

Stage 04: Final Modification Report

0376S/0376SA:

Increased Choice when Applying for NTS Exit Capacity

What stage is this document in the process?



0376S: To increase the level of choice available to Users when applying for Enduring Annual NTS Exit (flat) Capacity. The proposal seeks to allow for ad hoc applications beyond Y+4 up to Y+6, which is allowed for in ARCA applications and applications in the July window. Also to allow for applications in the July window to be from a non-October start date whilst remaining consistent with the 38 month lead-time and User commitment principles.

0376SA: To increase the level of choice available to Users when applying for Enduring annual NTS Exit (Flat) capacity by enabling an ad hoc application to request a Capacity start date beyond Y+4 up to Y+6 and an application within the July Application Window to request a non October start date.



Panel implemented Self-Governance Modification 0376S



Panel did not implement Self-Governance Modification 0376SA



High Impact: NTS Exit Users, Shipper Users, DN Users and National Grid NTS

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About this document:

This document is a Final Modification Report, presented to the Panel on 19 January 2012.

The Panel will consider the views presented and decide whether or not either of these self-governance changes should be made.

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1 Summary



Are these Self-Governance Modifications?

The Modification Panel has determined that these are self-governance modifications.

The Modification Panel determined that these modifications meet the self-governance criteria - implementation would be unlikely to have a material effect on either:

- existing or future gas consumers; or
- competition in the shipping, transportation or supply of gas conveyed through pipes or any commercial activities connected with the shipping, transportation or supply of gas conveyed through pipes; or
- the operation of one or more pipe-line system(s); or
- matters relating to sustainable development, safety or security of supply, or the management of market or network emergencies; or
- the uniform network code governance procedures or the network code modification procedures.

National Grid NTS was concerned that the reduction in the Ad-hoc Application process threshold as outlined within 0376S may impact upon the Enduring Annual NTS Exit (Flat) Capacity application processes the consequences of which may lead to investment decisions that do not result in the most economic and efficient outcome. As such National Grid NTS has concerns that this may not meet the Self Governance Criterion that the modification is unlikely to have an adverse impact on: (i) (aa) existing or future gas consumers and (i) (bb) competition in the shipping, transportation or supply of gas. Although National Grid NTS recognised that the impact of 0376S on User behaviour is still uncertain (and may or may not result in an adverse impact) and did not believe there to be the same issue for 0376SA, it felt there may be merit in both 0376S and 0376SA being subject to regulatory oversight.

No other respondents felt self-governance is inappropriate.

Why Change?

To increase the level of choice available to Users when applying for enduring annual NTS exit (flat) capacity. Currently, enduring annual NTS exit (flat) capacity can be applied for during the annual application window in July for an October year+4, +5 or +6 start date. If this does not meet the User's desired application date or first capacity date requirements, an ad-hoc application process can be used. However, the ad-hoc process is restricted to Y+4, which may not provide sufficient time or certainty to the User. In addition, the minimum threshold for an application is 10GWh/day, which may prevent Users booking the capacity level they require. These represent significant risks when investing in a Power Station or Storage development and may lead to inefficient investment in the NTS to meet overstated capacity requirements.

Background

Q: What is "The Annual Application Window"?

A: In a Gas Year (Y) it is the period commencing at 08:00 hours and ending on 17:00 hours on each Business Day in July.

Q: What is "The Ad-Hoc Process"?

A: An application for Enduring Annual Exit (flat) capacity may be made at any time between 1 October and 30 June in Gas Year (Y) where the application is new or exceeds 10 Gwh/day or is greater than 125 % of existing baseline.

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Solution

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To provide more choice for Users the following changes to the UNC are proposed:

Ad hoc application Process:

- Extend the time for applications from Y+4 to Y+6;
- Reduce the minimum threshold application from 10 GWh/day to 1 GWh/day.

Annual Application Window:

- Allow applications during the July Annual Application Window for start dates of the 1st of any month between October Y+4 and September Y+6 rather than just 1st October.

0376SA

Users have indicated via UNC Workgroup 0376S they wish to see additional choice introduced to the Ad hoc Application Process and the Annual Application Window process with respect to Enduring annual NTS Exit (Flat) Capacity. This can be achieved through introducing the following changes into the UNC:

Ad hoc Application Process:

- Extend the time for applications from Y+4 to Y+6

Annual Application Window:

- Allow applications during the July Annual Application Window for start dates of the 1st of any month between October Y+4 and September Y+6 rather than the 1st October only.

Impacts and Costs

A Rough Order Magnitude (ROM) was requested from Xoserve to assess system development costs. The ROM costs and timeframes are as follows for either modification:

Stage 1. Analysis and Testing only of current system for most complex scenarios

Estimated costs:

The Analysis and Testing will cost at least **£56k**, but probably not more than **£96k**

Estimated duration:

Provision of an Evaluation Quotation Report (EQR) will take at least **2 weeks**, but probably not more than **3 weeks**, from the time that Xoserve receives a Change Order.

Provision of a Business Evaluation Report (BER), produced during an Analysis Phase, will take at least **6 weeks**, but probably not more than **8 weeks**, from the time that Xoserve receives a Business Evaluation Order (BEO).

To carry out the Testing will take at least **6 weeks**, but probably not more than **8 weeks** from the time that Xoserve receives a Change Authorisation.

Stage 2. System enhancement of Gemini screens (reports)

Estimated costs:

The solution will cost at least **£72k**, but probably not more than **£94k**, to implement known report enhancements.

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Estimated duration:

Provision of an Evaluation Quotation Report (EQR) will take at least **2 weeks**, but probably not more than **3 weeks**, from the time that Xoserve receives a Change Order.

Provision of a Business Evaluation Report (BER) will take at least **6 weeks**, but probably not more than **8 weeks**, from the time that Xoserve receives a Business Evaluation Order (BEO).

Delivery; including detailed analysis (including BUCs and SUCs), build, test, implementation and post implementation support; will take at least **15 weeks**, but probably not more than **18 weeks** from the time that Xoserve receives a Change Authorisation.

NB: The costs/timescales will increase if the need for further system enhancements is identified during Stage 1.

Implementation

As these are self-governance modifications, implementation can be 16 business days after a Modification Panel decision to implement.

The Case for Change

The UNC does not provide the flexibility or certainty that some Users may require when applying for NTS Exit Capacity. Increasing flexibility would offer the potential for reducing User costs and project uncertainty. In addition, implementation would reduce the risk of overstated bookings and, potentially, inefficient investment by National Grid NTS. Implementation would enable Users to make well-founded investment decisions and offers the flexibility for Users to tailor their capacity bookings more closely to their true requirements. Implementation would therefore better facilitate the Relevant Objectives.

2 Why Change?

Currently, Enduring Annual NTS Exit (flat) Capacity can be applied for during the July Annual Application Window for capacity to be registered as held from 1 October Gas year Y+4, Y+5 and Y+6. However, this October start date might not suit the User's development time lines both for the application date or the registered start date of holding capacity. This lack of flexibility in choice for any start date other than October may result in inefficient system investment and increased cost to customers because Users are constrained to timelines that might not be suitable. For example, a User may prefer to commission a power station during the lower priced summer months when gas and power prices are less volatile than at the start of winter.

Changing the Enduring Annual NTS Exit (flat) Capacity registered holding date to the first of any calendar month may result in more efficient network investment because capacity can be delivered on the date it is required, thus capacity does not have to be paid for when it is not required and this will result in lower cost to customers.

Developers and Users can also apply for Enduring Annual NTS Exit (flat) Capacity using an ad-hoc process. However, the ad-hoc process is restricted that a User cannot signal a Capacity start date that is later than the 1 October Y+4. This limitation does not provide sufficient time where the User wishes to provide National Grid NTS with a longer signal for their Capacity requirement and give National Grid NTS sufficient time to reinforce the network, and hence may not provide sufficient time nor certainty to the User. This presents an unnecessary obstacle and risk when investing in a Power Station or Storage development.

Looking to the future, CCGTs will be replaced as they approach the end of their economic asset life. In this case the same site will be used and the plant might be replaced with plant that has increased electrical power output. This may require more gas throughput and exit capacity than the existing booking. The current limits of 10 GWh/day or 125 % of existing capacity that exist for eligibility of using the ad-hoc application approach are too high and unnecessarily restrict the choices available to support efficient development.

3 Solution

Solution

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To provide more choice for Users the following changes to the UNC are proposed.

Ad hoc application Process:

- Extend the time for applications from Y+4 to Y+6,
- Reduce the minimum threshold application from 10 GWh/day to 1 GWh/day.

The minimum threshold application has been proposed at 1 GWh/day in light of the data produced by National Grid NTS from action 0503, (<http://www.gasgovernance.co.uk/0376S/020611>) which shows only 10 applications in 2010 for incremental capacity in excess of 1 GWh/day. In addition when replacing existing CCGT power stations with new plant in the coming decade the combination of increased efficiency and increased electrical output will typically result in incremental capacity volumes of just over 1GWh/day.

	MWe	Efficiency	Gas Capacity kWh/day
Existing	795	0.5	38,160,000
Repowered Site	900	0.55	39,272,727
Incremental capacity			1,112,727

Annual Application Window:

- Allow applications made during the July Annual Application Window for Enduring Annual NTS Exit (flat) Capacity to have a registered holding date of the 1st of any month between October Y+4 and September Y+6 rather than just 1st October.

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To provide more choice for Users when applying for Enduring annual NTS Exit (Flat) Capacity, the following changes to the UNC are proposed.

Ad hoc Application Process:

- Extend the time for applications from Y+4 to Y+6

Annual Application Window:

- Allow applications made during the July Annual Application Window for Enduring Annual NTS Exit (Flat) Capacity to be registered with effect from the 1st of any month in Gas Year Y+4, Y+5 and Y+6 rather than just the 1st October within each Gas Year.

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4 Relevant Objectives

Implementation will better facilitate the achievement of **Relevant Objectives c and d.**

The benefits against the Code Relevant Objectives	
Description of Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	No
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.	No
c) Efficient discharge of the licensee's obligations.	Yes
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.	Yes
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.	No
f) Promotion of efficiency in the implementation and administration of the Code	No
g) compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators	No

Standard Special Condition A11 c) Efficient discharge of the Licensee's obligations

Enabling applications during the Annual Application Window for specified dates other than 01 October potentially results in more efficient investment by National Grid NTS and lower costs to customers. If Users can specify a non 01 October start date because this suits their development time frame, then investment by National Grid NTS could be made on a timelier basis to meet the needs of the customer. This means that National Grid NTS can invest "Just in Time" and costs can be minimised for customers because they do not have to pay for capacity during periods when they cannot make use of it.

For example, a User wants to commission a CCGT starting in April. Currently a User would need to apply for Enduring Annual NTS Exit (Flat) Capacity to be registered with effect from 01 October six months earlier than the date that is required. The User then has to pay exit capacity charges for those months even though they cannot use the Capacity, and National Grid NTS may invest to ensure the network can meet capacity commitments six months earlier than necessary. Thus, the proposed change would

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enable better facilitation of Relevant Objective (c) with respect to licence obligations relating to economic and efficient system development.

By extending ad hoc applications from Y+4 to Y+6, Users may give more advance notice to National Grid NTS of their capacity requirements. This increased notice should allow National Grid NTS to plan and invest in the network in a more efficient manner, undertaking activities at the most cost effective time and in the most efficient manner. This would therefore facilitate achievement of GT Licence obligations regarding economic and efficient system development, supporting better facilitation of Relevant Objective (c).

Reducing the ad-hoc threshold from 10 to 1GWh (as proposed in 0376S only) could assist system planning and investment by ensuring a more accurate investment signal through signalling the appropriate demand rather than overstating what is needed, or waiting for the Annual Application Window. This would similarly facilitate licence obligations relating to economic and efficient system development. However, this could also discourage use of the annual application process and force National Grid NTS into a situation where it is managing applications throughout the year. This would increase costs and so be inefficient, with the most efficient outcome from a system planning process being one that takes account of the full spectrum of likely demands rather than looking at each in isolation.

National Grid NTS noted that, in respect of relevant objective (c), it has been stated that this means that National Grid NTS can invest "Just in time" and costs can be minimised for customers because they do not have to pay for capacity during periods when they cannot make use of it. Whilst National Grid NTS agrees that costs for the customer that makes the application will be minimised, it does not necessarily mean that National Grid NTS will make its investment in a timelier manner. Whilst there may be occasions (i.e. when the User requests a start date that is late within the Gas Year) that give National Grid NTS additional time to complete its build, National Grid NTS does not build during the Winter period and as such, most of the investment will have been completed prior to the commencement of the Gas Year for which the Capacity was required.

National Grid NTS recognised that reducing the ad-hoc threshold from 10 to 1GWh as proposed by 0376S may assist system planning and investment by enabling a more accurate investment signal through signalling the appropriate demand, but was not convinced that the current threshold would lead Users to overstate their capacity requirement. For the reasons outlined in their response National Grid NTS was concerned that reducing the threshold could discourage use of the annual application process and force National Grid NTS to manage applications throughout the year. This may lead to increased costs and be inefficient, as the most efficient outcome from a system planning process is one that takes account of the full spectrum of likely demands rather than looking at each in isolation.

AEP recognised that National Grid NTS had concerns with the potential volume of small incremental requests via the ad hoc process and not being able to consider these in parallel with other requests. However AEP did not expect there to be a large number of these such that this becomes a significant issue. This view was also held by RWE.

Standard Special Condition A11 d) Securing of effective competition

If, for example, a User wants to commission a CCGT starting in April, they would currently need to apply for Enduring Annual NTS Exit (Flat) Capacity to be registered with effect from 01 October, six months earlier than the date that is required. The User then has to pay exit capacity charges for those months even though they cannot use the Capacity. The proposed change would therefore enable better facilitation of Relevant Objective (d), securing effective competition between Shippers, because it ensures parties face the costs that they are responsible for and so improves cost targeting. In addition it offers the prospect of avoiding unwarranted costs and so exerting downward pressure on market prices, supporting effective competition.

Reducing the ad-hoc threshold from 10 to 1GWh (as proposed in 0376S) could assist some Users to signal the appropriate demand rather than overstating what is needed or waiting until they are able to signal their true demand in the Annual Application Window. This would similarly facilitate the securing of effective competition by ensuring that User costs are aligned with their actual requirements, helping to deliver cost reflectivity in support of competition. However, if increased volumes are processed through the ad-hoc process as a result of the threshold reduction, spare capacity could be allocated to the initial bidder and so not be available to others. There is therefore a risk that capacity allocations might be less appropriate with the lower threshold, and this would be counter to securing effective competition.

AEP believed that allowing non-October start dates and reducing the threshold to 1 GWh both enable capacity bookings to be matched to project requirements rather than having to book capacity early, wait for an Annual Application Window or book an exaggerated quantity. This will ensure that Shippers only face costs that align with their actual requirements and hence facilitate competition.

5 Impacts and Costs

Consideration of Wider Industry Impacts

No adverse impact on wider industry developments is anticipated.

Costs

Indicative industry costs – User Pays

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

User Pays - Xoserve costs of up to £190k have been identified through a ROM.

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

The modification potentially benefits all parties; both Shippers and DNOs will benefit from the additional flexibility that the changes to the Ad hoc Application and Annual Application Processes will introduce and National Grid NTS may benefit through the receipt of more efficient investment signals.

The following split of the recovery between Gas Transporters and Users is proposed:

- Gas Transporters 67%
- Users 33%.

For information, the cost apportionment was based upon the following:

National Grid NTS receiving 25% of the total costs. The remaining costs are split between Shipper and DNO Users based upon the level of Enduring Annual NTS Exit (Flat) Capacity each party currently holds for the 1st October 2012. This results in:

- DNO Users receiving 42% of the total costs
- Shipper Users receiving 33% of the total costs.

The overall Transporters split is derived by combining together the National Grid NTS and DNO User percentages.

SGN and WWU believe that a more appropriate apportionment of the User Pays charges should be Gas Transporters 25%, other Users 75%, with DNOs paying 10% of the combined Transporter (25%) amount.

National Grid Distribution (NGD) believed that the User Pays cost apportionment put forward in these modifications does not reflect the benefit that would be afforded to the parties that could make use of this facility; the DNO User share is by far the largest proportion and, as a group, the DNO Users would not be the principal beneficiaries. While NGD may be able to use this facility occasionally, it was not foreseen it will be able to take any systematic advantage from the implementation of either modification and, consequently, it believed that it was inappropriate that, as a single party, NGD should bear the largest portion of the implementation costs.

Observing that it would face 25% of these costs, National Grid NTS added that were 0376S to be implemented it may face additional operational and process costs arising from an increase in Ad-hoc applications.

AEP commented that the implementation costs seem high for what would seem relatively simple system changes.

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

The above costs would be pro rated between Shipper Users based on their Enduring Annual NTS Exit (Flat) Capacity holdings as a proportion of the total Enduring Annual NTS Exit (Flat) Capacity holdings held by all Shipper Users as of 01 October 2012. These charges will be one-off charges invoiced as soon as possible following the implementation of the system functionality.

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

To be confirmed.

Impacts

Impact on Transporters' Systems and Process

Transporters' System/Process	Potential impact
UK Link	<ul style="list-style-type: none"> System changes of up to £190k identified.

Operational Processes	<ul style="list-style-type: none"> National Grid may be required to amend its operational and planning processes.
User Pays implications	<ul style="list-style-type: none"> As above.

Impact on Users	
Area of Users' business	Potential impact
Administrative and operational	<ul style="list-style-type: none"> No material impact.
Development, capital and operating costs	<ul style="list-style-type: none"> Reduced costs due to capacity being booked on a more efficient basis.
Contractual risks	<ul style="list-style-type: none"> Reduced due to Users being able to request variable start months via the annual application process.
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> None.

Impact on Transporters	
Area of Transporters' business	Potential impact
System operation	<ul style="list-style-type: none"> None.
Development, capital and operating costs	<ul style="list-style-type: none"> More efficient development of the network due to capacity being signalled further in advance and at the required level.
Recovery of costs	<ul style="list-style-type: none"> User Pays.
Price regulation	<ul style="list-style-type: none"> None.
Contractual risks	<ul style="list-style-type: none"> Increased by obligation to meet more variable start dates.
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> None.
Standards of service	<ul style="list-style-type: none"> 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.co.uk/sites/default/files/0565.zip>

Impact on Code Administration	
Area of Code Administration	Potential impact
Modification Rules	<ul style="list-style-type: none"> • None.
UNC Committees	<ul style="list-style-type: none"> • None
General administration	<ul style="list-style-type: none"> • None.

Impact on Code	
Code section	Potential impact
For 0376S	
TPD section B section 3.	
<ul style="list-style-type: none"> • 3.2.1 • 3.2.3 (b) (ii) (2) • 3.2.4 (b) (ii) • 3.2.10 (c) 	<ul style="list-style-type: none"> • Add: Gas Year or the 1st of any specified month • 10 GWh to 1GWh (0376S only) • Change from Y+4 to Y+6 • Change from Y+4 to Y+6
For 0376SA	
UNC TPD B3.2.1	<ul style="list-style-type: none"> • Amend to reflect that a User may apply for Enduring Annual NTS Exit (Flat) Capacity from the 1st of any month within Gas Years Y+4, Y+5 & Y+6
UNC TPD B3.2.4(a) (ii)	<ul style="list-style-type: none"> • Amend to reflect that a User may apply for Enduring Annual NTS Exit (Flat) Capacity from the 1st of any month within Gas Years Y+4, Y+5 & Y+6
UNC TPD B3.2.4(b) (ii)	<ul style="list-style-type: none"> • Amend from Y+4 to Y+6
UNC TPD B3.2.10(c)	<ul style="list-style-type: none"> • Amend from Y+4 to Y+6

Impact on UNC Related Documents and Other Referenced Documents	
Related Document	Potential impact
Network Entry Agreement (TPD I1.3)	National Grid NTS will consider whether changes may need to be reflected in document.

Impact on UNC Related Documents and Other Referenced Documents	
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
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	Improved due to better facilitation of competition by better meeting customer needs.
Operation of the Total System	None
Industry fragmentation	None
Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties	Increased certainty and better matching of requirements for developers of NTS exit capacity.

6 Implementation

As self-governance procedures are proposed, implementation could be 16 business days after a Modification Panel decision to implement.

SSE and ScottishPower would like implementation to take place as soon as possible. This will then provide maximum flexibility for Users to make capacity bookings and maximum benefit.

National Grid NTS stated that the implementation date should be confirmed following completion of the analysis phase of system development and agreed between National Grid NTS and the Joint Office.

AEP expressed a desire that implementation take place as soon as possible and particularly before the July 2012 application window to avoid the potential need to make an October start booking in that window. RWE expressed a similar desire.

AEP would also like to seek assurances that implementation is not delayed to allow for the ExCR to be bought into line with the code.

EDF Trading believed there was no need for a lead-time.

7 The Case for Change

In addition to the advantages identified above, these modifications would better align Entry and Exit processes.

Advantages

- Providing more notice of exit capacity bookings beyond Y+4 and allowing an actual start month other than October will support more timely and hence economic and efficient investment in the system.
- Reducing the threshold to 1 GWh and allowing non-October start dates will allow capacity bookings to be matched to User requirements. This means Users can avoid unnecessary costs by having to book capacity before it is required and by having to book an unnecessary quantity of capacity. This will ensure that Shippers only incur costs reflective of their needs and thus facilitate competition.
- A lower volume threshold is more conducive to facilitating higher gas flows following plant enhancement (British Gas Trading).
- Will bring particular benefits for parties such as developers of new and/or refurbished CCGT power stations where commissioning dates and incremental efficiency improvements may well be significant factors in investment decisions (ScottishPower).

Disadvantages

- None identified.

8 Legal Text

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FINAL LEGAL TEXT

Underlined text signifies additions and strike through text signifies deletions.

Transportation Principal Document: Section B - SYSTEM USE AND CAPACITY

Amend paragraph 3.2.1 as follows:

3.2.1 In each Gas Year (Y) Users may apply for Enduring Annual NTS Exit (Flat) Capacity to be registered as held with effect from the first Day of any month within Gas Years Y+4, Y+5 or Y+6 or in accordance with the provisions of 3.2.3(b), at each NTS Exit Point, in accordance with the further provisions of this paragraph 3.2 and having regard to the Exit Capacity Release Methodology Statement.

Amend paragraph 3.2.3 as follows:

- 3.2.3 An application for Enduring Annual NTS Exit (Flat) Capacity:
- (a) during an Annual Application Window may be for an amount of Enduring Annual NTS Exit (Flat) Capacity equal to:
 - (i) where paragraph 3.2.25 applies in relation to a User and an NTS Exit Point, the sum of the deemed application amount and any additional Enduring Annual NTS Exit (Flat) Capacity (if any) which the User wishes to apply for at the NTS Exit Point; or
 - (ii) where paragraph 3.2.25 does not apply in relation to a User and an NTS Exit Point, the Enduring Annual NTS Exit (Flat) Capacity (if any) which the User wishes to apply for at the NTS Exit Point;
 - (b) may be made by a User at any time between 1 October and 30 June in Gas Year Y where the application is:
 - (i) in respect of a New NTS Exit Point; or
 - (ii) for an amount of Enduring Annual NTS Exit (Flat) Capacity which:
 - (1) if accepted would result in Users holding in aggregate an amount of Enduring Annual NTS Exit (Flat) Capacity in excess of 125% of the Baseline NTS Exit (Flat) Capacity at the NTS Exit Point in respect of the Gas Year for which the application is made; or
 - (2) exceeds 10 GWh/Day;
 - (c) shall specify:
 - (i) the identity of the User;
 - (ii) the NTS Exit Point in respect of which the application is made;

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- (iii) the Gas Year in respect of which the application is made; and
- (iv) the amount of Enduring Annual NTS Exit (Flat) Capacity applied for (being not less than the minimum eligible amount);

and where the User makes applications for different Gas Years (or any part thereof ~~in the case of an application made under paragraph 3.2.3(b)~~) the amount of Enduring Annual NTS Exit (Flat) Capacity applied for in respect of any later Gas Year shall be expressed as the amount in excess of the amount applied for in respect of any earlier Gas Year.

Amend paragraph 3.2.4 as follows:

3.2.4 A User:

- (a) in the case of an application made under paragraph 3.2.3(a):
 - (i) may submit an application for Enduring Annual NTS Exit (Flat) Capacity during the Annual Application Window;
 - (ii) may apply for Enduring Annual NTS Exit (Flat) Capacity to be registered with effect from ~~1 October~~ in the first Day of any month within Gas Years Y+4, Y+5 and Y+6;
 - (iii) may have, at any one time, no more than one (1) application for each of Gas Year Y+4, Y+5 and Y+6 for Enduring Annual NTS Exit (Flat) Capacity capable of acceptance by National Grid NTS in respect of an NTS Exit Point; and
 - (iv) may withdraw or modify an application under paragraph 3.2.3(a)(ii) at any time during the Annual Application Window, but may only modify (and not withdraw) an application under paragraph 3.2.3(a)(i) during such period by reducing the amount of Enduring Annual NTS Exit (Flat) Capacity applied for to not less than the deemed application amount;
- (b) in the case of an application made under paragraph 3.2.3(b):
 - (i) may apply for up to four (4) separate tranches of Enduring Annual NTS Exit (Flat) Capacity, specifying in each case the amount applied for in each separate tranche;
 - (ii) shall specify, in respect of each separate tranche applied for, the date with effect from which the User wishes to be registered as holding the Enduring Annual NTS Exit (Flat) Capacity, such date being not earlier than six (6) months from the date the application is made and not later than 1 October in Gas Year ~~Y+4~~ Y+6; and
 - (iii) in respect of a New NTS Exit Point, shall submit with its application such other documentation (as published by National Grid NTS from time to time) required by National Grid NTS for the purposes of commencing work on new connections to the NTS.

Amend paragraph 3.2.8 as follows:

- 3.2.8 In respect of an application made under paragraph 3.2.3(a):
- (a) where National Grid NTS has rejected or accepted in part only an application made by a DNO User pursuant to paragraph 3.7.5 for NTS Exit (Flexibility) Capacity or Section J2.5 in relation to an increase in the Assured Offtake Pressure in respect of Gas Year Y+4, Y+5 or Y+6, a DNO User may submit a revised application for Enduring

Annual NTS Exit (Flat) Capacity on any of the five (5) Business Days following 15 September in Gas Year Y ~~for~~ with effect from the first Day of any month within Gas Years Y+4, Y+5 and Y+6;

Amend paragraph 3.2.10 as follows:

3.2.10 Where an application is made under paragraph 3.2.3(b) (which is not rejected pursuant to paragraph 3.2.5) National Grid NTS will make an offer (in accordance with the principles in the Exit Capacity Release Methodology Statement) to the User which specifies:

- (a) the amount of Enduring Annual NTS Exit (Flat) Capacity offered, being equal to the amount applied for under paragraph 3.2.4(b)(i);
- (b) the date(s) with effect from which the User applied to be registered as holding the Enduring Annual NTS Exit (Flat) Capacity (or each separate tranche specified in the application);
- (c) the date(s) with effect from which National Grid NTS is able to make Enduring Annual NTS Exit (Flat) Capacity available at the NTS Exit Point, such dates(s) being not earlier than the date(s) with effect from which the User applied to be registered as holding Enduring Annual NTS Exit (Flat) Capacity and not later than 1 October in the Gas Year ~~Y+4~~ Y+6 ; and
- (d) where applicable, the Demonstration Date;

and National Grid NTS will use its reasonable endeavours to make available Enduring Annual NTS Exit (Flat) Capacity at the NTS Exit Point with effect from the date(s) from which the User applied to be registered as holding the Enduring Annual NTS Exit (Flat) Capacity.

0376SA

FINAL LEGAL TEXT

Underlined text signifies additions and strike through text signifies deletions.

Transportation Principle Document: Section B - SYSTEM USE AND CAPACITY

Amend paragraph 3.2.1 as follows:

3.2.1 In each Gas Year (Y) Users may apply for Enduring Annual NTS Exit (Flat) Capacity to be registered as held with effect from the first Day of any month within Gas Years Y+4, Y+5 or Y+6 or in accordance with the provisions of 3.2.3(b), at each NTS Exit Point, in accordance with the further provisions of this paragraph 3.2 and having regard to the Exit Capacity Release Methodology Statement.

Amend paragraph 3.2.3 as follows:

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3.2.3 An application for Enduring Annual NTS Exit (Flat) Capacity:

- (a) during an Annual Application Window may be for an amount of Enduring Annual NTS Exit (Flat) Capacity equal to:
 - (i) where paragraph 3.2.25 applies in relation to a User and an NTS Exit Point, the sum of the deemed application amount and any additional Enduring Annual NTS Exit (Flat) Capacity (if any) which the User wishes to apply for at the NTS Exit Point; or
 - (ii) where paragraph 3.2.25 does not apply in relation to a User and an NTS Exit Point, the Enduring Annual NTS Exit (Flat) Capacity (if any) which the User wishes to apply for at the NTS Exit Point;

- (b) may be made by a User at any time between 1 October and 30 June in Gas Year Y where the application is:
 - (i) in respect of a New NTS Exit Point; or
 - (ii) for an amount of Enduring Annual NTS Exit (Flat) Capacity which:
 - (1) if accepted would result in Users holding in aggregate an amount of Enduring Annual NTS Exit (Flat) Capacity in excess of 125% of the Baseline NTS Exit (Flat) Capacity at the NTS Exit Point in respect of the Gas Year for which the application is made; or
 - (2) exceeds 10 GWh/Day;

- (c) shall specify:
 - (i) the identity of the User;
 - (ii) the NTS Exit Point in respect of which the application is made;
 - (iii) the Gas Year in respect of which the application is made; and
 - (v) the amount of Enduring Annual NTS Exit (Flat) Capacity applied for (being not less than the minimum eligible amount);

and where the User makes applications for different Gas Years (or any part thereof ~~in the case of an application made under paragraph 3.2.3(b)~~) the amount of Enduring Annual NTS Exit (Flat) Capacity applied for in respect of any later Gas Year shall be expressed as the amount in excess of the amount applied for in respect of any earlier Gas Year.

Amend paragraph 3.2.4 as follows:

3.2.4 A User:

- (a) in the case of an application made under paragraph 3.2.3(a):
 - (i) may submit an application for Enduring Annual NTS Exit (Flat) Capacity during the Annual Application Window;
 - (3) may apply for Enduring Annual NTS Exit (Flat) Capacity to be registered with effect from 1 October in the first Day of any month within Gas Years Y+4, Y+5 and Y+6;
 - (iii) may have, at any one time, no more than one (1) application for each of Gas Year Y+4, Y+5 and Y+6 for Enduring Annual NTS

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Exit (Flat) Capacity capable of acceptance by National Grid NTS in respect of an NTS Exit Point; and

- (iv) may withdraw or modify an application under paragraph 3.2.3(a)(ii) at any time during the Annual Application Window, but may only modify (and not withdraw) an application under paragraph 3.2.3(a)(i) during such period by reducing the amount of Enduring Annual NTS Exit (Flat) Capacity applied for to not less than the deemed application amount;
- (b) in the case of an application made under paragraph 3.2.3(b):
 - (i) may apply for up to four (4) separate tranches of Enduring Annual NTS Exit (Flat) Capacity, specifying in each case the amount applied for in each separate tranche;
 - (ii) shall specify, in respect of each separate tranche applied for, the date with effect from which the User wishes to be registered as holding the Enduring Annual NTS Exit (Flat) Capacity, such date being not earlier than six (6) months from the date the application is made and not later than 1 October in Gas Year Y+4 Y+6; and
 - (4) in respect of a New NTS Exit Point, shall submit with its application such other documentation (as published by National Grid NTS from time to time) required by National Grid NTS for the purposes of commencing work on new connections to the NTS.

Amend paragraph 3.2.8 as follows:

3.2.8 In respect of an application made under paragraph 3.2.3(a):

- (a) where National Grid NTS has rejected or accepted in part only an application made by a DNO User pursuant to paragraph 3.7.5 for NTS Exit (Flexibility) Capacity or Section J2.5 in relation to an increase in the Assured Offtake Pressure in respect of Gas Year Y+4, Y+5 or Y+6, a DNO User may submit a revised application for Enduring Annual NTS Exit (Flat) Capacity on any of the five (5) Business Days following 15 September in Gas Year Y ~~for~~ with effect from the first Day of any month within Gas Years Y+4, Y+5 and Y+6;

Amend paragraph 3.2.10 as follows:

3.2.10 Where an application is made under paragraph 3.2.3(b) (which is not rejected pursuant to paragraph 3.2.5) National Grid NTS will make an offer (in accordance with the principles in the Exit Capacity Release Methodology Statement) to the User which specifies:

- (a) the amount of Enduring Annual NTS Exit (Flat) Capacity offered, being equal to the amount applied for under paragraph 3.2.4(b)(i);
- (b) the date(s) with effect from which the User applied to be registered as holding the Enduring Annual NTS Exit (Flat) Capacity (or each separate tranche specified in the application);
- (c) the date(s) with effect from which National Grid NTS is able to make Enduring Annual NTS Exit (Flat) Capacity available at the NTS Exit Point, such dates(s) being not earlier than the date(s) with effect from which the User applied to be registered as holding Enduring Annual NTS Exit (Flat) Capacity and not later than 1 October in the Gas Year Y+4 Y+6 ; and

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(d) where applicable, the Demonstration Date;

and National Grid NTS will use its reasonable endeavours to make available Enduring Annual NTS Exit (Flat) Capacity at the NTS Exit Point with effect from the date(s) from which the User applied to be registered as holding the Enduring Annual NTS Exit (Flat) Capacity.

9 Consultation Responses

Representations were received from the following parties:

Respondent			
Company/Organisation Name	0376S Support Implementation or not?	0376SA Support Implementation or not?	Stated Preference
Association of Electricity Producers	Support	Support	0376S
British Gas Trading	Support	Support	0376S
EDF Trading	Support	Neutral	0376S
National Grid Distribution	Support	Support	0376S
National Grid NTS	Qualified Support	Support	0376SA
RWE Npower plc & RWE Supply & Trading GmbH	Support	Qualified Support	0376S
Scotland and Southern Gas Networks	Qualified Support	Qualified Support	0376S
Scottish Power	Support	Support	0376S
SSE	Support	Support	0376S
Wales & West Utilities	Qualified Support	Qualified Support	0376S

0376S

Of the 10 representations received, 7 supported implementation and 3 offered qualified support.

0376SA

Of the 10 representations received, 6 supported implementation, 3 offered qualified support, and 1 preferred to remain neutral in its opinion.

Of the 10 representations received 9 expressed a preference for **0376S**.

Of the 10 representations received 1 expressed a preference for **0376SA**.

Summary Comments

Whilst offering Qualified Support for these proposals as it believed there were benefits to their implementation for Users, Scotland and Southern Gas Networks (SGN) observed that all examples provided in the modification to support the proposed change relate to Shipper Users, and although a DNO user may gain some future benefit from this change SGN did not envisage this to be in the magnitude reflected by the DNO share of the User Pays charges. In SGN's view a more reflective apportionment of the User Pays charges may be Gas Transporters 25% and Users

75%, with the Transporters split 15% NTS and 10% DNO'. The response by Wales & west Utilities also reflected this view.

National Grid NTS was concerned that the reduction in the Ad-hoc threshold may not result in the most economic and efficient outcome when investment decisions are being made, and that the reduction in the Ad-hoc Application threshold may result in the Ad-hoc Application process rather than the July Application Window becoming the principle means of booking Enduring Annual NTS Exit (Flat) Capacity. Such a change in behaviour may result in National Grid NTS having to assess the majority of applications for Enduring NTS Exit (Flat) Capacity on an individual basis i.e. staggered throughout the year, and National Grid NTS having to assess and respond to market signals received in isolation, compared to the current process whereby the majority of signals are received at the same time (via the July Application Window) and therefore considered in the round as part of a single investment decision/process. Such a staggered process may not result in the most economic and efficient outcome.

National Grid NTS also noted that a further consequence of this change in behaviour would be its impact upon National Grid NTS' existing Network Analysis resource. Currently National Grid NTS is able to plan for and allocate this key resource when it will be most required, the impact on this resource cannot be fully understood without knowing in advance both the number of applications and the likely dates of submission. However it was recognised that this risk may be mitigated by early contact and discussion with National Grid NTS regarding the scope of future projects and may largely be removed through signing a Pre Construction Agreement.

10 Panel Discussions

The Panel Chair summarised that, to increase the level of choice available to Users when applying for enduring annual NTS exit (flat) capacity, Modification 0376S proposes, for the Ad hoc application Process, to extend the time for applications from Y+4 to Y+6; and to reduce the minimum threshold application from 10 GWh/day to 1 GWh/day. Modification 0376SA is identical, but excludes the threshold change. Both 0376S and 0376SA propose, for the Annual Application Window, to allow applications during the July Annual Application Window for start dates of the 1st of any month between October Y+4 and September Y+6 rather than just 1st October.

Members recognised that increasing flexibility and choice for Users would be expected to facilitate the securing of effective competition. This would be because costs with respect to connections would only be paid for the period in which the system is used and, with the reduced threshold, for the level of usage anticipated.

Increasing the choice of start dates that can be specified, and lowering the threshold in the case of 0376S, would enable Users to more accurately signal their requirements to National Grid NTS. More accurate signals may create opportunities in some circumstances for National Grid to adjust their investment plans, thereby supporting licence obligations with respect to economic and efficient development of the system.

While recognising the benefits of flexibility, some Members were concerned that the reduction in the threshold proposed under Modification 0376S could lead to a significant increase in the number of applications received, and a consequential increase in the costs of administration and system planning, which could outweigh the benefits delivered by implementation.

Some Members considered that while implementation would be expected to facilitate the relevant objectives if the costs were apportioned appropriately, the proposed allocation of costs would lead to DNs meeting the majority of costs and hence implementation would be detrimental to the securing of effective competition between Transporters, since National Grid NTS would benefit while the distribution networks would meet the costs, with inappropriate cost allocations being detrimental to competition.

Members then voted regarding which of the two modifications would best facilitate achievement of the Relevant Objectives. With five votes cast in support of 0376S facilitating the relevant objectives better than 0376SA, and one vote in support of 0376SA facilitating the relevant objectives better than 0376, the Panel then voted whether or not to implement Self-Governance Modification 0376S.

With nine votes in favour and one abstention, the Panel determined that Self-Governance Modification 0376S should be implemented.

As a result of this outcome, no vote was taken on the alternative modification, which will not be implemented.

11 Recommendations

Panel Recommendation

Having considered Modification Report 0376S/0376SA, the Panel determines:

- that proposed self-governance Modification 0376S be made; and
- that proposed self-governance Modification 0376SA not be made.