

Stage 04: Final Modification Report

0417S:

Notice for Enduring Exit Capacity Reduction Applications

At what stage is this document in the process?

- 01 Modification
- 02 Workgroup Report
- 03 Draft Modification Report
- 04 Final Modification Report

The modification would remove the requirement for the 14 months' notice to apply for reductions in Enduring Annual NTS Exit (Flat) Capacity at July application windows, where the User Commitment Amount (UCA) has been satisfied in advance.



Panel determined that Modification 0417S should be implemented



High Impact: -



Medium Impact: -



Low Impact: -

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About this document:

This document is a Final Modification Report, presented to the Panel on 21 June 2012. The Panel considered the views presented and decided this self-governance change should be made.



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.

National Grid NTS disagrees with the Modification Panel's decision that this should be a self-governance modification. When a User requests additional capacity this may trigger investment, either directly, or indirectly, hence Users are required to provide a sufficient level of commitment to support that potential investment.

Whilst Modification 0417S does not reduce the financial commitment of the User, it does reduce the minimum period for which they must hold, and pay for, the additional capacity. Notwithstanding the statement from Ofgem (Workgroup 0417S minutes 05 April 2012, item 1.1) that "User Commitment was integral to the efficiency of the capacity regime but based on [Ofgem's] understanding [Ofgem] did not interpret that User Commitment would be affected by the proposal" National Grid NTS believes that it would be prudent for this to be clarified through an Authority decision on the modification.

If, in the view of the Authority, Modification 0417S was to undermine the User Commitment principle this could have a profound effect on National Grid NTS, its investment decision making process and hence the operation of the NTS. Additionally, the modification enables Users to reduce their capacity, thereby avoiding NTS Exit (Flat) Capacity Charges. The reduction in revenue to National Grid NTS (if Users take advantage of this modification) will potentially be recovered from an increase in charges to all Users. Therefore National Grid NTS considers that this modification fails the criteria for self-governance in that there may be a material impact on existing or future gas consumers, and on the operation of the pipeline system.

Why Change?

When Exit Capacity charges are reviewed and, as a consequence, Users holding Enduring Annual NTS Exit (Flat) Capacity face higher charges, this may lead to an early satisfaction of their relevant User Commitment Amounts (UCA). However, due to the "14 months notice" rule, these Users would be prevented from applying for any reduction in their capacity holdings with effect before 12 months from the first day of booking, potentially exposing them to unforeseen but significant increases in their operating cost.

Solution

It is proposed to amend the "14 months notice rule" such that Users holding Enduring Annual NTS Exit (Flat) Capacity and expecting to satisfy the UCA within 12 months from the first day of booking (given the actual charges) are allowed to make an application in the Reduction Application Window preceding the first day of booking for any reduction with effect from the 1st of any month after the UCA has been satisfied.

Impacts and Costs

National Grid NTS has indicated that implementation of the modification would not require systems changes.



Definitions

Enduring Annual NTS Exit (Flat) Capacity

(TPD B 3.1.5.c)

is Annual NTS Exit (Flat) Capacity which may be applied for and registered as held (in a given amount) by a User with effect from the Day for which it is allocated, on the basis that the User will continue to hold such amount of capacity subject only to:

- (i) a reduction;
- (ii) the User ceasing to hold the capacity;
- (iii) any System Capacity Assignment.

Reduction

Application Window

(TPD B 3.2.15)

A notice of reduction of Enduring Annual NTS Exit (Flat) Capacity may be given no earlier than 08:00 hours or later than 17:00 hours on a Business Day in the period 1 July to 15 July (inclusive) in any Gas Year (Y).

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Implementation

While no implementation timescale is proposed, it would be beneficial if this modification is implemented in advance of the next July application window, in order to allow Users who are exposed to the above condition to be allowed to submit a relevant reduction application.

As this is a self-governance modification, implementation could be 16 business days after a Modification Panel decision to implement.

The Case for Change

Allowing the reduction of exit capacity holdings when the User Commitment Amount is expected to be satisfied should facilitate Users holding the quantities of capacity they require, thereby better allocating costs between users and releasing otherwise sterilised capacity to potentially be held by other Users. Hence implementation would be expected to facilitate the securing of effective competition between Shippers, and better achievement of National Grid NTS' licence obligations to the extent that investment is better informed and hence economic and efficient.

2 Why Change?



Definitions

User Commitment Amount

(NTS Exit Capacity Release Methodology Statement)

In respect of a User, the User Commitment Amount (UCA) shall be determined by:

$$\text{UCA (£)} = P_{\text{ind}} / 100 \times Q \times (365 \times 4 + 1) - \text{Charges}_{\text{actual}}$$

where

P_{ind} = the indicative NTS Exit Capacity price

Q = total amount (existing plus total incremental) of Enduring Annual NTS Exit (Flat) Capacity allocated to the User (kWh/Day) over the commitment period,

Charges_{actual} means Exit Capacity Charges (£) paid solely in respect of Enduring Annual NTS Exit (Flat) Capacity and shall exclude all other charges.

Implementation of 195AV

In the notice of implementation for Modification 0195AV, the Authority noted that: all of the 0116/0195 proposals (except 0116A) would introduce user commitment under which users triggering new investment would be required to commit to pay the prevailing transmission charge at that offtake point for a period of four years. This principle is known as “User Commitment” and it has been introduced into both the UNC and the ExCR.

Under this principle, any User applying for Incremental Exit Capacity, should:

- pay, by way of exit capacity charges, an amount equal to no less than four years indicative (at the time of the application) exit capacity charges [i.e. not the prevailing]; and
- give a minimum of 14 months notice of a reduction in its capacity allocation [i.e. at least one years prevailing charge].

Implications

When Exit Capacity charges are reviewed and, as a consequence, Users holding Enduring Annual NTS Exit (Flat) Capacity face higher charges, this may lead to an early satisfaction of their relevant User Commitment Amounts. However, due to the “14 months notice”, these Users would be prevented from applying for any reduction in their capacity holdings with effect before 12 months from the first day of booking, potentially exposing them to unforeseen but significant increase in their operating cost.

Worked example (Moffat and Mod 356)

Jul 2009	application for 1 GWh incremental capacity at indicative price (0.0001 p/kWh/d), resulting in a UCA of £1 per day for 4 years, i.e. £1440
Apr 2012	Mod 0356 set actual price at 0.0021 p/kWh/d, resulting in £21 per day
Oct 2012	User starts paying exit charges
Dec 2012	User satisfy the UCA (after 68.5 days)
Jan-Oct 2013	User is exposed for additional 292 days of actual charges, i.e. £6132

3 Solution

It is proposed to amend the "14 months notice rule" such that Users

1. holding Enduring Annual NTS Exit (Flat) Capacity at an NTS Exit Point where the registration of some, or all, of that Enduring Annual NTS Exit (Flat) Capacity commences (i.e. the User Commitment starts) in Gas Year Y, and
2. expecting to satisfy the UCA within the Gas Year Y are allowed to make an application during the Reduction Application Window in Gas Year Y-1 for a reduction of their registered capacity at that NTS Exit Point with effect from the 1st of any month after the UCA has been satisfied.

NG will not reject such an application unless NG determines that:

1. the UCA will be unfulfilled before the requested date for the reduction to take effect (given the charges for Year Y, as stated in the Notice of Gas Transmission Transportation Charges, which is published in advance of the Reduction Application Window); or
2. the requested date is not 1st of the month; or
3. the requested date is not in Gas Year Y.

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/Positive
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.	None/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/Positive
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.	None
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.	Positive

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

Enabling Users to adjust downward their signals for Enduring Annual NTS Exit (Flat) Capacity provides additional information to National Grid NTS that could allow National Grid NTS to release firm and discretionary off-peak capacity at that and/or nearby locations, making more efficient use of the pipe-line system.

Voicing a differing opinion, National Grid NTS concluded that the modification did not exercise a positive benefit. It observed that this suggests that, by allowing a User to reduce their registered capacity earlier than currently is the case, additional capacity would be freed up to be released as firm and discretionary off-peak capacity. However, this capacity can already be made available to Users at the same NTS Exit Point through the Transfer and Assignment processes.

In respect of other, nearby NTS Exit Points, the quantity of discretionary off-peak capacity made available would be dependent upon the reason for the initial User putting in a reduction request. If the connecting pipeline or facility is not capable of using the full (pre-reduction) allocated capacity at that NTS Exit Point, National Grid

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NTS would have already built this into its decision making process for discretionary release. If the connecting pipeline or facility can use the full (pre-reduction) allocated capacity then National Grid NTS is unlikely to make that capacity available elsewhere due to the high level of risk it would be taking on as that capacity could still be obtained at the initial NTS Exit Point.

National Grid NTS concluded, therefore, that the modification is unlikely to increase the availability of NTS Exit Capacity and that it does not improve "efficient and economic operation of the pipe-line system".

Achievement of relevant objective (c) "Efficient discharge of the licensee's obligations"

Providing additional information to National Grid NTS regarding non-needed capacity would make the capacity available to other Users, avoiding sterilisation, and thereby allow a better facilitation of Relevant Objective (c) with respect to licence obligations relating to economic and efficient system development.

Gaslink commented that capacity planning processes would be improved (thereby promoting the efficient discharge of licence obligations relating to economic and efficient system development), and that National Grid NTS will receive more robust signals of future exit capacity requirements where Users make incremental capacity commitments in the certain knowledge that the associated financial commitment is capped at a transparent level, and that the exposure to uncertain and potentially volatile movement in indicative and actual prices is removed.

National Grid NTS, however, from its standpoint, did not believe that the modification offered an improvement. It observed that Modification 0417S allows a User to reduce, in defined circumstances, their registered capacity within a year of the allocation taking effect. The possibility of this situation occurring each year is likely to cause uncertainty for National Grid NTS because National Grid NTS would be unaware of the level of capacity bookings until 2 months before the capacity year. This could affect planning processes and lead to sub-optimal decisions. It concluded, therefore, that the modification is unlikely to increase the availability of NTS Exit Capacity and that it does not improve "efficient discharge of the licensee's obligations".

Achievement of relevant objective (d) "Securing of effective competition"

Shippers and DN Operators (both as Users) would benefit from the implementation of this modification by avoiding the unnecessary holding of Enduring Annual NTS Exit (Flat) Capacity when it is not needed (or cannot be used). Such holding 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. Allowing Users to hold capacity rights that more closely match their actual requirements would help to ensure that costs are allocated appropriately and so facilitate the securing of effective competition. Capacity may also be released for other Users, also facilitating effective competition among Shippers.

By focussing on incremental capacity only, different treatment would be introduced for those who have no user commitment and those who discharge it early, which could be regarded as introducing discrimination in favour of those holding incremental capacity rather than enduring capacity.

Gaslink observed that through the modification all Users having a user commitment at any exit point would be treated equally, irrespective of the movements in indicative and actual prices, and considered this to be an important step in correcting a key

failing in the existing regime. It recognised that there are also issues under the existing regime concerning the ability to make reductions within the 14 month period for enduring capacity holdings which have no user commitment, or for which the user commitment has been discharged, but believed that these could be addressed if necessary through a subsequent modification.

Northern Gas Networks believed the existing methodology is flawed and can lead to significant price changes at insufficient notice. This exposes Users to uncertainty relating to their financial commitments and fails to further the Relevant Objectives, particularly A11.1 (d), the securing of effective competition. By using a methodology that will provide more accurate pricing forecasts it will enable Users to budget their finances more accurately, benefiting competition. The modification will allow Users to match capacity more accurately to their actual requirements, securing effective competition.

National Grid NTS disagreed with the views that this modification would further this Relevant Objective. It commented that Modification 0417S is designed such that Users who have recently acquired additional capacity can dispose of that capacity in advance of the default 14 months' notice period. Whilst National Grid NTS recognised that Modification 0417S would allow such Users to avoid additional costs (by way of NTS Exit (Flat) Capacity Charges) that could have a detrimental financial impact upon their business, it believed that Users should be exposed to the reasonable consequences of their decisions. In addition, there are other tools available that could achieve a similar outcome.

National Grid NTS concluded therefore, that this modification did not improve the "securing of effective competition", but rather the modification had limited application, and as such discriminates against Users without a user commitment, or experiencing a slightly smaller increase in their actual NTS Exit (Flat) Capacity price compared to the indicative price used to set the user commitment.

Achievement of relevant objective (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."

Gaslink argued that the modification would facilitate compliance with Article 16(2) of Regulation (EC) No 715/2009 which, inter alia, requires the transmission system operator to implement non-discriminatory and transparent capacity-allocation mechanisms providing appropriate economic signals for the efficient and maximum use of technical capacity.

5 Impacts and Costs

Consideration of Wider Industry Impacts

RWE npower pointed out that there are wider industry concerns about the future volatility of network charges and potential measures to mitigate the volatility are being considered. RWE npower believed that this modification could be considered in the context of the outcome of this wider review.

Costs

Indicative industry costs – User Pays	
Classification of the modification as User Pays or not and justification for classification	
National Grid NTS has indicated that implementation of the modification would not require systems changes. No User Pays service would be created nor amended if the modification were implemented. It is not, therefore, classified as User Pays.	
Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification	
NA	
Proposed charge(s) for application of Users Pays charges to Shippers	
NA	
Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from Xoserve	
NA	

National Grid NTS noted that the decision to proceed with Modification 0417S (if implemented) without systems development is based on the extremely limited scope of the modification - if similar modifications are implemented that extend the scope of this modification then system changes are likely to be required.

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"> National Grid NTS anticipate minor process changes.
User Pays implications	<ul style="list-style-type: none"> None

Impact on Users	
Area of Users' business	Potential impact
Administrative and operational	<ul style="list-style-type: none"> Users will be able to apply for reductions of incremental Enduring Annual NTS Exit (Flat) Capacity with effect anytime after the user commitment amount has been exhausted.
Development, capital and operating costs	<ul style="list-style-type: none"> None
Contractual risks	<ul style="list-style-type: none"> Removes the risk of paying substantially more than the user commitment amount to the extent that capacity can be released in response to changing prices.
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> None

British Gas observed that affected Users would see benefits from being able to relinquish their unwanted capacity early. However, this will inevitably lead to the need to rebalance charges in order that National Grid NTS can achieve its allowed revenue. This could be felt either in higher capacity charges at other exit points, or through the TO Exit Commodity charge.

Similarly, ScottishPower noted that those Users who are able to benefit from this modification will see a reduction in their direct costs although this in turn will then be redistributed across the remainder of the User community.

National Grid Distribution commented that it is clear that it could potentially decrease a Shipper's costs over any given period and consequently alter their risk profile.

Impact on Transporters	
Area of Transporters' business	Potential impact
System operation	<ul style="list-style-type: none"> Improved signals of capacity requirements avoid sterilisation and could support efficient system development and operation.
Development, capital and operating costs	<ul style="list-style-type: none"> Minor operating costs would be incurred by National Grid NTS.
Recovery of costs	<ul style="list-style-type: none"> NA
Price regulation	<ul style="list-style-type: none"> None

Impact on Transporters	
Contractual risks	• None
Legislative, regulatory and contractual obligations and relationships	• None
Standards of service	• None

Impact on Code Administration	
Area of Code Administration	Potential impact
Modification Rules	• None
UNC Committees	• None
General administration	• None

Impact on Code	
Code section	Potential impact
UNC TPD Section B3.2.17	• See Legal Text (Section 8)

Impact on UNC Related Documents and Other Referenced Documents	
Related Document	Potential impact
Network Entry Agreement (TPD I1.3)	• None
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	• None
Operation of the Total System	• None
Industry fragmentation	• None
Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties	• None

6 Implementation

While no implementation timescale is proposed, this modification should be implemented in time for the next July application window, in order to allow Users to submit a relevant reduction application.

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

7 The Case for Change

Nothing in addition to that identified above.

8 Legal Text

Text

National Grid Transmission has provided the following Text.

TPD Section B

Amend paragraph 3.2.17 to read as follows:

- 3.2.17 Where a User has applied for a reduction of Enduring Annual NTS Exit (Flat) Capacity specifying a User Reduction Date which is earlier than 1 October in Gas Year Y+2, National Grid NTS ~~may give effect to the reduction (acting in its sole discretion) from:~~
- (a) may give effect to the reduction (acting in its sole discretion) from the User Reduction Date specified in the User's application, where:
 - (i) a User has applied to be registered as holding Enduring Annual NTS Exit (Flat) Capacity at any NTS Exit Point; and
 - (ii) National Grid NTS is able to satisfy such application by reason of giving effect to the reduction applied for; or
 - (b) will give effect to the reduction from the User Reduction Date specified in the User's application, where:
 - (i) the User Reduction Date is after the end of the commitment period as determined in accordance with the principles in the prevailing Exit Capacity Release Methodology Statement ("Commitment Period"); and
 - (ii) the Commitment Period commences in Gas Year Y+1; or
 - ~~(b)(c)~~ may give effect to the reduction from 1 October in Gas Year Y + 2 where the circumstances in paragraphs (a) and (b) do not apply.

Amend paragraph 3.2.19 to read as follows:

- 3.2.19 National Grid NTS may reject a notice of reduction where:
- (a) any of the requirements of paragraph 3.2.15 or 3.2.22 is not complied with;
 - (b) by reference to System Capacity Transfers notified prior to the notice of reduction, the User's Enduring Annual NTS Exit (Flat) Capacity would, on the basis of the reduced amount specified in such notice, be negative at any time in the future;
 - (c) the User Reduction Date is earlier than the end of the ~~e~~Commitment ~~p~~Period ~~as determined in accordance with the principles in the prevailing Exit Capacity Release Methodology Statement~~ and National Grid NTS is unable to utilise the reduction amount to satisfy a further application for Enduring Annual NTS Exit (Flat) Capacity at any NTS Exit Point.

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9 Consultation Responses

Representations were received from the following parties:

Company/Organisation Name	Support Implementation or not?
British Gas	Support
Centrica Storage	Support
Gaslink Independent System Operator Ltd	Support
National Grid Distribution	Support
National Grid NTS	Not in Support
Northern Gas Networks	Support
RWE npower	Comments
Scotia Gas Networks	Support
ScottishPower	Support

Of the 9 representations received 7 supported implementation, 1 provided comments and 1 was not in support.

Summary Comments

While not strictly relevant to this modification, ScottishPower observed that it believed that the issue that this is intended to address is symptomatic of concerns generally within the charging regime, particularly with regard to charging volatility and especially significant variations between indicative and actual prices, and the lack of certainty that that brings both operationally and for future investment.

British Gas expressed a similar opinion, commenting that, while this is an entirely valid modification, it nevertheless viewed this as a sticking plaster in order to address some of the detriment caused by charge volatility, which in turn was driven by what it perceived to be a charging methodology that is not fit for purpose. British Gas would also see possible benefit in the capacity release regime being reviewed to establish whether more flexibility can be provided to all capacity holders, i.e. not just those with user commitments.

Striking a note of caution, although recognising the Proposer's concern, RWE npower believed that changing the current 14 months' notice for capacity reductions may undermine the intent of the User Commitment principles embodied in 0195AV. In particular, this will be the case where an existing connectee is reducing or relinquishing its capacity holdings and the TO does not get sufficient notice such that it could reallocate the capacity. In this case, it may incur costs that could otherwise have been avoided. The User Commitment test has two elements – a financial commitment (based upon four years of indicative exit capacity charges) and a notice period (14 months) that may allow the TO to change investment plans. RWE npower did not believe the modification properly considers these two elements and this makes it difficult to assess fully its impact on the enduring exit arrangements.

National Grid NTS did not agree that Modification 0417S has a sufficiently positive

impact on the relevant objectives to justify the introduction of measures that, in its opinion, unduly discriminates between Users with and without a User Commitment. Whilst recognising that there is an issue with actual prices increasing relative to the indicative price provided at the time of a capacity increase application, National Grid NTS did not believe that Modification 0417S is an appropriate solution to address this issue.

10 Panel Discussions

The Panel Chair summarised that this modification seeks to allow exit capacity to be released at NTS exit points where the transportation charge has increased since the capacity was first booked such that the full user commitment amount will have been paid, albeit in a shorter period than anticipated.

Panel Members recognised that implementation would increase the ability of Users to hold capacity that matches their true requirements at the prevailing price. It was also recognised that any capacity that is released could be made available to others. Implementation could therefore assist in exit capacity being efficiently allocated between Users, and consequently in Users facing charges that more accurately reflect the cost they impose on the network. Implementation could therefore be expected to facilitate accurate cost allocations and, consequently, the development of effective competition between Shippers. To the extent that modified exit capacity allocations are subsequently reflected in actual gas flows, implementation may also facilitate economic and efficient system operation since improved information regarding system usage would be available to the system operator, facilitating efficient management of the system.

Some Members felt that, by reflecting actual capacity requirements, implementation would provide improved investment signals and so facilitate economic and efficient investment in the network, thereby facilitating National Grid NTS in meeting licence obligations regarding economic and efficient system development. However, other Members did not believe that investment plans would be changed as a result of implementation given the timing of the amended signal in the investment cycle and the range of information available to National Grid NTS.

One member was not clear that there would be any benefit from implementing the modification since capacity holdings could be reduced, and subsequently reallocated, through existing mechanisms. In addition they felt that implementation could be regarded as undermining the principle of user commitment since it would allow Users to move away from a firm commitment to hold and pay for capacity. This principle underpins investment planning and any move away from it could undermine confidence in the mechanisms used to inform investment decisions and subsequently risk less economic and efficient investment. This would not facilitate National Grid NTS in meeting its licence obligations with respect to economic and efficient system development. To the extent that this then resulted in under-investment, there could be system constraints and costs. If there were over-investment, Shippers and consumers would face higher than justified costs. Neither of these outcomes would be consistent with facilitating competition between Shippers.

Members then voted, and with nine votes cast in favour and one vote against, determined that Self-Governance Modification 0417S should be implemented.

11 Recommendation

Panel Recommendation

Having considered the 0417S Modification Report, the Panel determines:

- that proposed Modification 0417S should be made.