

Representation

Draft Modification Report

0381 – Removal of the NTS Exit (Flat) Capacity “deemed application” process

Consultation close out date: 12 September 2011

Respond to: enquiries@gasgovernance.co.uk

Organisation: **National Grid NTS**

Representative: Sarah Lloyd

Date of Representation: 12 September 2011

Do you support or oppose implementation?

Qualified Support

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

National Grid NTS are broadly supportive of the principles contained within Modification Proposal 0381. In particular we support the removal of the risk that National Grid NTS could receive false investment signals, which could have occurred in the event of a Chargeable NTS Exit (Flat) Overrun being incurred by a User leading to an automatic application for Enduring NTS Exit (Flat) Capacity. However we consider that the likelihood of the potential impacts of deemed applications described within the proposal to be overstated. For example while an Overrun followed by a Deemed Application could in theory lead to unnecessary investment on the NTS, National Grid NTS would always exercise an efficient and economic approach in considering potential investment signals and therefore we consider that it is unlikely that deemed applications would lead to NTS reinforcement where it is clear from other information sources that such reinforcement isn't required. National Grid NTS do however feel that that the Modification proposal provides some limited benefit in removing such uncertainty and limiting investment signals to User driven, rather than behaviour driven (as a result of an overrun), capacity applications.

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

Whilst National Grid NTS broadly agree with the principles of Modification Proposal 0381 we do 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. It is our intention to review the effectiveness of the exit overrun regime post 1st October 2012 and, where appropriate, discuss the outputs from this review with the industry. We would welcome industry support for such a review and subsequent discussion.

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Self Governance Statement:

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

National Grid NTS does not feel that Modification Proposal 0381 meets the self governance criteria as it has a material impact on the exit overrun arrangements from 1st October 2012 onwards.

The Modification Proposal states that creating an automatic application for NTS Exit (Flat) Capacity could lead to *"a User (and potentially the end consumer) incurring NTS Exit (Flat) Capacity Charges for up to 4 years for Capacity they have no intention of utilising"*. This potential effect upon the end consumer contradicts Self governance Criterion (i)(aa) that a proposal, if implemented, should be unlikely to have a material effect on *"existing or future gas consumers"*. In addition to this the Proposer has asserted that Modification Proposal 0381 satisfies relevant objective (d)(i)&(iii), *"Securing of effective competition between relevant Shippers and relevant DN Operators"*, by the relevant parties avoiding the incurrance of costs that could have a detrimental financial impact upon their businesses. This effect upon the effective competition between Users contradicts Self governance Criterion (i)(bb) that a proposal, if implemented, should be unlikely to have a material effect on *"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"*.

The impact of the Modification 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. We therefore 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.

Relevant Objectives:

How would implementation of this modification impact the relevant objectives?

National Grid NTS for the most part agree that the implementation of Modification Proposal 0381 would better facilitate the achievement of relevant objectives (a) and (d)(i)&(iii). As part of the Proposers' justification of relevant objective (d)(i)&(iii) it is stated that *"the overrun charge acts as a suitable one-off payment"* where an overrun has occurred. As per our earlier recommendation (in the Additional Issues section) we believe that this should be kept under review going forward to ensure a suitable Exit overrun regime is established.

We also feel that the Modification Proposal meets the criteria for relevant objective (b) since it would improve 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. In addition to this the setting of release obligations (in accordance with the Gas Transporter Licence in respect of the NTS) at NTS Exit Points would be better aligned to the actual requirements of Users, thus providing greater clarity to National Grid NTS when making decisions regarding the release of NTS Exit Capacity amounts (including any discretionary release).

Impacts and Costs:

What analysis, development and ongoing costs would you face if this modification were implemented?

No analysis, development or ongoing costs have been identified by National Grid NTS to facilitate the implementation of Modification Proposal 0381.

Implementation:

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

Enduring Exit Capacity arrangements take effect from 01 October 2012; therefore it would be most appropriate for the implementation of this modification to be prior to this date.

Legal Text:

Are you satisfied that the legal text will deliver the intent of the modification?

National Grid NTS are satisfied that the legal text delivers the intent of the modification.

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

Please provide any additional comments, supporting analysis, or other information that that you believe should be taken into account or you wish to emphasise.

There are no further aspects that we wish to be taken into account.