

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 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).*

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 incentives 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).

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User Pays

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

It was the view of National Grid NTS that this Proposal was a change/addition to the services provided by xoserve and as such was a User Pays Proposal.

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

EDFE pointed out that currently there are two definitions of a User Pays Modification Proposal. Whilst recognising that this Proposal met the particular definition of User Pays currently adopted by National Grid NTS, EDFE believed that it would be beneficial for clarity to be provided by the Authority on what Ofgem believe is, and is not, a User Pays Modification Proposal.

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

National Grid NTS was of the view (due to the reasons outlined above) that this was a User Pays Proposal, xoserve has 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 proposed 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 proposed 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.

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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:

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

Although supportive of this Proposal, SSE and EDFE did not agree with the proposed User Pays cost allocation of an equal split between Shippers and Transporters. SSE believed that these particular changes have resulted from the implementation of Exit Reform and as such the Transporter, who has been funded through the DN sales process, should therefore incur any associated costs.

EDFE noted that National Grid NTS provided the legal text associated with implementation of 0195AV and so ultimately it was responsible for the ambiguity that this had introduced. Implementation would therefore provide the greatest benefit to National Grid NTS as it would be protected from the risk of dispute resulting from its ambiguous legal text. On this basis therefore EDFE believed that this Proposal should be funded 100% by Transporters and in particular National Grid NTS. EDFE pointed out that this would also be consistent with the industry cost allocation matrix (ICAM) contained in the User Pays Guidelines that were developed by the Transporters. BGT shared this view

Whilst accepting National Grid NTS's proposal to split User Pays costs between Transporters and Shippers, RWE expected that any changes to be implemented would be at zero cost as any required system changes should be accommodated within the scope of current Exit Capacity systems development.

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.

BGT disagreed with the proposed apportionment of costs between Shippers. Given that the Proposal asserts that current holders of Exit capacity will be the beneficiaries, and that the benefit that such Shippers derive from this Proposal will be proportionate to their Exit capacity holding as of 01 October 2012, BGT believes that this basis for recharging any costs was inappropriate. EDFE shared this view but as the proposal looked to recover zero costs agreed that this may be considered as being of secondary importance

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, implementation would better facilitate this relevant objective:

Implementation would provide clarity with regard to the quantities of Annual NTS Exit (Flat) Capacity that would be made available in the July Annual Application Window. This would aid Users when determining their application strategies, which might 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 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 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 and hence 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:

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:

Implementation would have no cost implications with regard 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

Implementation would 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 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 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)

There would be no administrative or operational implications associated with this proposal. All unsold NTS Exit (Flat) Capacity remaining could be obtained in the Daily NTS Exit (Flat) Capacity auctions process.

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

The advantages of implementation are that it would:

- Provide 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.
- Simplify 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.
- Offer additional short-term exit capacity. This gives flexibility to User(s) by providing additional choice in the duration of NTS Exit (Flat) Capacity required.
- Possibly enable Users to adjust their portfolio of Annual NTS Exit (Flat) Capacity holdings as their demand forecasts become more certain.
- Add clarity and offers a significantly reduced risk to National Grid NTS under the UNC.

Disadvantages

- It is unclear how a request for ad-hoc capacity, which is subject to a demonstration date, and therefore would exceed the baseline, would be treated.

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
British Gas Trading	BGT	Not in Support
EDF Energy	EDFE	Supports
National Grid Distribution	NGUKD	Supports
National Grid Transmission	NGUKT	Supports
RWE npower and RWE Supply and Trading GmbH	RWE	Supports
Scottish and Southern Energy	SSE	Supports

Of the six representations received in response to this consultation, five respondents were in support of implementation, and one respondent was not in support.

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

None identified.

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 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 22 April 2010, of the 8 Voting Members present, capable of casting 9 votes, 6 votes were cast in favour of implementing this Modification Proposal. Therefore the Panel recommend implementation of this Proposal.

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 Principal Document, Section B

Amend paragraph 3.4.2 to read as follows:-

“For the purposes of Annex B-1, in relation to an annual capacity notification pursuant to this paragraph 3.4:

- (a) capacity applications may be made in the Annual Application Window;
- (b) the capacity periods are Gas Years Y+1, Y+2 and Y+3;
- (c) the amount of Annual NTS Exit (Flat) Capacity subject to such annual capacity notification in respect of each NTS Exit Point and each capacity period shall be the amount of Remaining Available NTS Exit (Flat) Capacity that is available for all Gas Days within that Gas Year ~~(in respect of such Gas Year)~~.

For and on behalf of the Relevant Gas Transporters:

Tim Davis
Chief Executive, Joint Office of Gas Transporters