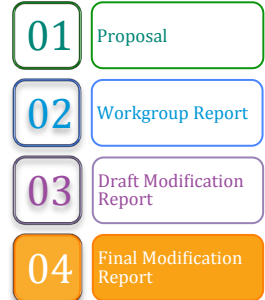


Stage 04: Final Modification Report

What stage is this document in the process?

0381:

Removal of the NTS Exit (Flat) Capacity “deemed application” process



Implementation of this Modification Proposal would remove the automatic (deemed) application for Enduring NTS Exit (Flat) Capacity in Y+4 that is triggered from a Chargeable NTS Exit (Flat) Capacity Overrun.

The Proposer believes that the deemed application process is inappropriate, unjustified, has several disadvantages and should therefore be removed from the UNC/Enduring Exit Capacity regime.



Panel determined this self-governance modification be implemented



High Impact:
N/A



Medium Impact:
N/A



Low Impact:
Users (Shippers and DNOs) and National Grid NTS

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About this document:

This document is a Final Modification Report, presented to the Panel on 20 October 2011.



3 **Any questions?**

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1 Summary

Is this a Self-Governance Modification

The Modification Panel determined that this is a self-governance modification.

Why Change?

The NTS Exit (Flat) Capacity deemed application process is unnecessary, inappropriate and should not form part of the Enduring NTS Exit Capacity arrangements that will take effect from 1 October 2012.

Solution

The proposed solution is to amend UNC TPD Section B and the Exit Capacity Release Methodology Statement (ExCR) to remove the deemed application process. For clarity, this proposal would not change the arrangements for NTS Exit (Flat) Capacity Overrun Charges but would simply remove the automatic application for Enduring NTS Exit (Flat) Capacity (as currently provided for in UNC TPD Section B 3.2.25).

Impacts & Costs

National Grid NTS have confirmed that there are no systems implications resulting from the implementation of this modification as it would be removing (or simply switching off) functionality within the central UK Link / Gemini system(s). Therefore this modification is not a User Pays Modification Proposal.

Implementation

There is no fixed timescale for implementation proposed. As the Enduring Exit Capacity arrangements take effect from 1 October 2012 it would be desirable, but not essential, for an implementation date prior to 1 October 2012.

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

The Case for Change

The deemed application process is an unnecessary addition to the overrun regime. By creating an automatic application for Enduring NTS Exit (Flat) Capacity this could lead to NTS Exit (Flat) Capacity being allocated to a User at an NTS Exit Point where it is not required and:

- 1) result in a User (and potentially the end consumer) incurring NTS Exit (Flat) Capacity Charges for up to 4 years for capacity that they have no intention of utilising;
- 2) result in National Grid NTS carrying out system reinforcement / investment, and there being a subsequent revenue driver impact, in order to provide unnecessary capacity;
- 3) where spare NTS Exit (Flat) Capacity is allocated to a User, such Capacity will be sterilised as it is not required by that User but is not available to others that may have a need for it.

Implementation is therefore expected to better facilitate the achievement of Relevant Objectives a and d.

2 Why Change?



Applicable UNC terms and references

Chargeable NTS Exit (Flat) Capacity Overruns are defined within UNC TPD Section B3.13.1.

NTS Exit (Flat) Capacity Overrun Charges are defined within UNC TPD Section B3.13.1 and are calculated in accordance with UNC TPD Section B3.13.3

The NTS Exit (Flat) Capacity deemed application process is unnecessary, inappropriate and should not form part of the Enduring NTS Exit Capacity arrangements that will take effect from 1 October 2012.

The deemed application process was introduced into the UNC as part of the Implementation of Modification Proposal 0195AV ("Introduction of Enduring NTS Exit Capacity Arrangements") although it will not take effect until the Enduring NTS Exit Capacity arrangements are applicable on 1 October 2012.

Background

When a User (Shipper or DNO) takes a quantity of gas on any day at an NTS Exit Point that is greater than the NTS Exit (Flat) Capacity registered to them this is known as an overrun (or more formally as a Chargeable NTS Exit (Flat) Overrun).

Any such overrun will cause the User to incur a NTS Exit (Flat) Overrun charge. The charge is calculated for each day that an overrun occurs on and is calculated as the chargeable overrun quantity (kWh) multiplied by the greatest of:

- 1) 8 times the Capacity bid price for the day or the Applicable Daily Rate for the year; or
- 2) 1.1 times the highest offer price, forward price, or option exercise price paid by NTS in respect of any ECMA (Exit Constraint Management Actions) on the day; or
- 3) 8 times the highest reserve price under any invitation for the Day or Gas Year in which the Day falls.

The overrun regime is in place to act as a suitable incentive for User to apply for an appropriate amount of NTS Exit (Flat) Capacity.

The deemed application process is triggered when a User incurs an NTS Exit (Flat) Overrun Charge.

UNC TPD Section B 3.2.25 states:

Where a User incurs an NTS Exit (Flat) Capacity Overrun Charge (in respect of a Chargeable NTS Exit (Flat) Overrun in excess of 100,000 kWh) in any twelve (12) month period ending on 31 March ("relevant period") the User shall be deemed to have made an application pursuant to paragraph 3.2.3(a)(i) for Enduring Annual NTS Exit (Flat) Capacity, in respect of the NTS Exit Point at which the Chargeable NTS Exit (Flat) Overrun occurred, on the first day of the next following Annual Application Window, and for the purposes of paragraph 3.2.3(c) the application shall be for:

- (a) Gas Year Y+4; and*
- (b) an amount of Enduring NTS Exit (Flat) Capacity equal to the highest Chargeable NTS Exit (Flat) Overrun amount which the User incurred at the NTS Exit Point in the relevant period ("deemed application amount")*

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and the further provisions of paragraph 3.2 shall apply in respect of any such application.

In plain English, this means that not only will a User incur an overrun charge, but the deemed application process will also take the User's highest daily overrun amount (kWh) in any year and treat it as an application for Enduring NTS Exit (Flat) Capacity for Gas Year Y+4. This deemed application would be subject to all relevant provisions within Section B and the NTS Exit Capacity Release Methodology Statement (the "ExCR").

The deemed application amount would also be subject to a User Commitment of 4 years, which would require the User to retain the NTS Exit (Flat) Capacity until Y+8 ((in accordance with and subject to the provisions within the ExCR).

Issue

The deemed application process is an unnecessary addition to the 'Overrun' regime described above. By creating an automatic application for Enduring NTS Exit (Flat) Capacity this could lead to NTS Exit (Flat) Capacity could be allocated to a User at an NTS Exit Point where it is not required and:

- 1) result in a User (and potentially the end consumer) incurring NTS Exit (Flat) Capacity Charges for up to 4 years for capacity that they have no intention of utilising;
- 2) result in National Grid NTS carrying out system reinforcement / investment, and a subsequent revenue driver, in order to provide unnecessary capacity;
- 3) where spare NTS Exit (Flat) Capacity is allocated to a User, such Capacity will be sterilised as it is not required by that User but and is then not available to others that may have a justified need for it.

3 Solution

Proposal

The proposed solution is to amend UNC TPD Section B and the NTS Exit Capacity Release Methodology Statement (ExCR) to remove the deemed application process. For clarity, this proposal would not change the arrangements for NTS Exit (Flat) Capacity Overrun Charges but would simply remove the automatic application for Enduring NTS Exit (Flat) Capacity (as currently provided for in UNC TPD Section B 3.2.25).

The issue of deemed applications was discussed at the Transmission Workgroup on 5 May 2011 and the Proposer provided the following presentation:

http://www.gasgovernance.co.uk/sites/default/files/NTS%20Exit%20Capacity%20Deemed%20Applications%20v1%202011_0.ppt

Members of the Transmission Workgroup were generally supportive of this matter being progressed as a Modification Proposal.



Where can I find the NTS Exit Capacity Release Methodology Statement and related publications?

The ExCR and related documents can be found on the NG NTS website at:

<http://www.nationalgrid.com/uk/Gas/Charges/statements/transportation/ExCR/>

4 Relevant Objectives



Why do we care about these relevant objectives, is it not obvious that this is a sensible thing to do without having to justify it against these measures?

Although it seems blindingly obvious that implementation of this Modification Proposal would bring benefits to the industry it is important that we look to see how it impacts on the relevant objectives, this is a key part of the UNC modification process.

It is a requirement of the Gas Transporter's licence that the UNC Modification Rules include these measures and this will also be used by the Modification Panel when evaluating the proposal.

Implementation will better facilitate the achievement of **Relevant Objectives a 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.	Yes
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.	No
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

Achievement of relevant objective (a) "Efficient and economic operation of the pipe-line system"

The deemed application process could lead to a User having NTS Exit (Flat) Capacity allocated to them, which they do not require. This will lead to NG NTS being obligated to provide, and operate the system in such way to facilitate the provision of, such capacity even though it will never be utilised; in doing so this would be inefficient and uneconomic.

Implementation of this modification would reduce the likelihood of NTS Exit (Flat) Capacity being allocated to User's that do not require it, and hence avoid National Grid NTS having to develop and operate the system such that the capacity could be provided, and so facilitate continuation of the efficient and economic operation of the pipe-line system (therefore furthering achievement of this relevant objective).

In their respective responses, British Gas, Corona Energy, IMSL, National Grid Distribution, National Grid NTS, Northern Gas Networks, RWE npower, Scotia Gas Networks, ScottishPower, SSE and Wales & West Utilities all agree that the modification would better facilitate the achievement of relevant objective (a). British Gas also noted that removal of the deemed application process is likely to lead to a

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more efficient and economic pipeline system –by virtue of capacity only being allocated to Users who genuinely want that capacity, leaving spare capacity for use by others. They also agree that removing the deemed application process could potentially avoid unnecessary network investment in order to deliver unwanted capacity. Northern Gas Networks also believe that removal of the deemed applications removes the opportunity for capacity to be inappropriately allocated to a party who has no intention of utilising it.

IMSL believe that the costs borne by a user would in all probability be passed on to the end consumer, and so have a material impact on the finances of these businesses (in addition to being a future liability) should the deemed application process remain in place.

National Grid NTS believe that the modification also meets the criteria for achievement of relevant objective (b) as the proposal provides for improvements to the efficiency of the entire network by removing the risk of National Grid NTS receiving investment signals from Deemed Applications that may be inflated when compared to the historic User Daily Exit Quantities. This would add clarity to the incremental process and hence could result in more economic and efficient investment.

Achievement of relevant objective (d)(i)&(iii) “Securing of effective competition between relevant Shippers and relevant DN Operators”

Shippers and DN Operators (both as Users) would benefit from the implementation of the modification by avoiding the unnecessary allocation of NTS Exit (Flat) Capacity for Gas Years Y+4 to Y+8. Such an allocation of capacity would cause the relevant User to incur additional costs (by way of NTS Exit (Flat) Capacity Charges) that could have a detrimental financial impact upon their business. Where an overrun has occurred the Overrun Charge acts as a suitable one-off payment, and the additional costs incurred through the deemed application process could lead to a User being unable to compete effectively due to the financial burden placed upon them. Implementation of this proposal would remove this risk and would therefore further this relevant objective by securing effective competition between Users.

In their respective responses, British Gas, Corona Energy, IMSL, National Grid Distribution, National Grid NTS, Northern Gas Networks, RWE npower, ScottishPower, SSE and Wales & West Utilities all agree that the modification would better facilitate the achievement of relevant objective (d). British Gas notes that the proposal provides shippers with greater control over their exit capacity. Northern Gas Networks believe that the appropriate allocation of capacity to Users will ensure that Users are charged for actual capacity requirements within their business, and not for additional capacity that they did not request.

5 Impacts and Costs

Consideration of Wider Industry Impacts

No impact on wider industry impacts would occur through implementation of this modification.

System Implications

Xoserve / National Grid NTS have confirmed that there are no systems implications resulting from the implementation of this modification as it would be removing (or simply switching off) functionality within the central UK Link / Gemini system(s). Therefore this modification is not a User Pays Modification Proposal.

Costs

Indicative industry costs – User Pays
Classification of the Proposal as User Pays or not and justification for classification
This Modification Proposal should not be considered as User Pays. It has been determined that there are no central system costs associated with the implementation of this modification and therefore there will be no User Pays Services or Charges created (and hence by definition it is not a User Pays Modification Proposal).
Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification
No cost recovery is necessary.
Proposed charge(s) for application of Users Pays charges to Shippers
There will be no User Pays Charges associated with this modification.
Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from Xoserve
Not applicable.

Impacts

Impact on Transporters' Systems and Process	
Transporters' System/Process	Potential impact
UK Link	<ul style="list-style-type: none">• None
Operational Processes	<ul style="list-style-type: none">• None
User Pays implications	<ul style="list-style-type: none">• None

Impact on Users

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 Users	
Area of Users' business	Potential impact
Administrative and operational	<ul style="list-style-type: none"> None
Development, capital and operating costs	<ul style="list-style-type: none"> None
Contractual risks	<ul style="list-style-type: none"> Contractual risk may be reduced by implementation of this modification
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"> National Grid NTS may benefit from implementation of this proposal by reducing the likelihood of having to operate the system in such a way as to provide capacity that is not required.
Development, capital and operating costs	<ul style="list-style-type: none"> See section above
Recovery of costs	<ul style="list-style-type: none"> None
Price regulation	<ul style="list-style-type: none"> None
Contractual risks	<ul style="list-style-type: none"> DNO's contractual risk may be reduced by implementation of this modification
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> None
Standards of service	<ul style="list-style-type: none"> None

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
UNC TPD Section B 3.2.25	Removal of deemed application provisions

Impact on UNC Related Documents and Other Referenced Documents	
Related Document	Potential impact
Exit Capacity Release Methodology Statement (TPD B3.2)	Removal of deemed application provisions
Network Entry Agreement (TPD I1.3)	n/a
Network Exit Agreement (Including Connected System Exit Points) (TPD J1.5.4)	n/a
Storage Connection Agreement (TPD R1.3.1)	n/a
UK Link Manual (TPD U1.4)	n/a
Network Code Operations Reporting Manual (TPD V12)	n/a
Network Code Validation Rules (TPD V12)	n/a
ECQ Methodology (TPD V12)	n/a
Measurement Error Notification Guidelines (TPD V12)	n/a
Energy Balancing Credit Rules (TPD X2.1)	n/a
Uniform Network Code Standards of Service (Various)	n/a

Impact on Core Industry Documents and other documents	
Document	Potential impact
Safety Case or other document under Gas Safety (Management) Regulations	n/a
Gas Transporter Licence	n/a

Other Impacts	
Item impacted	Potential impact
Security of Supply	n/a
Operation of the Total System	n/a
Industry fragmentation	n/a

Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties	n/a
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6 Implementation

There is no fixed timescale for implementation proposed. As the Enduring Exit Capacity arrangements take effect from 01 October 2012 it would be desirable, but not essential, for an implementation date prior to 01 October 2012.

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

7 The Case for Change

None in addition to that identified above.

8 Legal Text

Legal text

TPD Section B

Amend paragraph 3.2.3(a) to read 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;~~

Amend paragraph 3.2.4(a) to read 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 Gas Year 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;~~

Amend paragraph 3.2.25 to read as follows:

3.2.25 ~~Not Used~~ ~~Where a User incurs an NTS Exit (Flat) Capacity Overrun Charge (in respect of a Chargeable NTS Exit (Flat) Overrun in excess of 100,000 kWh) in any twelve (12) month period ending on 31 March ("**relevant period**") the User shall be deemed to have made an application pursuant to paragraph~~

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~~3.2.3(a)(i) for Enduring Annual NTS Exit (Flat) Capacity, in respect of the NTS Exit Point at which the Chargeable NTS Exit (Flat) Overrun occurred, on the first day of the next following Annual Application Window, and for the purposes of paragraph 3.2.3(c) the application shall be for:~~

~~(a) Gas Year Y+4; and~~

~~(b) an amount of Enduring NTS Exit (Flat) Capacity equal to the highest Chargeable NTS Exit (Flat) Overrun amount which the User incurred at the NTS Exit Point in the relevant period ("**deemed application amount**")~~

~~and the further provisions of paragraph 3.2 shall apply in respect of any such application.~~

9 Consultation Responses

Representations were received from the following parties:

Respondent	
Company/Organisation Name	Support Implementation or not?
British Gas Trading	Support
Corona Energy	Support
IMSL	Support
INEOS ChlorVinyls	Support
National Grid Distribution	Support
National Grid NTS	Qualified Support
Northern Gas Networks	Support
RWE npower	Support
Scotia Gas Networks	Support
ScottishPower	Support
SSE	Support
Wales & West Utilities	Support

Of the 12 representations received 11 supported implementation and 1 offered qualified support.

Summary Comments

In supporting the proposal, British Gas suggest that whilst entry and exit capacity regimes are notably different in certain aspects, as far as the proposal is concerned, the capacity regimes are sufficiently similar to give confidence that mirroring entry capacity overrun charging arrangements on exit overruns would drive similarly robust shipper behaviours.

INEOS ChlorVinyls consider that the deemed application process is an unnecessary punitive addition with adequate "disincentives" for users already being in place under the over-run regime. An additional measure beyond this would appear to be "belt and braces" but more importantly will result in National Grid providing unnecessary system reinforcement / capacity that is ultimately not required by the end consumer on a sustained basis. This will particularly impact large industrial consumers, e.g. chemicals plants, who may (rarely) see high demands due to process upsets, rather than generators, who will tend to run at maximum off take and decrease consumption in the event of upset. Taken to a logical conclusion National Grid NTS "capacity" will become equivalent to the aggregate of all consumers' highest ever demand – designed to cope with worst case independent events happening simultaneously – a "gold-plated" and less efficient network.

Corona Energy believe that the overrun penalties which will remain in place are sufficiently onerous to deter shippers from under-booking capacity and that the retention of the deemed application process would only drive unwarranted costs and inefficiencies into the market.

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National Grid Distribution observes that removing the deemed application aspect of the existing process would create an overrun regime that is consistent with the Entry Capacity Overrun regime, which in turn drives the right behaviours in Users when applying for Entry Capacity and provides investment signals for NTS. However, they also believe that consideration should be given to the existing deemed application process that could generate an investment signal in an area where there is already sufficient Capacity. On any one day the aggregate flow seen across the Offtakes in an area may not exceed the total capacity available in that area. An overrun at an individual Offtake may not accurately reflect a requirement for additional investment as the other Offtakes may be under flowing. This may generate unnecessary and inefficient costs in providing the 'signalled' Capacity. This signal would be more effective if it assessed the aggregate flow against the aggregate Capacity in the area, this would signal that there was not enough capacity to manage the flows in that area and generate an accurate signal to NTS. As a result, NGD would expect that there would be continued dialogue on this subject.

In providing qualified support, National Grid NTS is supportive of the principles of the modification, in particular the removal of the risk that NG NTS could receive false investment signals in the event of a Chargeable NTS Exit (Flat) Overrun being incurred by a User potentially leading to an automatic application for Enduring NTS Exit (Flat) Capacity. However, in their opinion the potential impacts of any deemed applications have been overstated within the proposal. In essence, whilst National Grid NTS broadly agree with the principles of the proposal they have concerns that the removal of deemed applications may result in a weakened incentive on Users to book an appropriate level of NTS Exit (Flat) Capacity. National Grid NTS do not believe that the proposal meets the self-governance criteria as they believe that it has a material impact on the exit overrun arrangements from 01 October 2012 onwards. Furthermore, they are of the view that the impact of the proposal on User behaviour is uncertain at this time and may or may not result in an adverse impact of efficient and timely capacity provision. As a consequence, they feel the magnitude of change and the relaxation of the incentive on Users to book the appropriate levels of NTS Exit (Flat) Capacity should be subject to regulatory oversight.

Northern Gas Networks agree with the view of the proposer that the process of deeming enduring capacity to Users (shippers and DNOs) which will become applicable in October 2012 as a result of UNC Modification Proposal 0195AV is not appropriate.

RWE npower state that they believe that the deemed application process is a disproportionate additional mechanism with the potential to introduce significant inefficiencies into the enduring exit capacity regime. Additionally, should the proposal be implemented, they believe that the magnitude and frequency of any overruns that occur should be monitored to determine the continued effectiveness of the overrun arrangements.

Scotia Gas Networks suggest that by removing the facility of the 'deemed application' Users will not be allocated additional NTS Exit (Flat) capacity which they do not require, potentially leading to the efficient operation of the NTS, preventing reinforcement/investment on the NTS from being carried out where it is not necessary. ScottishPower also believes that inappropriate system investment and associated costs would be avoided by implementation of the proposal.

In supporting the proposal, SSE believes that the deemed application process is an unnecessary addition to the overrun regime. Furthermore, they believe that creating an automatic application for Enduring NTS Exit (Flat) Capacity could lead to NTS Exit (Flat) Capacity being allocated to a User at an NTS Exit Point where it is not required. This has the potential to result in a User incurring NTS Exit (Flat) Capacity Charges for up to 4 years for capacity that they have no intention of utilising, and/or National Grid NTS potentially carrying out system reinforcement / investment in order to provide unnecessary capacity, and/or spare NTS Exit (Flat) Capacity allocated to a User becoming sterilised as it is not required by that User but is not available to others that may have a need for it.

As proposer, Wales & West Utilities observe that the existing deemed application process provides an unnecessary addition to the overrun regime. Furthermore, and similar to SSE, they believe that the current rules create a default application for Enduring NTS Exit (Flat) Capacity leading to this capacity being allocated to a User at an NTS Exit Point where it may not be required and as a consequence, this can lead to the sterilisation of capacity, as it is not required by that User, but equally, it is unavailable to other Users who may require it. A further inappropriate consequence is that the User will incur up to 4 years capacity charges (through a User Commitment) for the unwanted capacity. WWU also believe that following the withdrawal of modification proposal 0365 "National Grid NTS Initiated Flow Swaps", a GDN can incur an overrun at an NTS/LDZ Offtake following a flow swap when the aggregate amount offtaken is less than the aggregate Exit Capacity booking, potentially leading to GDNs booking additional capacity at certain NTS/LDZ Offtakes, despite it not being required, to ensure that it does not incur such penalties. This may avoid any potential overrun charges and deemed applications but would lead to additional costs being passed on to Shippers as well as double booking Capacity on the Total System.

10 Panel Discussions

The Chair summarised that the modification seeks to remove the arrangement by which any capacity overrun at an exit point is deemed to be an application for exit capacity. In the absence of the modification, a requirement for exit capacity could be inadvertently registered, despite there being no expectation nor intention to use additional capacity. This capacity signal would in turn be used for network planning purposes and could lead to inefficient investment and the sterilisation of capacity which others might wish to use.

By ensuring that capacity signals are better aligned with actual requirements implementation would be expected to facilitate efficient system investment, and hence facilitate the achievement of licence obligations. Avoiding sterilisation of capacity may also allow others to obtain and use exit capacity, consistent with facilitating the securing of effective competition. Effective competition would also be facilitated by ensuring that that exit capacity charges better reflect actual capacity requirements, increasing cost reflectivity – which supports development of a competitive market.

The National Grid Transmission Member disagreed, believing that the reduction in the incentive to book exit capacity in advance would be inappropriate and therefore investment signals would be weakened, such that implementation would not facilitate licence obligations with respect to economic and efficient investment.

With nine votes in favour and one against, the Panel determined that Self-Governance Modification 0381 be implemented.

Implementation will better facilitate the achievement of **Relevant Objectives a 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.	Yes
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.	No
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

11 Recommendations

Panel Decisionon

The Panel determined that Self-Governance Modification 0381 be implemented.