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12th September 2011
Your Reference:UNC Modification Proposal 0381

Re: UNC Modification Proposal 0381:
Removal of the NTS Exit (Flat) Capacity "deemed application" process.

Dear Bob,

Thank you for your invitation seeking representations with respect to the above Modification Proposal for which National Grid Gas Distribution (NGD) would like to offer support.

Do you support or oppose implementation?

Support/~~Qualified Support/Neutral/Not in Support/Comments~~* *delete as appropriate*

Please summarise (in one paragraph) the key reason(s) for your support/opposition.

The deemed application process was introduced as part of Modification 0195AV: Introduction of Enduring NTS Exit Capacity Arrangements, which will take effect from 1st October 2012. When a User (including a DNO User) offtakes more at NTS exit point than the quantity of capacity that it has booked, it will incur an overrun charge. This acts as an incentive to aid accurate booking. This charge should be sufficient incentive in its own right however, under the existing regime where an overrun is incurred (in excess of 100,000 kWhs) the User will be deemed to have made an application for enduring capacity. This would create disproportionate charges as it will result in a User (and potentially the end consumer) incurring NTS Exit (Flat) Capacity Charges for up to 4 years for capacity that they may have no intention of using. Consequently for NTS to use this as a signal to invest/reinforce would not be efficient. It could have the effect of sterilizing capacity, potentially making it unavailable for those who may require it.

Removing the deemed application aspect of the existing process would create an overrun regime that is consistent with the Entry Capacity Overrun regime. This has been in place for over a decade and has not been subject to any significant amendments, which in our opinion demonstrates that it drives the right behaviours in Users when applying for Entry Capacity and provides investment signals for NTS. Although there is a difference between Entry and Exit booking in that there isn't competition for capacity at the NTS to DNO offtakes, this is offset by the Licence obligation for DNOs

to book their 1:20 capacity requirements. This alone should ensure that NTS receive accurate long term investment signals.

As a way to improve the regime consideration should be given to the existing deemed application process which 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 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. We would expect that there will be continued dialogue on this subject.

Are there any new or additional issues that you believe should be recorded in the Modification Report

None identified.

Self Governance Statement:

Do you agree with the Modification Panel's decision that this should be a self-governance modification?

Yes

Relevant Objectives:

How would implementation of this modification impact the relevant objectives?

Standard Special Condition A11.1 (a): efficient and economic operation of the pipe-line system.

NGD concurs with the comments in the Draft Modification Report in relation to the better facilitation of this Relevant Objective.

Standard Special Condition A11.1 (d): so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers. NGD has no reason to disagree with the comments in the Draft Modification Report in relation to the better facilitation of this Relevant Objective.

NGD concurs with the comments in the Draft Modification Report in relation to the better facilitation of this Relevant Objective.

Impacts and Costs:

We understand that National Grid NTS has confirmed that there are no systems implications resulting from the implementation of this Modification Proposal. This is not a User Pays Modification Proposal.

Implementation:

What lead-time would you wish to see prior to this modification being implemented, and why?

As self-governance procedures are proposed, implementation could be 16 business days following a Modification Panel decision to implement. Implementation as soon as possible would be desirable.

Legal Text:

NGD is satisfied that the text as published by the Joint Office within the Draft Modification Report meets the requirements of the Modification Proposal.

Is there anything further you wish to be taken into account?

NGD has not identified any such matter.

We trust that this information will assist in the compilation of the Final Modification Report.

Please contact me on 01926 653994 (alison.chamberlain@uk.ngrid.com) should you require any further information

Yours sincerely,

Alison Chamberlain
Network Code, Distribution