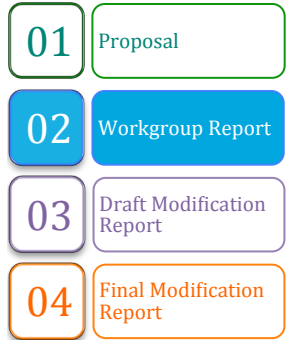


## Stage 02: Workgroup Report

# 0365:

## National Grid NTS Initiated Flow Swaps

What stage is this document in the process?



This modification proposal removes the impact that a National Grid NTS flow swap request may have, upon acceptance, on the relevant DNO Users individual flat overrun position in the enduring regime.



The Workgroup recommends  
That Modification 0365 be withdrawn



High Impact:



Medium Impact:  
National Grid NTS and DNO Users



Low Impact:

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## About this document:

The purpose of this report is make a recommendation to the Panel, to be held on 18 August 2011, on whether Modification 0365 is sufficiently developed to proceed to consultation and to submit any further recommendations in respect of the definition and assessment of this modification.



3 **Any questions?**

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8



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# 1 Summary

## Is this a Self Governance Modification

This is not a Self Governance Modification.

## Why Change?

National Grid NTS and/or a DNO User may request a revision to Offtake Profile Notices (OPNs) for two or more offtakes within a particular Local Distribution Zone (LDZ) where the revised rates of offtake requested are the same as the aggregate rates of offtake under the prevailing OPNs at the time the request is made. This process is commonly known as a flow swap request.

From the 1<sup>st</sup> of October 2012 (the start date of the enduring exit regime) DNO Users will be subject to Chargeable NTS Exit (Flat) Overruns and deemed applications (please refer to Section 3 below for further details). It would be inappropriate for a National Grid NTS initiated flow swap request to directly result in the relevant DNO User either incurring or increasing the quantity of an individual flat overrun.

## Solution

National Grid NTS proposes that, where the DNO User hasn't declined a National Grid NTS' flow swap request, a quantity of the Firm NTS Exit (Flat) Capacity Entitlement held by the relevant DNO User will be transferred from the NTS/LDZ Offtake where (as a result of the National Grid NTS request) the revised rates of offtake would decrease (the reducing NTS/LDZ Offtake(s)) to that same DNO User at the NTS/LDZ Offtake where as a result of the National Grid NTS request, the revised rates of offtake would increase (the increasing NTS/LDZ Offtake(s)). The quantity of Firm NTS Exit (Flat) Capacity entitlement transferred will, where possible, be equal to the end of day quantity of Gas requested to be transferred via the flow swap. This has the effect of neutralising any impact the flow swap would have on the DNO Users individual flat overrun position. For clarification and based on the DNO Users NTS Exit (Flat) Capacity entitlement at the time of the flow swap request being made, National Grid NTS will not transfer a quantity of NTS Exit (Flat) Capacity that would result in the DNO User holding negative Firm NTS Exit (Flat) Capacity entitlement at the reducing NTS/LDZ Offtake(s).



The UNC can be found on the Joint Office of Gas Transporters website at

[:www.gasgovernance.co.uk/U](http://www.gasgovernance.co.uk/U)

### What is an OPN?

In relation to a relevant System Exit Point or NTS/LDZ

Offtake:(a) a notification ("**Offtake Profile Notice**")

shall be provided to the

Transporter, not later than the time on the Preceding Day

specified in the Network Exit Provisions, setting out rates of

offtake throughout the Gas Flow Day, as defined under

UNC TPD J4.5.1(a)

### What is an individual flat overrun

If for any reason, in relation to an NTS Exit Point and a Day:

(a) the quantity of gas offtake by a User at the NTS Exit Point on the Day exceeds the User's Fully Adjusted Available NTS Exit (Flat) Capacity (**an "individual flat overrun"**)

as defined

under UNC TPD B3.13.1(a)



## Impacts & Costs

Discussions at the Offtake Arrangements Workgroup identified that implementing this modification may leave the position unchanged – the UNC already allows for the identified treatment to be applied. A range of scenarios was developed to indicate how flow swaps would be treated in a number of circumstances, demonstrating that no UNC modification is necessary.

However, National Grid NTS put forward that the modification has the following impacts:

- Mitigates the impact a National Grid NTS flow swap request may have on a DNO Users individual flat overrun position at the relevant NTS/LDZ Offtake(s) and ultimately the associated commercial exposure.
- Minimises the risk of a DNO User declining a National Grid NTS flow swap request on the grounds that it would negatively impact the relevant DNO Users individual flat overrun position at the increasing NTS/LDZ Offtake(s).
- Facilitates National Grid NTS use of Flow Swap Requests to manage its system in an economic and efficient manner which enables National Grid NTS to meet system demands and aid security of supply.
- DNO Users Firm NTS Exit (Flat) Capacity entitlements will be impacted at the increasing and reducing NTS/LDZ Offtake(s) detailed as part of the National Grid NTS requested flow swap.

### Costs :

While other Workgroup attendees did not consider the modification would change obligations, it is the view of National Grid NTS that this is a User Pays Modification.

- National Grid NTS raised a Rough Order Of Magnitude (ROM) with xoserve who have confirmed that this modification will result in a change to the Gemini system and therefore also a change/addition to the services provided by xoserve. Flow Swaps are currently in scope for development in conjunction with the Gemini Exit Phase 3 system development, as such the justification for a change/addition to the services provided by xoserve is based on the necessary additional requirements that this modification introduces.
- The User Pays Service that is being proposed in this modification is that National Grid NTS has the ability to transfer a quantity of the relevant DNO User's Firm NTS Exit (Flat) Capacity Entitlement from the reducing NTS/LDZ offtake to the receiving (increasing) NTS/LDZ offtake(s) within the same LDZ, unless the DNO User is of the reasonable opinion that the safe and efficient operation of the LDZ (consistent with the DNO's obligations to Users under the Transportation Principal Document) would be materially prejudiced by the flow of gas at the relevant Offtakes on the basis of the requested revisions
- National Grid NTS recognise that, although all Users could benefit from this proposal through the more economic and efficient running of the system, the main beneficiary is National Grid NTS. As such National Grid NTS are proposing to fund 100% of this change.
- The level of the costs (as detailed in the ROM) is dependent on timing of the system changes and are as follows:

### What is a Chargeable NTS Exit (Flat) Overrun?

3.13.1 If for any reason, in relation to an NTS Exit Point and a Day:

(a) the quantity of gas offtaken by a User at the NTS Exit Point on the Day exceeds

the User's Fully Adjusted Available NTS Exit (Flat) Capacity (**an "individual flat overrun"**);and

(b) the aggregate quantity of gas offtaken by all Users at the NTS Exit Point on the Day exceeds the sum of the Users' Fully Adjusted Available NTS Exit (Flat) Capacity (**an "aggregate flat overrun"**)

there is a **"Chargeable NTS Exit (Flat) Overrun"**, and the User shall pay a charge

**("NTS Exit (Flat) Overrun Charge")** in respect of NTS Exit Capacity at that NTS

Exit Point on that Day as defined under UNC TPD B3.13.1



## Estimated costs:

Exit Reform Phase III implementation: The solution will cost at least **£67k**, but probably not more than **£100k**

**NB:** *These are incremental costs for inclusion of the new rules into Phase III Exit Reform and are in addition to the current rules in Phase III scope, and are indicative as to the amount of money that the new MOD would attribute within the release. These costs are subject to change, dependant upon the timing of inclusion with the Phase III project.*

Stand-alone implementation of new MOD: The solution will cost at least **£144k**, but probably not more than **£206k**

Stand-alone implementation of all Flow Swap functionality: The solution will cost at least **£205k**, but probably not more than **£298k**. **NB.** There would be a reciprocal reduction in total Exit Reform phase III costs of between 0% and 3%

## Implementation

The Workgroup is not putting forward a timescale for implementation.

## The Case for Change

By ensuring that a National Grid NTS flow swap request will have no impact upon a DNO Users individual flat overrun position at the relevant NTS/LDZ Offtake(s), this modification may provide greater certainty to National Grid NTS that a flow swap request will not be declined by a DNO User, therefore allowing National Grid NTS to utilise flow swaps in the enduring regime in the same manner that it is currently able to. This will ensure the economic and efficient running of the system is not impacted, which in the absence of the proposed changes it may be.

Additionally this modification may confirm that, in complying with a National Grid NTS flow swap request, the DNO User would not then face the risk of consequential individual flat overruns (and ultimately Chargeable NTS Exit (Flat) Overruns and deemed applications) that may otherwise have resulted.

## Recommendations

The Workgroup invites the Panel to note that the Workgroup has not considered and assessed this modification. This is because National Grid NTS indicated an intention to withdraw the modification once a set of scenarios had been developed and agreed. While these have not yet been finalised, progress has been made and agreement on how to interpret the UNC is expected to be reached. That interpretation is expected to make this modification redundant. The Panel is therefore invited to

- Encourage the Proposer to withdraw Modification 0365; or
- If not withdrawn;
  - To agree the modification should proceed to consultation;
  - To agree that legal text should be produced for inclusion in the draft Modification Report; and

To agree that implementation cost estimates based on identified fixed decision dates should be produced for inclusion in the draft Modification Report.

## What is an NTS/LDZ offtake?

An "NTS/LDZ Offtake" is an Offtake at which gas can flow from the NTS into an LDZ defined under OAD A2.1.3

## Where can I find the rules for "flow swaps?"

The rules for Flow Swaps defined under UNC OAD I2.4 and I2.5

## What is NTS Exit Flat Capacity

"NTS Exit (Flat) Capacity", is capacity which a User is treated as utilising in offtaking gas from the NTS at a rate which (for a given Daily Quantity) is even over the course of a Day; B1.2.3

## What is an Annual Application Window

The "Annual Application Window" in a Gas Year (Y) is the period commencing at 08:00 hours and ending on 17:00 hours on each Business Day in July as defined under UNC TPD B3.1.9

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## 2 Why Change?

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, where the quantity of gas offtaken by a User at an NTS Exit Point on the day exceeds that User's Fully Adjusted Available NTS Exit (Flat) Capacity Entitlement and the aggregate quantity of gas offtaken by all Users at the NTS Exit Point on the Day exceeds the sum of the Users' Fully Adjusted Available NTS Exit (Flat) Capacity, there is a Chargeable NTS Exit (Flat) Overrun and the User shall pay a NTS Exit (Flat) Overrun Charge.

Additionally any User who has a Chargeable NTS Exit (Flat) Overrun in excess of 100,000 kWh/day, in any 12 month period ending March 31st ("Relevant Period"), is deemed to have made an application for Enduring Annual NTS Exit (Flat) Capacity at that same NTS Exit Point equal to the highest Chargeable NTS Exit (Flat) Overrun amount (the Deemed Application Amount) which the User incurred in that same Relevant Period at that same NTS Exit Point. The application would be made on the first day of the next following Annual Application Window (Gas Year Y) and subject to User Commitment in accordance with the principles in the Exit Capacity Release Methodology Statement.

Under current Uniform Network Code (UNC) arrangements National Grid NTS and/or the DNO User may request a revision to their OPNs for two or more NTS/LDZ offtakes within a particular LDZ, where the revised rates of offtake requested are the same as the aggregate rates of offtake under the prevailing OPNs at the time the request is made. This process is commonly known as a flow swap request.

The DNO User is required to comply with National Grid NTS' flow swap request unless, in the DNO's reasonable opinion, the safe and efficient operation of the LDZ (consistent with the DNO's obligations to Users under the UNC Transportation Principal Document) would be materially prejudiced by the flow of gas at the relevant Offtakes on the basis of the requested revisions, in which case the DNO User shall:

- (a) contact and inform National Grid NTS of the position as soon as possible following receipt of National Grid NTS' request; and
- (b) cooperate with National Grid NTS and use all reasonable endeavours to agree upon alternative revisions to Offtake Profile Notices

From the 1<sup>st</sup> of October 2012 DNO Users are subject to Chargeable NTS Exit (Flat) Overruns and deemed applications as detailed above.

Where a flow swap request from National Grid NTS would directly result in the relevant DNO User either incurring or increasing the quantity of an individual flat overrun (that may ultimately lead to a Chargeable NTS Exit (Flat) Overrun and therefore a deemed

application) at the increasing NTS/LDZ offtake(s) the DNO User could potentially decline National Grid NTS' flow swap request.

It would be inappropriate for a DNO User who has complied with a National Grid NTS flow swap request to consequently incur or increase the quantity of an individual flat overrun at the increasing NTS / LDZ offtake directly as a result of the National Grid NTS initiated flow swap. Given the above, National Grid NTS proposed a solution that neutralises the impact that a National Grid NTS flow swap request may have on the relevant DNO Users individual flat overrun quantity from October 1<sup>st</sup> 2012 onwards. However, other Workgroup attendees thought his outcome is already delivered and no UNC modification is necessary.

### 3 Solution

National Grid NTS proposes that when National Grid NTS request a DNO to submit revised OPN notices for two or more Offtakes for an LDZ (the flow swap request), the National Grid NTS request will specify the quantity of Firm NTS Exit (Flat) Capacity Entitlement held by the DNO user at the reducing NTS/LDZ Offtake(s) proposed to transfer to the increasing NTS/LDZ offtake(s) in addition to:

- The offtakes in respect of which such revision is requested
- The times with effect from which the DNO User is requested to revise the relevant rates of offtake
- The revised rates of offtake requested

Where the relevant DNO User chooses not to decline the National Grid NTS flow swap request within 15 minutes of the request being made, then the aforementioned quantity of Firm NTS Exit (Flat) Capacity Entitlement held by the relevant DNO User at the reducing NTS/LDZ Offtake(s) will be transferred to that same DNO User at the increasing NTS/LDZ Offtake(s) as detailed in the flow swap request.

The quantity of Firm NTS Exit (Flat) Capacity entitlement transferred will be equal to the end of day quantity of Gas requested (in kWh) to be transferred via the flow swap, assuming that quantity of Firm NTS Exit (Flat) Capacity is held by the relevant DNO User at the reducing NTS/LDZ Offtake at the time of the flow swap request being made. This has the effect of neutralising any impact on the DNO Users individual flat overrun position. National Grid NTS will not transfer a quantity of NTS Exit (Flat) Capacity that would result in the DNO User holding negative Firm NTS Exit (Flat) Capacity entitlement at the reducing NTS/LDZ Offtake(s) and this is further illustrated below.

For example, consider a National Grid NTS flow swap request for 500,000 kWh/d from Offtake A to Offtake B within the same LDZ that is effective from 18:00 hrs to the end of the Gas Day. The equivalent quantity of Firm NTS Exit (Flat) Capacity would be  $500,000 / 24 * 12 = 250,000$  kWh. In the event that the DNO Users Firm NTS Exit (Flat) Capacity entitlement at the reducing NTS/LDZ offtake is less than the equivalent flow swap quantity, then 100% of the DNO Users Firm NTS Exit (Flat) Capacity entitlement would be transferred from the decreasing NTS/LDZ Offtake to the increasing NTS/LDZ Offtake.

Where National Grid NTS have requested a Flow Swap and subsequently initiated a transfer of NTS Exit (Flat) Capacity entitlement, the DNO User will have 15 minutes from the request been made to decline the request. Where the request has not been declined within 15 minutes the flow swap request is deemed to have been complied with and the NTS Exit Capacity entitlement will be transferred accordingly. From acceptance of the Flow Swap the DNO User has up to a further 15 minutes to send the revised OPNs.

This proposal creates an additional business rule that neutralises the impact of a National Grid NTS initiated flow swap on a DNO Users individual flat overrun position only and does not materially impact the existing flow swap provisions that are detailed under OAD section I 2.4 and 2.5. Therefore the existing flow swap process also applies to this proposal including, but not limited to, the grounds for non-compliance and

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compliance of the flow swap request. Additionally, the transferred Firm NTS Exit (Flat) Capacity will, for the purposes of UNC, be treated as Firm NTS Exit (Flat) Capacity entitlement held at the increasing NTS/LDZ Offtake by the DNO User and as such the UNC provisions that apply to Firm NTS Exit (Flat) Capacity entitlement held by a User also apply to the transferred capacity.

The proposed solution does not have any impact upon the NTS Exit Capacity invoicing processes but the revised NTS Exit (Flat) Capacity Entitlement will be utilised in determining the relevant DNO Users individual flat overrun position for the relevant Gas Day at the relevant NTS/LDZ Offtake.

## 4 Relevant Objectives

Workgroup's view of the benefits against the Code Relevant Objectives	
Description of Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	See explanation Below
b) 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.	See explanation Below
c) Efficient discharge of the licensee's obligations.	None
d) 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.	None
e) 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.	None
f) Promotion of efficiency in the implementation and administration of the Code	None

The majority of Workgroup attendees did not believe the modification would change the existing UNC arrangements and hence implementation would have no impact on the relevant objectives, other than the inefficiency of administering and implementing a redundant modification. However, National Grid NTS put forward the following assessment:

### **Standard Special Condition A11 a). Efficient and economic operation of the pipe-line system.**

- National Grid NTS believe this Proposal ensures, where a DNO User complies with a National Grid NTS initiated Flow Swap, that the DNO User(s) has the comfort that there will be no additional risk of consequently receiving an increased Chargeable NTS Exit (Flat) Overrun and deemed Application and hence offset some of the risk of the flow swap process to the DNO User.
- This will enable the continued co-operation and flexibility that is in place currently for National Grid NTS initiated Flow Swaps by removing a potential risk to the DNO

User that could otherwise result in the DNO User declining a National Grid NTS Flow Swap request on the basis of the safe and efficient operation of the relevant LDZ.

- This proposal will eliminate the inefficient release of Enduring Annual Exit (Flat) Capacity as a result of a deemed application (or an increased deemed application) that may otherwise have directly resulted from a National Grid NTS initiated flow swap.
- This proposal removes a potential barrier to the acceptance of a National Grid NTS initiated Flow Swap and therefore helps to ensure the continued co-operation from the DNO User when National Grid NTS request a flow swap. This will enable National Grid NTS to continue to manage the system in the most efficient and economic manner by having the continued availability of flow swaps.
- The transfer of NTS Exit (Flat) capacity entitlement to meet requested offtake flow rate changes as well as facilitating the efficient and economic operation of the Transmission System allows Flow Swaps to be used as a potential tool that support the economic and efficient operation of the total system by minimising the risk of a constraint and any associated costs and consequently allows the total system to be delivered in a safe and efficient manner.

**Standard Special Condition A11 b) 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.**

- This proposal allows the continued use of Flow Swaps to be used by National Grid NTS as a tool to support the economic and efficient operation of the total system by minimising the risk of a constraint and any associated costs and consequently allows the total system to be delivered in a safe and efficient manner.

## 5 Impacts and Costs

### Costs

Indicative industry costs – User Pays
Classification of the Proposal as User Pays or not and justification for classification
User Pays since a new User Pays service is introduced.
Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification
National Grid NTS are proposing to fund 100% of the implementation costs.
Proposed charge(s) for application of Users Pays charges to Shippers
N/a
Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from xoserve
To be provided by National Grid NTS

### Impacts

Impact on Transporters' Systems and Process	
Transporters' System/Process	Potential impact
UK Link	<ul style="list-style-type: none"> <li>It is expected that the UK-link functionality will be introduced in conjunction with the Gemini Phase 3 system development</li> </ul>
Operational Processes	<ul style="list-style-type: none"> <li>None.</li> </ul>
User Pays implications	<ul style="list-style-type: none"> <li>National Grid NTS would fund the new User Pays service</li> </ul>

Impact on Users	
Area of Users' business	Potential impact
Administrative and operational	None
Development, capital and operating costs	None
Contractual risks	None
Legislative, regulatory and contractual obligations and relationships	None

## Where can I find details of the UNC Standards of Service?

In the Revised FMR for Transco's Network Code Modification

### **0565 Transco Proposal for Revision of Network Code Standards of Service**

at the following location:

<http://www.gasgovernance.com/networkcodearchive/551-575/>

<http://www.gasgovernance.com/networkcodearchive/551-575/>

Impact on Transporters	
Area of Transporters' business	Potential impact
System operation	None
Development, capital and operating costs	National Grid NTS believes that this Proposal, if implemented will have cost implications with regards to the system changes identified.
Recovery of costs	National Grid NTS pay 100% of costs
Price regulation	None
Contractual risks	None
Legislative, regulatory and contractual obligations and relationships	None
Standards of service	None

Impact on Code Administration	
Area of Code Administration	Potential impact
Modification Rules	None
UNC Committees	None
General administration	None

Impact on Code	
Code section	Potential impact
UNC TPD B3	
OAD section I	

Impact on UNC Related Documents and Other Referenced Documents	
Related Document	Potential impact
Network Entry Agreement (TPD I1.3)	None
Network Exit Agreement (Including Connected System Exit Points) (TPD J1.5.4)	None
Storage Connection Agreement (TPD R1.3.1)	None
UK Link Manual (TPD U1.4)	None

Impact on UNC Related Documents and Other Referenced Documents	
Network Code Operations Reporting Manual (TPD V12)	None
Network Code Validation Rules (TPD V12)	None
ECQ Methodology (TPD V12)	None
Measurement Error Notification Guidelines (TPD V12)	None
Energy Balancing Credit Rules (TPD X2.1)	None
Uniform Network Code Standards of Service (Various)	None

Impact on Core Industry Documents and other documents	
Document	Potential impact
Safety Case or other document under Gas Safety (Management) Regulations	None
Gas Transporter Licence	None

Other Impacts	
Item impacted	Potential impact
Security of Supply	National Grid NTS feel this proposal maintains Security of Supply
Operation of the Total System	National Grid NTS feel this proposal better facilitates the operation of the Total System
Industry fragmentation	None
Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties	None

## 6 Implementation

The Workgroup is not putting forward a timescale for implementation.

## 7 The Case for Change

None in addition to that identified above.

## 8 Legal Text

Legal text in support of this modification has not been provided.

## 9 Recommendation

The Workgroup invites the Panel to note that the Workgroup has not considered and assessed this modification. This is because National Grid NTS indicated an intention to withdraw the modification once a set of scenarios had been developed and agreed. While these have not yet been finalised, progress has been made and agreement on how to interpret the UNC is expected to be reached. That interpretation is expected to make this modification redundant. The Panel is therefore invited to

- Encourage the Proposer to withdraw Modification 0365; or
- If not withdrawn;
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