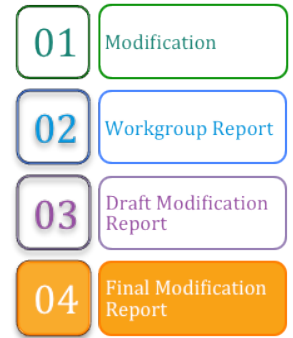


Stage 04: Final Modification Report

0407:

Standardisation of notice periods for offtake rate changes for all National Grid NTS Exit Users

At what stage is this document in the process?



This modification originally sought to remove a rule in the OAD, which limits a GDN's alteration to its aggregate LDZ rate of offtake by a maximum of 5% every 2 hours. The modification was amended during its development and it is now proposed to amend the application of the '2 hour 5% rule' to enable such that it will not apply to the GDNs unless National Grid NTS determines its necessity by a published methodology National Grid NTS to accept OPNs that do not comply with the rule where operational circumstances permit.



Panel recommended implementation



High Impact:



Medium Impact:



Low Impact: All Parties

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About this document:

This Final Modification Report will be presented to the Panel on 19 September 2013.

The Authority will consider the Panel's recommendation and decide whether or not this change should be made.



Any questions?

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1 Summary

Is this a Self-Governance Modification?

The Modification Panel determined that this is not a self governance modification.

Why Change?

The Offtake Arrangements Document (OAD) currently has a rule, which limits GDNs alteration of aggregate rate of offtake in any LDZ, by a maximum of 5% of its prevailing rate every two hours (this is commonly known as the 2 hour 5% rule). Changes are required for the following reasons:

- (i) This rule has been shown historically to be operationally unnecessary on the majority of days.
- (ii) All GDNs have been unable to comply with this rule on a consistent basis for their LDZs, due to the embedded large sites in some LDZs, where larger sites business requirements dictate that they need to ramp up and down more swiftly than the GDN can accommodate.
- (iii) There is no evidence that since the rule has been in place (since 2005), excursions from full compliance by the GDNs has in any way harmed the safe and efficient operation of the total system.
- (iv) Analysis completed by the GDNs (to build sufficient localised storage) to warrant compliance to the 2 hour 5% rule as currently drafted in OAD indicated costs in the order of £350 million.

Solution

The existing Short Term Access to System Flexibility Allocation Methodology to accept OPNs outside UNC rules will be expanded to include the 2 hour 5% rule such that National Grid NTS will issue notices to all Users when OPNs that do not comply with the 2 hour 5% rule may have to be rejected. Whether or not a notice has been given, National Grid NTS will consider any OPN that does not comply with the 2 hour 5% rule in accordance with new provisions to be set out in OAD I2.7.2 and 2.7.3 and where acceptance would give rise to an Operational Balancing Requirement, such OPN shall be rejected.

Relevant Objectives

The following relevant objectives are considered to be enhanced by the implementation of this modification;

c) Efficient discharge of the licensee's obligations and f) Promotion of efficiency in the implementation and administration of the Code.

Implementation

The Workgroup considers the following implementation timescales would be appropriate as GDNs would require 30 days notice to conclude NExA amendments prior to implementation. In addition, National Grid NTS will be utilising a communication route which is currently accessible by all Users but will need to put in place operational process changes internally:

01 November 2013 if a decision to implement is issued by 01 October 2013; 01 December 2013 if a decision to implement is received by 01 November 2013.

If a decision to implement is received after 01 November 2013, implementation 30 days following the decision to implement.

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2 Why Change?

The Offtake Arrangements Document (OAD) currently has a rule, which limits GDNs' alteration of aggregate rate of offtake in any LDZ, by a maximum of 5% of its prevailing rate every two hours (this is commonly known as the 2 hour 5% rule). Changes are required for the following reasons:

- (i) This rule has been shown historically to be operationally unnecessary on the majority of days.
- (ii) All GDNs have been unable to comply with this rule on a consistent basis for their LDZs, due to the mix of domestic loads and embedded large sites in some LDZs, where larger sites business requirements dictate that they need to ramp up and down more swiftly than the GDN can contractually accommodate due to its obligation to comply with the 2 hour 5% rule.
- (iii) There is no evidence that since the rule has been in place (since 2005), excursions from full compliance by the GDNs has in any way harmed the safe and efficient operation of the total system.
- (iv) Analysis completed by the GDNs (to build sufficient localised storage) to warrant compliance to the 2 hour 5% rule as currently drafted in OAD indicated costs in the order of £350 million.

Furthermore the following points are considered to be relevant:

- a) Potential large loads (i.e. Power Stations) who are considering connecting to the GDN pipeline system have expressed concern about the impact of the 2 hour 5% rule could have on their operations if this rule was passed on contractually by the GDNs. Some Workgroup participants considered that the retention of this rule has direct effects on potential investment in the GDNs
- b) The 2 hour 5% rule does not apply to loads directly connected to the National Grid NTS pipeline system, therefore such loads are potentially able to operate in a more flexible manner than equivalent connectees to the GDN system.

3 Solution

- 1) It is proposed that the existing Short Term Access to System Flexibility Allocation Methodology to accept OPNs outside UNC rules will be expanded to include the 2 hour 5% rule, such that National Grid NTS will issue notices to all Users when OPNs that do not comply with the 2 hour 5% rule may have to be rejected (reference legal text I 2.7.2 & I 2.7.3). Whether or not a notice has been given, National Grid NTS will consider any OPN that does not comply with the 2 hour 5% rule in accordance with new provisions to be set out in OAD I2.7.2 and 2.7.3 and where acceptance would give rise to an Operational Balancing Requirement, such OPN shall be rejected.
- 2) The mechanics of the proposed solution is to manage the existing OAD 2 hour 5% rule in a similar fashion to that which currently exists in UNC TPD J4.5.6 and J4.5.7 which allow National Grid NTS to accept a changed rate of offtake with a reduced notice period, as long as it does not give rise to an Operational Balancing Requirement.
- 3) The notifications issued to Shipper Users and GDN Users will be issued in accordance with the Short Term Access to System Flexibility Allocation Methodology produced pursuant to UNC TPD Section J7.3 by National Grid NTS. It is proposed that this methodology includes provisions for National Grid NTS to

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issue notices at the day ahead stage and shall include details concerning how National Grid NTS shall consider OPNs that do not comply with the 2 hour 5% rule.

<https://www.nationalgrid.com/uk/Gas/OperationalInfo/NTSExitZones/>

The following is provided for information and will not be included in the legal text.

Should National Grid NTS consider that an OPN requesting additional short-term system flexibility will give rise to an Operational Balancing Requirement then the likely timeframes for communication by National Grid NTS to all Users would be as follows:

- Communication 1 - day ahead advance notice D-1 by 22:00 : Risk that short term flexibility requests may not be accommodated
- Communication 2 – On the day notice anytime that short-term flexibility requests may not be accommodated.

Both communications may not necessarily be issued and National Grid NTS may issue and revoke communications as better information becomes available to them.

User Pays
Classification of the modification as User Pays, or not, and the justification for such classification.
This proposal is not a User Pays modification as no User Pays service is to be created or amended.
Identification of Users of the service, the proposed split of the recovery between Gas Transporters and Users for User Pays costs and the justification for such view.
Not applicable
Proposed charge(s) for application of User Pays charges to Shippers.
Not applicable
Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.
Not applicable

4 Relevant Objectives

Impact of the modification on the Relevant Objectives:	
Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	None
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.	None
c) Efficient discharge of the licensee's obligations.	Positive
d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	None
e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers.	None
f) Promotion of efficiency in the implementation and administration of the Code.	Positive
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.	None

c) Efficient discharge of the licensee's obligations:

The modification would facilitate the efficient discharge of standard special condition A9, in the GDN licence which refers to an obligation on the licensee to comply with a gas security standard, which meets peak aggregated daily demand including within day gas flow variations. This is because the solution proposed by this modification would avoid the investment costs for GDNs (identified in Section 2 above) of always having to comply with the 2 hour 5% rule.

The modification originally proposed the removal of the 2 hour 5% rule. National Grid NTS commissioned analysis, which indicated that the associated investment costs of such a proposal would be up to £1.4 billion.

Therefore, this modification is consistent with both the GDNs and National Grid NTS licence obligations to develop an economic and efficient pipeline system because this would avoid investment in the pipeline system which practice to date suggests would be uneconomic and inefficient. Evidence provided to the Workgroup indicates that the rule is breached by all GDNs on a regular basis without causing National Grid NTS operational issues.

In their consultation responses, National Grid Distribution, Scotia Gas Networks and Wales & West Utilities argue that implementation has a positive impact on the efficient discharge of licence obligations as it removes the potential for unnecessary investment cost for both DNs and NTS, whilst also promoting effective competition between

shippers on the Total System by removing constraints on shippers shipping on distribution systems.

f) Promotion of efficiency in the implementation and administration of the Code.

This modification partly codifies existing practices and amends the application of a UNC rule, which the GDNs cannot readily comply with, thereby promoting the efficient implementation of the Code.

Additionally, Wales & West Utilities suggest in their consultation response that implementation would improve efficiency in the implementation and administration of the Code by codifying existing practice.

5 Implementation

The Workgroup considers the following implementation timescales would be appropriate as GDNs would require 30 days notice to conclude NExA amendments prior to implementation. In addition, National Grid NTS will be utilising a communication route which is currently accessible by all Users but will need to put in place operational process changes internally:

01 November 2013 if a decision to implement is issued by 01 October 2013; 01 December 2013 if a decision to implement is received by 01 November 2013.

If a decision to implement is received after 01 November 2013, implementation 30 days following the decision to implement.

Impacts

Impact on Transporters' Systems and Process	
Transporters' System/Process	Potential impact
Operational Processes	<ul style="list-style-type: none">National Grid NTS considers there would be a minor impact on NTS operational processes, which currently expect GDNs to comply with the 2 hour 5% rule. System Operation would need to monitor the system and issue communications should they be needed.
Contractual risks	<ul style="list-style-type: none">GDNs would to amend NExAs prior to implementation of this modification.

In their consultation response, National Grid NTS believe that it will be necessary for them to review their procedures for issuing notices in relation to the restriction of short term flexibility, whilst adapting its procedures to encompass day-ahead notices in relation to the '2 hour 5 per cent rule'. Northern Gas Networks also indicate that they would need to amend some of their processes and agreements but do not consider this to be of significance as it is potentially offset by the benefits provided by the modification.

6 Legal Text

Text

The following Text has been prepared by Wales & West Utilities, and there were no issues raised by the Workgroup regarding its content. Underlined sections indicate new text with the remainder being provided for context and it is not proposed to delete any of the existing text.

UNIFORM NETWORK CODE – OFFTAKE ARRANGEMENTS DOCUMENT

SECTION I - NTS OPERATIONAL FLOWS

2.3.3 Where, pursuant to one or more revised Offtake Profile Notice(s) submitted by a DNO in relation to the Offtake(s) serving one LDZ, there is at any time (TRO) a change in the aggregate rate of offtake:

- (a) the time (TOPN) at which such revised Offtake Profile Notice(s) are submitted shall not be less than two hours before time TRO; and
- (b) the aggregate flow rate change, for any time (TRO) of the Day, pursuant to revised Offtake Profile Notices submitted within any one hour (HOPN) of the clock, shall not exceed 5%.

2.3.4 For the purposes of paragraph 2.3.3(b), in relation to any hour (HOPN), the aggregate flow rate change at any time (TRO) is the magnitude of difference between:

- (a) the aggregate rate of offtake at time TRO pursuant to the Offtake Profile Notices prevailing at the start of hour HOPN; and
- (b) the aggregate rate of offtake at time TRO pursuant to the Offtake Profile Notices prevailing (pursuant to any revisions thereof within hour HOPN) at the end of hour HOPN; expressed as a percentage of the aggregate rate of offtake at time TRO pursuant to the Offtake Profile Notices prevailing at the start of hour HOPN.

2.7 Variation of restrictions

2.7.1 The requirements and restrictions in this paragraph 2 in relation to Offtake Profile Notices (and revisions thereof) shall not apply to the extent that (subject to and in accordance with TPD Section J4.5.5, where applicable) National Grid NTS waives or agrees to vary any such requirement or restriction in a particular case.

2.7.2 Where, upon submission of a revised Offtake Profile Notice(s) by a DNO, National Grid NTS determines that it is feasible, consistent (so far as National Grid NTS can judge in the circumstances) with the expectation in paragraph 2.7.3 to make gas available for offtake at the relevant Offtake(s) serving one LDZ at a changed aggregate rate of offtake (specified in such revised Offtake Profile Notice(s)) upon a lesser period of notice than that referred to in paragraph 2.3.3(a) and/or at a greater rate of change than that referred to in paragraph 2.3.3(b), the Offtake Profile Notice(s) will be accepted.

2.7.3 The expectation referred to in paragraph 2.7.2 is that the offtake of gas at the rates of offtake in the revised Offtake Profile Notice(s) on such lesser period of notice and/or greater rate of change should not, of itself and at the time, give rise to an Operational Balancing Requirement (but it is recognised that such change in rates of offtake may contribute to any such requirement at any later time).

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UNIFORM NETWORK CODE – TRANSPORTATION PRINCIPAL DOCUMENT

SECTION J – EXIT REQUIREMENTS

4.5.4 In relation to a relevant System Exit Point, the Network Exit Provisions will prescribe a period of notice to be given (by way of modified Offtake Profile Notice) to the Transporter of any change ("Offtake Rate Change"), by reference to the prevailing Offtake Profile Notice, in the rate of offtake of gas, which period of notice may depend:

- (a) on whether the Offtake Rate Change is an increase or a decrease in rate of offtake;
- (b) on the amount of the Offtake Rate Change, expressed as an absolute amount or a percentage of a rate determined from the Permitted Offtake Rate or otherwise; and
- (c) on whether any earlier change in the rate of offtake has been notified or occurred within any specified period before the Offtake Rate Change.

4.5.5 The Offtake Profile Notice may be modified, as to the rate of offtake from and after any time, by notice before that time of the period referred to in paragraph 4.5.4 but (without prejudice to paragraph 5.6 or 5.8 where either applies) not otherwise.

4.5.6 Where, upon a request to that effect, the Transporter determines that it is feasible, consistently (so far as the Transporter can judge in the circumstances) with the expectation in paragraph 4.5.7 to make gas available for offtake:

- (a) at the relevant System Exit Point at a changed rate of offtake (specified in such request) upon a lesser period of notice than that referred to in paragraph 4.5.4, the Offtake Profile Notice may be modified in accordance with such request;
- (b) at an NTS/LDZ Offtake an Offtake Profile Notice may be submitted or modified in accordance with such request.

4.5.7 The expectation referred to in paragraph 4.5.6 is that:

- (a) for the purposes of paragraph 4.5.6(a), the change in rate of offtake on such lesser period of notice
- (b) for the purposes of paragraph 4.5.6(b), the offtake of gas at the rates of offtake in the requested Offtake Profile Notice should not, of itself and at the time, give rise to an Operational Balancing Requirement (but it is recognised that such change in rates of offtake may contribute to any such requirement at any later time).

7.3 Short-term increase in NTS Exit (Flexibility) Capacity

7.3.1 In relation to an NTS/LDZ Offtake, for the purposes of 4.5.5:

- (a) a request referred to in paragraph 4.5.6(b) is a request for an increase in the amount of NTS Exit (Flexibility) Capacity held by the DN Operator at the NTS/LDZ Offtake for the Day;
- (b) such a request may be made by submitting a proposed Offtake Profile Notice which (in the absence of such an increase in NTS Exit (Flexibility) Capacity) would not comply with the requirement in paragraph 7.2.2;

- (c) National Grid NTS may accept such request by accepting such proposed Offtake Profile Notice, in which case the DN Operator's NTS Exit (Flexibility) Capacity for the purposes only of the application of Section B3.13.4, for the Day shall be increased by the lowest amount which results in the requirement in paragraph 7.2.2 being satisfied in relation to the Offtake Profile Notice.

7.3.2 Where (at any time) more than one User has made a request pursuant to paragraph 4.5.6(a) or (b), National Grid NTS shall consider such requests on the basis of such allocation principles as National Grid NTS shall from time to time establish and publish for the purposes of this paragraph 7.3.2.

7.3.3 The allocation principles established in accordance with TPD Section J7.3.2 shall include provisions for National Grid NTS to issue a notice on the Preceding Day. Such notice shall indicate that requests pursuant to paragraph 4.5.6(a) or (b) or OAD Section I2.7.2 may not be accommodated by National Grid NTS on the relevant Day specified in the notice.

7.3.4 The allocation principles established in accordance with TPD Section J7.3.2 shall include details of how National Grid NTS shall consider requests made in accordance with OAD Section I2.7.2.

7 Consultation Responses

Representations were received from the following parties:

Company/Organisation Name	Support Implementation or not?
DONG energy	Support
National Grid Distribution	Support
National Grid NTS	Support
Northern Gas Networks	Support
RWE Supply & Trading	Comments
Scotia Gas Networks	Support
Wales & West Utilities	Support

Of the 7 representations received, 6 supported implementation and 1 provided comments.

Summary Comments

National Grid NTS stated that throughout the development of this proposal they had sought to balance the requirements of all of their connected customers. The offtake arrangements for Distribution Network offtakes impact the offtake arrangements for all other NTS Directly Connected customers. National Grid NTS believes that it is important therefore to ensure that offtake arrangements are developed in a manner that is seen to ensure no undue discrimination between these contracted parties, and efficient development and operation of the pipeline system. It was with this in mind that National Grid NTS worked with the Proposer and put forward the suggested revised arrangements which formed the basis of the final proposal. National Grid NTS also wishes to emphasise that, under the proposed solution, the '2 hour 5 per cent rule' will not be switched on and off. The rule will remain in place at all times. National Grid NTS may accept OPNs that request flow rate changes which are outside of the rule (in accordance with National Grid NTS' 'Short Term Access to System Flexibility Allocation Methodology') where to do so would not give rise to an Operational Balancing Requirement. National Grid NTS will endeavour always to issue a notice warning that OPNs outside of the rule may need to be rejected before having to reject OPNs. However, there may be circumstances where such notice cannot be given, and where National Grid NTS has to move straight to OPN rejection. Following the issue of either a D-1 or D short term system flexibility restriction notice it is the expectation of National Grid NTS that all offtakes, including LDZ aggregates, will comply with the contractual offtake requirements as set out in the UNC.

Wales & West Utilities welcome the transparency offered by this UNC Modification in communicating that the rule is on via industry communications. They believe that this transparency will support operational discussions between themselves and their customers in the event that flexibility is constrained.

8 Panel Discussions

The Panel Chair summarised that the UNC limits the change in aggregate rate of offtake in any LDZ by a maximum of 5% every two hours. This modification provides that any change that exceeds this 2 hour 5% rule will be accepted by National Grid NTS provided that doing so is not expected to give rise to an Operational Balancing Requirement.

The Chair drew attention to the information provided by the system operators that, to enable them to efficiently meet customer requirements, this rule is frequently breached by the distribution networks. The Transmission System Operator has not sought to enforce the rule since, to date, they have been able to accommodate the requested changes. Implementation of the modification could, therefore, be regarded as codifying the existing arrangements. Members accepted that implementation of the modification would not be expected to have a significant impact on the way in which systems are operated, and hence would be neutral with respect to the relevant objective of facilitating efficient and economic operation of the pipe-line system.

Transporter licences require economic and efficient development of the system. Members noted that implementation of the modification would retain the Transmission System Operator's right to enforce a 2 hour 5% rule when operationally necessary, thereby avoiding any investment that National Grid NTS may need to incur to meet its obligations if the rule were not to apply under any circumstances. Similarly, implementation of the modification would clarify that the DNs are not expected to invest in their systems such that they can meet their obligations without breaching the 2 hour 5% rule. By ameliorating the risk of investment being undertaken that has been shown to be operationally unnecessary under most operating conditions, Members considered that implementation would facilitate the relevant objective of efficient discharge of the licensee's obligations.

Members recognised that implementation of the modification would provide assurance that the DNs would be more likely to be able to accommodate connection requests from loads that may wish to connect to an LDZ provided flexible operation can be provided. This potentially allows additional load to be connected to the system, thereby expanding the market. As such, implementation would be consistent with facilitating the securing of effective competition between Shippers.

Ensuring the UNC reflects underlying operational requirements and does not impose unnecessary restrictions is consistent with furthering the relevant objective of promotion of efficiency in the implementation and administration of the Code. By ensuring that the 2 hour 5% rule does apply when needed, and does not when not needed, Members considered that implementation of the modification would further this relevant objective.

Members then voted and determined unanimously to recommend that Modification 0407 be implemented.

9 Recommendation

Panel Recommendation

Having considered the Modification Report, the Panel recommends:

- that proposed Modification 0407 should be made.

10 Additional Supportive Information

Modification 0407: Appendix to Workgroup Report

In view of the long development period for this Modification, and that the solution proposed by this Workgroup Report is different to that originally envisaged by the Proposer, the Workgroup has produced this appendix in order to summarise the key developments of this Modification.

The original Modification of 25 November 2011 proposed standard treatment with regard to notice periods for offtake rate changes for all Users that offtake gas from the NTS. The removal of the '2 hour 5% rule' ('the Rule') from the OAD was proposed. The Proposer's case for change, in relation to Relevant Objectives, was:

a) Efficient and economic operation of the pipe-line system

GDNs are currently required to manage storage to ensure they comply with the LDZ 2 hour 5% rule. This is not an efficient or economic operation of the GDN pipeline system.

b) Coordinated, efficient and economic operation of

(i) The combined pipe-line system, and/or (ii) The pipeline system of one or more relevant gas transporters

The existing rules may require GDNs to invest in storage to accommodate the 2 hour 5% rule. This would not be an efficient investment and runs contrary to the RIIO principles of cross Transporter investment to ensure the optimum solution and minimum cost for consumers.

c) Securing of effective competition

A Shipper/VLDMC should elect to connect to the pipeline system which best serves its commercial and operational requirements. It should not be constrained by a two tier set of rules which provide a 'higher operational bar' for those connected to the LDZ rather than the NTS.'

It was subsequently established that, historically, GDNs had frequently not been complying with the Rule without censure from National Grid NTS; therefore GDNs considered that the Rule was obsolete and could be removed. National Grid NTS considered that the Rule was necessary as a planning input and to share the impact of a GDN demand change on GDN and NTS networks under NTS design (peak) conditions.

National Grid NTS contested the Proposer's view that the current arrangements in the UNC are discriminatory because GDNs do not compete directly with DC NTS customers; customers are free to choose which 'network' they connect to and should take any difference into account.

GDNs argued that the nature of embedded VLDMCs (such as power stations) operations, will typically dictate that they need to change their rates of offtake with less than 2 hours' notice and by more than 5%; this affects a GDN's ability to comply with its OAD obligations.

The Draft Workgroup Report was produced in June 2012 and summarised a number of issues that had arisen during the development of the Modification on which National Grid NTS and the GDNs took opposite views.

In view of the differing perspectives of National Grid NTS and the GDNs, it was agreed that further detailed analysis was necessary to assess the impact on National Grid NTS of removal of the Rule, and on the GDNs of always having to comply with it. This work took place during the remainder of 2012, and the Modification was held in abeyance pending its conclusion.

In December 2012 the GDNs presented their assessment of the cost of always being able to comply with the Rule whilst allowing existing sites to participate in, for example, the Electricity Balancing market. This would be of the order of £335m. National Grid NTS reported the results of analysis it had commissioned from GL Noble Denton, analysing the possible effects of the removal of the Rule on NTS linepack depletion. This ranged from 6mcm to 14-15mcm.

In January 2013 National Grid NTS estimated NTS network pipeline build investment costs of between £516m (necessary to address 6mcm of linepack depletion) and £1.4bn (addressing 15mcm of linepack depletion) associated with the removal of the Rule.

National Grid NTS worked with WWU to develop alternative solutions, designed to facilitate compliance with the Rule when necessary, which were considered further by the Workgroup. These alternative solutions were:

- 1) Use of Margins Notice and/or Gas Deficit Warning
- 2) Apply the Rule on 'High' or 'low' demand days at national or local level (as agreed in advance by industry participants)
- 3) Manage the Rule on the same basis as the procedures applicable under UNC TPD J4.5.6 and 4.5.7.

The Workgroup chose to proceed with 3), as an alternative to the original proposal of removing the Rule. The Workgroup viewed this as a reasonable compromise addressing the concerns of both the GDNs and National Grid NTS.