentially complex process, ensuring that the Annual NTS Exit (Flat) Capacity product is not impacted by any changes via any Ad-hoc applications or reductions.
- It offers additional short-term exit capacity. This gives flexibility to User(s) by providing additional choice in the duration of NTS Exit (Flat) Capacity required.
- May enable Users to adjust their portfolio of Annual NTS Exit (Flat) Capacity holdings as their demand forecasts become more certain.

Disadvantages

No disadvantages have been 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

Draft Proposal discussed at Transmission Workstream	04-Feb-10
Draft Proposal discussed at Transmission Workstream	04-Mar-10
Proposal submitted to Mod Panel	18-Mar-10
Proposal issued for consultation (subject to Mod Panel Approval)	18-Mar-10
Closeout for representations	07-Apr-10
Final Modification Report produced	08-Apr-10
Modification Panel decide upon recommendation	15-Apr-10
Proposed implementation date	01-Jun-10

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

Proposal could be implemented with immediate effect following direction from Ofgem.

17 Implications of implementing this Modification Proposal upon existing Code Standard 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

Representations are now sought in respect of this Draft Report and prior to the Transporter finalising the Report.

For and on behalf of the Relevant Gas Transporters:

Tim Davis
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