

Stage 04: Final Modification Report

0465V:

Introduction of the Planning and Advanced Reservation of Capacity Agreement (PARCA), Weighted Average PARCA Security.

This modification develops the long term Entry and Exit NTS Capacity release mechanisms and introduces the reservation of Enduring Annual NTS Exit (Flat) Capacity and/or Quarterly NTS Entry Capacity through a Planning and Advanced Reservation of Capacity Agreement.

At what stage is this document in the process?



Panel recommended implementation



High Impact:



Medium Impact:



Low Impact: Shippers, Developers and Transporters

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19 December 2013

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About this document:

This document is a Final Modification Report, presented to the Panel on 19 December 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?

Under the current arrangements, customers may need to fully commit to their long term NTS Capacity requirements earlier than should be reasonably expected. This is in order for them to have guarantee of the timely delivery of that capacity. Customers may enter into bilateral arrangements with National Grid NTS that seek to ensure projects can be progressed and NTS capacity provided at the desired time, but these arrangements sit outside the UNC and do not guarantee capacity being allocated to the customer concerned.

Solution

SSE consider that it is appropriate for a User to have exclusive rights to reserved Firm NTS Capacity and that this should be financially underpinned by that User or an associated non-code party. This will be achieved through the reservation, and subsequent registration, of Firm NTS Capacity exclusively through the PARCA contract.

Relevant Objectives

Implementation would provide a transparent and consistent process for customers wishing to obtain incremental NTS capacity to coincide with their own project requirements. By doing so, implementation would facilitate effective competition and the efficient delivery of National Grid NTS' licence obligations.

Implementation

No implementation timescales are proposed.

No significant lead-time is required to implement this modification, and no systems changes are required.

However, to allow consistent licence changes to be made and licence related documents to be modified and approved, National Grid NTS considers implementation is unlikely to be practical before 1 April 2014. Shippers have indicated that, given the potential benefits, earlier implementation would be desirable.

2 Why Change?

The Planning Act 2008 (as amended by the Localism Act 2011)

The Planning Act 2008 (as amended by the Localism Act 2011) “the Planning Act” introduces a new streamlined process for planning decisions for Nationally Significant Infrastructure Projects (NSIPs), which for gas infrastructure is applicable only in England. The principles of the Planning Act “the Planning Act” may also apply to gas infrastructure¹ delivered as a result of Incremental Capacity signals from projects in Wales and Scotland² where reinforcement is also required in England.

For NSIPs the new planning process requires extensive optioneering and consultation with the community prior to the consideration of the application by The Planning Inspectorate and final decision by the Secretary of State. A consequence of this increased certainty is that this is likely to increase the capacity delivery lead times for complex construction projects to between an estimated 72 and 96 months from the point of a formal capacity signal under existing arrangements. By way of comparison, National Grid’s Transporter Licence obliges National Grid NTS to deliver incremental entry and exit capacity with a 42 (from an auction signal) and 36 (from the October following allocation) month lead time respectively.

In the absence of a change to the Long Term NTS Capacity arrangements, the increased lead times required by the Planning Act may increase the likelihood of the regime being viewed as a barrier to entry to the GB market. For example, the increased lead times could lead to customers providing a formal capacity signal (and therefore being financially committed to that capacity) 6 to 9 years ahead of their own estimated project delivery date to ensure the timely delivery of that capacity by National Grid NTS. It is not in anybody’s interests to expect customers to make such a financial commitment when there is uncertainty around the design, delivery timescales and future of the customers own project.

Arrangements currently exist that allow our customers the opportunity to enter into a bilateral agreement “Planning and Consent Agreement” (PCA) whereby National Grid NTS will assess the need case for 'NTS reinforcement'. Where a need case is identified, the customer will underwrite National Grid NTS to undertake our statutory Planning Act activities e.g. strategic optioneering, Environmental Impact Assessment, statutory and local community consultations, preparation of the Development Consent Order (DCO) and application. However, whilst the customer will underwrite the PCA, it has no guarantee that it will obtain its capacity requirement through the auction/application process and thus National Grid NTS consider that this may present a significant commercial (and financial) risk to our customers.

¹ The Planning Act (2008) applies only to Gas Transporter Pipelines of at least 800mm diameter and 40km length or having a likely significant effect on the environment, with a pressure of at least 7 barg and supplying at least 50,000 customers.

² The spirit of the Planning Act (2008) is likely to be applied to projects in Wales and Scotland as part of National Grid’s ‘one approach’ to the way it works.

3 Solution

The Planning and Advanced Reservation of Capacity Agreement (PARCA)

In order to provide for greater certainty in terms of delivery of long term NTS Entry and/or Exit Capacity, and recognise the reservation of Capacity through a bi lateral PARCA, it is proposed that the UNC is modified. The proposed business rules, detailed below, describe how the Modification 'Solution' is expected to work in practice.

The following business rules detail the changes necessary to the existing UNC processes and also include information for completeness that do not require changes to UNC.

This solution also introduces the following new defined terms into UNC (which are further defined in the business rules that follow):

- Reserved System Capacity
- Reserved Exit Capacity
- Reserved Entry Capacity
- PARCA Application
- PARCA
- PARCA Applicant
- Nominated User
- Competent PARCA Application
- PARCA Application Fee
- PARCA Window
- PARCA Entry Window
- PARCA Exit Window
- Phase 1 PARCA Works
- Total PARCA Security Amount
- PARCA Termination Amount

1 The PARCA Application Process

- 1.1 National Grid NTS may enter into a Planning and Advanced Reservation of Capacity Agreement (the "PARCA") with either a Non-Code (the "Reservation Party") or Code Party (the "Reservation User") at any time for the purpose of the reservation of Enduring Annual NTS Exit (Flat) Capacity (the "Reserved Exit Capacity") at an NTS Exit Point and/or Quarterly NTS Entry Capacity (the "Reserved Entry Capacity") at an Aggregated System Entry Point (ASEP). For clarity, this includes NTS Storage Facilities and interconnectors. For the purposes of this solution, the Reservation User and Reservation Party will be referred to as the "PARCA Applicant" where no distinction is required.
- 1.2 The PARCA Applicant may apply to enter into a PARCA by completing and submitting a PARCA Application to National Grid NTS and comply with the terms thereof using the template as published by National Grid NTS and updated from time to time.

Note: Where a Planning and Consent Agreement (PCA) is being progressed at the time of implementation of this solution, National Grid NTS will work with the PCA signatory to map the PCA across to the relevant PARCA Phase as a transitional arrangement without detriment to the agreed PCA timeframes. Alternatively the PCA signatory can choose to retain the PCA in its original form and not progress to a PARCA.

- 1.3 In order to complete the PARCA Application the PARCA Applicant shall include such information as National Grid NTS may from time to time reasonably determine, which may include:
- Contact details of the PARCA Applicant
 - Connection details (including proposed NTS connection site)
 - The first gas flow date(s) required for commissioning and commercial purposes
 - The proposed location of the PARCA Applicant's facility
 - The capacity required and the capacity profile (if applicable)
 - For information purposes, the indicative ramp rate and notice period requirements
 - where the PARCA Applicant is a DNO User, the associated NTS Exit (Flexibility) Capacity and Assured Offtake Pressure requirements should the Reserved Exit Capacity be allocated
 - A capacity range may also be requested (i.e. a minimum and maximum capacity requirement)

Note: the need for a capacity range will need to be sufficiently demonstrated to National Grid NTS through the provision of technical data. This requirement will be included and detailed in the demonstration information requirements of the PARCA.

1.4 National Grid NTS will within two (2) Business Days from the date of receipt of the PARCA Application provide written notice of receipt of the PARCA Application to the PARCA Applicant.

1.5 A PARCA Application will be a "Competent PARCA Application" where

- (a) the application has been correctly and fully completed
- (b) the requested technical information has been provided
- (c) the Phase 1 PARCA Fee has been paid and is available to National Grid NTS in cleared funds (Refer to paragraph 14.1 for further detail of the Phase 1 PARCA Fee).

1.6 National Grid NTS will, as soon as reasonably practicable and in any case within five (5) Business Days from the PARCA Application being deemed a Competent PARCA Application in accordance with paragraph 1.5, inform the PARCA Applicant that the PARCA Application is a Competent PARCA Application.

1.7 Where the PARCA Application is not deemed to be a Competent PARCA Application, National Grid NTS will, as soon as reasonably practicable, clearly detail the reasons why and nothing shall prevent the PARCA Applicant submitting a further PARCA Application.

Note: National Grid NTS would expect, prior to the submission of a PARCA Application, bi lateral meetings with the potential PARCA Applicant.

1.8 Where National Grid NTS deem a PARCA Application as competent, the PARCA process will be initiated in accordance with paragraph 2.

Note: The PARCA contract itself will not require signature from either National Grid NTS or the PARCA Applicant until and unless the PARCA Applicant wishes to progress to Phase 2 of the PARCA (i.e. capacity reservation). The terms of the PARCA Application itself and UNC will bind the PARCA Applicant and National Grid NTS to the Phase 1 PARCA Works.

2 Phase 1 PARCA Works

- 2.1 Subject to paragraph 3.6, National Grid NTS will initiate the Phase 1 PARCA Works upon informing the PARCA Applicant that the PARCA Application is a Competent PARCA Application in accordance with paragraph 1.6 above.
- 2.2 The Phase 1 PARCA Works will be completed by National Grid NTS as soon as reasonably practicable and in any case this will be up to six (6) months.
- 2.3 The PARCA Applicant may withdraw, by written notification to National Grid NTS, a PARCA Application at any time. The PARCA Application Fee shall be reconciled against those National Grid NTS actual costs (including reasonable overheads) reasonably incurred by National Grid NTS in progressing the PARCA Application. Where National Grid NTS has calculated that it's reasonably incurred costs;
- (a) are less than the PARCA Application Fee paid by the PARCA Applicant, National Grid NTS shall refund the difference to the PARCA Applicant; or
 - (b) are greater than the PARCA Application Fee paid by the PARCA Applicant, National Grid NTS shall invoice the difference (together with information as to why the costs are greater) and the PARCA Applicant shall pay such difference.
- 2.4 Following completion of the Phase 1 PARCA Works, National Grid NTS shall submit to the PARCA Applicant a Phase 1 PARCA Works Report, technical options report and the PARCA contract populated with the relevant data.
- 2.5 In accordance with the terms of the PARCA Application, The Phase 1 PARCA Works Report may include:
- (a) The Registration Date, which is the first day that the Reserved Capacity will be Registered from. This may or may not be the same as the first date requested by the PARCA Applicant in accordance with paragraph 1.3.
 - (b) The quantity of Quarterly NTS Entry Capacity and/or Enduring Annual NTS Exit (Flat) Capacity to be reserved and, if applicable, the capacity range that can be accommodated (which may, or may not be capacity range requested by the PARCA Applicant).
 - (c) The profile of the Quarterly NTS Entry Capacity (i.e Capacity to be reserved for each quarter) and/or Enduring Annual NTS Exit (Flat) Capacity to be reserved (where applicable) and, if applicable, the Reserved Capacity Tolerance that can be accommodated (which may or may not be the Reserved Capacity Tolerance requested by the PARCA Applicant).
 - (d) The allocation date, which is the date on which the Reserved Quarterly NTS Entry Capacity and/or Enduring Annual NTS Exit (Flat) Capacity will be registered by National Grid NTS to the Reservation User or, as the case may be, Nominated User(s).
 - (e) The indicative Quarterly NTS Entry Capacity and/or NTS Exit (Flat) Capacity charges applicable to the Reserved Capacity.
 - (f) The actual costs incurred by National Grid NTS in undertaking the Phase 1 PARCA Works and therefore the monies owed by or to be returned to the PARCA Applicant.

- (g) The annual security requirements derived from the PARCA Security Amount that is required to further progress the PARCA.
- (h) The PARCA Demonstration Information and PARCA Demonstration Date requirements.
- (i) Whether there is a need for reinforcement works
- (j) For information purposes only, indicative ramp rates and pressures.
- (k) Where the PARCA Applicant is a DNO User, the NTS Exit (Flexibility) Capacity quantity and Assured Offtake Pressure that National Grid NTS will provide at the DNO Offtake if the reserved capacity is allocated subject to the terms and conditions of the PARCA.

2.6 Where the PARCA Applicant wishes National Grid NTS to reserve the Quarterly NTS Entry Capacity and/or Enduring Annual NTS Exit (Flat) Capacity, in the quantity and from the Registration Date detailed within the Phase 1 PARCA Works Report, then by no later than twenty eight (28) Days following receipt of the Phase 1 PARCA Works Report, the PARCA Applicant shall sign and return to National Grid NTS the PARCA contract (provided in accordance with paragraph 2.4) and provide the required security requirements as identified in the Phase 1 PARCA Works Report.

2.7 If the PARCA Applicant has not submitted the original signed version of the PARCA and put in place the relevant security requirements identified in the Phase 1 PARCA Works Report in the timescale prescribed, National Grid NTS shall not be required to counter sign the PARCA contract.

2.8 Pursuant to paragraph 2.6 but subject to paragraph 2.7, National Grid NTS will, within two (2) Business Days, counter sign the PARCA contract and return a copy to the PARCA Applicant.

2.9 The Reservation of the NTS Capacity will occur where National Grid NTS has counter signed the PARCA contract and a return copy of the PARCA contract has been sent to the PARCA Applicant in accordance with paragraph 2.8 and, in respect of Quarterly NTS Entry Capacity only:

- (a) a net present value test, in accordance with the Incremental Entry Capacity Release Statement, that is based upon the quantities of Quarterly NTS Entry Capacity and indicative NTS Entry Capacity Price steps has been satisfied; or
- (b) where National Grid NTS determine that no net present value test is required, a quantity of Quarterly NTS Entry Capacity has been requested by the PARCA Applicant in at least 16 (sixteen) Quarters within a 32 (thirty two) consecutive Quarter period

Note: National Grid NTS maybe required, under its licence, to submit an initial proposal to the Authority which details how the reservation of capacity is likely to be satisfied, for example, through substitution, existing capability or potential reinforcement. If this is required National Grid NTS may initially reserve the Capacity pending an Ofgem veto or otherwise.

3 PARCA Application Window

3.1 Within ten (10) Business Days of initiation of the Phase 1 PARCA Works resulting from a Competent PARCA Application (in accordance with paragraph 1.5), a PARCA Application Window (i.e. either a PARCA Entry or Exit Window) of up to 40 (forty) consecutive Business Days will be opened. The exception being where that PARCA Application is deemed competent by

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National Grid NTS within an existing PARCA Application Window, in which case no further PARCA Application Window will be opened.

- 3.2 A PARCA Exit Window will be triggered by a Competent PARCA Application that requests NTS Exit Capacity; a PARCA Entry Window will be triggered by a Competent PARCA Application that requests NTS Entry Capacity.
- 3.3 Where no PARCA Applications requesting NTS Entry Capacity are received within the first 20 (twenty) Business Days of a PARCA Entry Window that PARCA Entry Window will close. Where no PARCA Applications requesting NTS Exit Capacity are received within the first 20 (twenty) Business Days of a PARCA Exit Window, that PARCA Exit Window will close.
- 3.4 If a PARCA Application requesting NTS Entry Capacity is received within the first 20 (twenty) Business Days of a PARCA Entry Window, National Grid NTS will consider all PARCA Applications requesting NTS Entry Capacity received and deemed to be Competent PARCA Applications by National Grid NTS within that PARCA Entry Window at the same time as the relevant Competent PARCA Application that triggered the opening of that PARCA Entry Window and that PARCA Entry Window will remain open for forty 40 (forty) consecutive Business Days from the date it was triggered.
- 3.5 If a PARCA Application requesting NTS Exit Capacity is received within the first 20 (twenty) Business Days of a PARCA Exit Window, National Grid NTS will consider all PARCA Applications requesting NTS Exit Capacity received and deemed to be Competent PARCA Applications by National Grid NTS within that PARCA Exit Window at the same time as the relevant Competent PARCA Application that triggered the opening of that PARCA Exit Window and that PARCA Exit Window will remain open for forty 40 (forty) consecutive Business Days from the date it was triggered.
- 3.6 Unsold NTS Entry and/or Exit Capacity will not be made available through the PARCA process and the existing UNC capacity release processes (i.e. the March QSEC and/or July Annual Application window) at the same time. Therefore National Grid NTS is not required to initiate the Phase 1 PARCA Works of an Entry and/or Exit PARCA whilst any Unsold NTS Entry and/or Exit Capacity, that National Grid NTS determines may otherwise be reserved through that PARCA, is being made available through the aforementioned UNC capacity release processes.
- 3.7 Where National Grid NTS determine that it is not possible to initiate the Phase 1 PARCA Works in accordance with paragraph 3.6, National Grid NTS will inform the PARCA Applicant accordingly. In any case, the initiation of the Phase 1 PARCA Works will occur no later than the date upon which the relevant existing UNC capacity release processes conclude, or where National Grid NTS determine it is able to do so, an earlier date.
- 3.8 Only one PARCA Entry and/or Exit Window will be open at any one time (i.e. a PARCA Entry Window and a PARCA Exit Window may be open at the same time but multiple PARCA Entry or Exit Windows can not be).
- 3.9 Where a PARCA Application Window is to be opened, National Grid NTS will, within ten (10) Business Days of initiation of the Phase 1 PARCA Works, publish notice that a PARCA Application Window is open for a maximum period of forty (40) consecutive Business Days. This is in addition to the information published under paragraph 13.1,

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- 3.10 Upon closure of the PARCA Application Window, National Grid NTS will publish:
- (a) Notice that the PARCA Application Window is now closed
 - (b) The number of PARCAs requested within the PARCA Application Window.

Note: for the avoidance of doubt, the closure of the PARCA Application Window does not prevent further PARCAs being applied for at any other time. Where a PARCA Application is deemed competent outside of a PARCA Application Window, the capacity requested in that PARCA will still be made available to the PARCA Applicant by National Grid NTS, however the date that requested capacity is made available from may be impacted by other PARCAs already requested and in progress.

- 3.11 Where a PARCA Application Window has been opened, the Phase 1 PARCA Works timescales for the Competent PARCA Application that triggered the PARCA Application Window will not be extended (i.e. the Phase 1 PARCA Works timescales remain as up to six (6) months) unless otherwise agreed with the PARCA Applicant.

4 PARCA Demonstration information – The business rules contained in paragraph 4 of this solution are included for information purposes only and are not proposed to be included into UNC, but will be incorporated into the PARCA itself.

- 4.1 The existing Demonstration Date and Information principles currently defined under UNC (ref TPD B3.3) are retained for the purposes of the existing ad-hoc exit application process only. Additional Demonstration Date and information provisions are required for the purposes of the PARCA and these will be incorporated into each PARCA contract.

- 4.2 “PARCA Demonstration Date” means a date(s) specified in the PARCA whereby the PARCA Applicant shall provide specific PARCA Demonstration Information to National Grid NTS and is further defined as:
- (a) First PARCA Demonstration Date; or
 - (b) in the event the PARCA Applicant has not provided National Grid NTS with the PARCA Demonstration Information by the First PARCA Demonstration Date, a second date twenty eight (28) Days after the First PARCA Demonstration Date (or with the agreement of the PARCA Applicant, any other date) (Second PARCA Demonstration Date); or
 - (c) in the event the PARCA Applicant has not provided National Grid NTS with the PARCA Demonstration Information by the Second Demonstration Date, a third date twenty eight (28) Days after the Second PARCA Demonstration Date (or with the agreement of the PARCA Applicant, any other date) (Third PARCA Demonstration Date);
 - (d) in the event the PARCA Applicant has not provided National Grid NTS with the PARCA Demonstration Information by the Third PARCA Demonstration Date, such other date as may be agreed through the PARCA (“Ad-hoc PARCA Demonstration Date”).

- 4.3 Where PARCA Demonstration Dates are altered from the First PARCA Demonstration Date, Second PARCA Demonstration Date, Third PARCA Demonstration Date or Ad-hoc PARCA Demonstration Date then National Grid NTS will, upon such alteration, notify the PARCA Applicant of any

revisions (if required) to the PARCA schedule timeframes and project milestones, including the capacity delivery date.

- 4.4 "PARCA Demonstration Information" is such information as is sufficient to enable National Grid NTS to be reasonably satisfied that;
- (a) the PARCA Applicant will be able to progress to commencement of the relevant PARCA Phase;
 - (b) the relevant PARCA Phase will progress to completion
 - (c) the PARCA Applicants project is progressing to an appropriate timeline.
- 4.5 PARCA Demonstration Information is necessary to reasonably satisfy National Grid NTS that the Enduring Annual NTS Exit (Flat) Capacity and/or Quarterly NTS Entry Capacity applied for will be utilised to offtake gas at the NTS Exit Point and/or supply of gas at the ASEP with effect from the Registration Date(s).
- 4.6 Where the PARCA Applicant fails to provide National Grid NTS with the PARCA Demonstration Information by the prevailing PARCA Demonstration Date on three (3) or more occasions National Grid NTS may terminate the PARCA with immediate effect and any Reserved NTS Capacity will no longer be reserved.
- 4.7 National Grid NTS will publish guidelines (to be updated from time to time) setting out the scope and content of such PARCA Demonstration Information. The PARCA Demonstration Information required will be specific to each required phase of the PARCA contract.
- 4.8 National Grid NTS will notify the PARCA Applicant of the new Demonstration Date and Registration Date(s) (if required) by no later than ten (10) Business Days following the previously notified Demonstration Date.
- 4.9 National Grid NTS shall provide the PARCA Applicant with relevant milestone information to reasonably satisfy the PARCA Applicant that National Grid NTS is progressing the required PARCA works in a timely manner.

5 Nomination of a User

- 5.1 The Reservation Party may, by written notice to National Grid NTS, nominate any User(s) (the "Nominated User(s)") to be registered as holding part or all of the Reserved Quarterly NTS Entry Capacity and/or Enduring Annual NTS Exit (Flat) Capacity from no earlier than the First Registration Date for the NTS Exit and/or Entry Point.
- 5.2 In accordance with the terms of the PARCA, the Reservation Party shall nominate, through written notice, such a User(s) no later than one (1) month prior to the allocation date (or, subject to agreement by National Grid NTS, an alternative date) where such a nomination must occur. Where such nomination has not occurred by the required date, National Grid NTS reserve the right to terminate the PARCA and invoice The Reservation Party for any outstanding monies owed.
- 5.3 A notice under paragraph 5.1 shall specify:
- (a) the identity of the Nominated User(s);
 - (b) an amount (in kWh/d) of Reserved Quarterly NTS Entry Capacity and/or Enduring Annual NTS Exit (Flat) Capacity to be registered in the name of the Nominated User(s) which shall not exceed the total

amount of remaining Reserved Quarterly NTS Entry Capacity and/or Enduring Annual NTS Exit (Flat) Capacity (taking into account any other notice of Nomination by the Reservation Party in relation to the PARCA);

- (c) the date, consistent with the terms of the PARCA, from which the Nominated User(s) is to be registered as holding NTS Exit (Flat) Capacity and/or the quarterly periods for which the Nominated User(s) is to be registered as holding Quarterly NTS Entry Capacity.

- 5.4 Following receipt of a notice under paragraph 5.1, National Grid NTS will notify the Nominated User(s) of the contents of the notice as soon as reasonably practicable.
- 5.5 Each Nominated User shall, within five (5) Business Days of National Grid NTS's notification under paragraph 5.4, confirm to National Grid NTS its acceptance or rejection of the details in the Reservation Party's notice.
- 5.6 Where, in accordance with paragraph 5.5, acceptance of the details in the Reservation Party's notice has not been received National Grid NTS will inform the Reservation Party as soon as reasonably practicable and request that the Reservation Party resubmits a notice(s) pursuant to paragraph 5.1 in relation to that amount of Reserved System Capacity (being the Reserved Entry and/or Reserved Exit Capacity referred to in paragraph 1.1) that was to be Registered in the name of the Nominated User which failed to confirm its acceptance.
- 5.7 National Grid NTS may reject a nomination of a Nominated User:
 - (a) where any of the requirements of paragraph 5 are not complied with;
 - (b) in accordance with Section V3 of UNC (credit arrangements);
 - (c) where PARCA Demonstration Information has not been provided by the Reservation Party in accordance with paragraph 4
 - (d) where, by no later than one (1) month prior to the allocation date, 100% of the Reserved Capacity has not been registered in the name of at least one User.
- 5.8 Upon the capacity allocation, the User commitment aspects as detailed in the incremental Entry and Exit Methodology Statements will apply.
- 5.9 The Reservation Party may, through separate written notices submitted at the same time to National Grid NTS, nominate more than one User (i.e. each written notice may only nominate one User).

6 National Grid NTS Obligations

- 6.1 Subject to the Incremental Entry and Exit Capacity Release Methodologies, Entry and Exit Capacity Substitution Methodologies and PARCA, National Grid NTS will on the allocation date;
 - (a) Register the Nominated User(s) as holding Enduring Annual NTS Exit (Flat) Capacity at the Relevant NTS Exit Point in such amount(s) and from such date as specified in the Reservation Party's Nomination of a User as detailed under paragraph 5 and/or;
 - (b) Register the Nominated User(s) as holding Quarterly NTS Entry Capacity at the Relevant ASEP in such amount(s) and for such Quarterly Periods as specified in the Reservation Party's Nomination of a User as detailed under paragraph 5.

- 6.2 Subject to the Incremental Entry and Exit Capacity Release Methodologies, Entry and Exit Capacity Substitution Methodologies and PARCA, National Grid NTS will on the allocation date;
- (a) Register the Reservation User(s) as holding Enduring Annual NTS Exit (Flat) Capacity at the Relevant NTS Exit Point in such amount(s) and from such date (The Registration date) as specified in the PARCA and/or;
 - (b) Register the Reservation User(s) as holding Quarterly NTS Entry Capacity at the Relevant ASEP in such amount(s) and for such Quarterly Periods as specified in the PARCA.
- 6.3 Nothing shall prevent the Nominated User(s) or Reservation User from applying, pursuant to TPD Section B2 and B3, for further NTS Capacity at the Relevant NTS Exit Point and/or ASEP.
- 6.4 For the avoidance of doubt, the existing User commitment principles will apply to NTS Exit and or NTS Entry Capacity that has been initially reserved through the PARCA once it has been registered to a Reservation User or Nominated User in accordance with paragraphs 6.1 and 6.2.
- 6.5 Enduring NTS Exit (Flat) capacity registered to a User through a PARCA will be included in Exit Overrun Calculations as if it were allocated through an existing Enduring NTS Exit (Flat) Capacity Application process.
- 6.6 Quarterly NTS System Entry Capacity registered to a User through a PARCA will be included in the Entry Overrun Calculation as if it were allocated through the QSEC Auction.
- 6.7 For the avoidance of doubt and for the purposes of UNC, Reserved NTS Entry Capacity will not be included in the User's Fully Adjusted Firm Available NTS Entry.
- 6.8 For the avoidance of doubt and for the purposes of UNC, Reserved NTS Exit Capacity will not be included in the User's Fully Adjusted Available NTS Exit (Flat) Capacity

7 The July Annual Application Window for Enduring Annual NTS Exit (Flat) Capacity

- 7.1 The July Annual Application Window for Enduring Annual NTS Exit (Flat) Capacity is to be retained
- 7.2 National Grid NTS will, from any month in the periods Y+4, Y+5 and Y+6 make available Unsold Baseline NTS Exit (Flat) Capacity through the July Annual Application Window.
- 7.3 The quantity of Unsold Baseline NTS Exit (Flat) Capacity made available from any Gas Month at an NTS Exit Point will be based upon the available quantity of Unsold Baseline NTS Exit (Flat) Capacity for every Gas Month from that point onwards, any Reserved Baseline NTS Exit (Flat) Capacity will not be considered as Available Unsold Baseline NTS Exit (Flat) Capacity.
- 7.4 Demand for Enduring Annual NTS Exit (Flat) Capacity through the July Annual Application Window that is over and above the Available Unsold Baseline NTS Exit (Flat) Capacity levels may be met through Substitution in accordance with the Exit Capacity Substitution Methodology (ExCS) or at the discretion of National Grid NTS in accordance with the Exit Capacity Release Methodology

Statement and will be subject to User Commitment in accordance with the Exit Capacity Release Methodology Statement (ExCR).

- 7.5 National Grid NTS will, not later than 30th September in Gas Year Y:
- (a) accept in full (if not rejected) a User's application (including a DNO User's revised application) for Enduring Annual NTS Exit (Flat) Capacity in accordance the ExCR and ExCS methodology statements; and notify the User of which of its applications have been accepted, and in each case for what amount of Enduring Annual NTS Exit (Flat) Capacity.

8 Ad-hoc applications for Enduring Annual NTS Exit (Flat) Capacity

- 8.1 National Grid NTS will, from M+6 through to Y+6, make available Unsold Baseline NTS Exit (Flat) Capacity through the existing Ad-hoc Enduring Annual NTS Exit (Flat) Capacity application process as defined under UNC (TPD B3.2).
- 8.2 The quantity of Unsold Baseline NTS Exit (Flat) Capacity available from a Gas Month will be defined as the available quantity of Unsold Baseline NTS Exit (Flat) Capacity for every Gas Month from that Gas Month onwards, any Reserved Baseline NTS Exit (Flat) Capacity will not be considered as Available Unsold Baseline NTS Exit (Flat) Capacity.
- 8.3 Demand for Enduring Annual NTS Exit (Flat) Capacity that is over and above Unsold Baseline NTS Exit (Flat) Capacity levels may be met through substitution in accordance with the ExCS or at the discretion of National Grid NTS in accordance with the ExCR (from M+6 onwards) and will be subject to User Commitment in accordance with the ExCR.
- 8.4 The current UNC provisions (TPD B3.2.10 to B3.2.13) for Enduring Annual NTS Exit (Flat) Capacity ad-hoc applications remain
- 8.5 Within 10 (ten) Days of such a notification, National Grid NTS will publish:
- (a) the NTS Exit Point at which the Enduring Annual NTS Exit (Flat) Capacity is to be registered
 - (b) the amount of Enduring Annual NTS Exit (Flat) Capacity registered;
 - (c) the Registration Date(s).

9 Ad-hoc Reductions of Enduring Annual NTS Exit (Flat) Capacity

- 9.1 UNC (TPD B3.2.21 in accordance with other provisions under paragraph B3.2) details the provisions for ad-hoc reductions of Enduring Annual NTS Exit (Flat) Capacity at NTS Exit Points.
- 9.2 The existing ad-hoc reduction process is to be retained and shall also allow Users, through invitation by National Grid NTS, to submit a notice of reduction at any relevant NTS Exit Point, where that reduction could be used to meet demand for Enduring Annual NTS Exit (Flat) Capacity signalled through a PARCA.
- 9.3 For the purposes of a PARCA, an invitation to Users by National Grid NTS to submit a notice of reduction shall specify:
- (a) the period during which a User may give a notice of reduction (which will not be between the 1st and 15th of July in any Gas Year).
 - (b) The geographical area of the PARCA NTS Exit Point, whilst respecting the commercial confidentiality of the PARCA Applicant.

- (c) The NTS Exit Points where such notices of reductions will be permitted.
- (d) The earliest date on which National Grid NTS may give effect to a reduction.
- (e) The date on which National Grid NTS will notify a User of whether or not it will give effect to a notice of reduction.

9.4 By not later than the date specified in the invitation to Users (as referred to in paragraph 9.3) to submit a notice of reduction, National Grid NTS;

- (a) will notify the relevant User of whether or not it will give effect to the notice of reduction, and if so, the date on which the reduction is to be effective and the amount of Enduring Annual NTS Exit (Flat) Capacity the User will continue to be registered as holding at the NTS Exit Point from such date.
- (b) may give effect to a User's notice of the reduction for an amount of Enduring Annual NTS Exit (Flat) Capacity which is not:
 - (i) greater than the reduction amount;
 - (ii) or less than the minimum reduction amount in accordance with the principles in the prevailing Exit Capacity Release Methodology Statement and Exit Capacity Substitution and Revision Methodology Statement.

9.5 For the avoidance of doubt, the termination of a PARCA will not result in any ad-hoc reductions previously accepted being cancelled.

10 NTS Exit ARCAs

10.1 The ARCA provisions currently within UNC TPD Section B will only apply to ARCAs that are signed and in progression at the time of the effective date of this Modification.

Note: Any ARCAs entered into prior to this modification becoming effective will progress as normal.

11 NTS Entry Capacity – March Quarterly System Entry Capacity auction (QSEC)

11.1 National Grid NTS will, for each calendar quarter in Capacity Year Y+2 to Capacity Year +16 (inclusive), make available Unsold Baseline NTS Entry Capacity.

11.2 Any Quarterly NTS System Entry Capacity that has been reserved through a PARCA ahead of the QSEC invitation letter being issued will not be considered as Available Unsold Baseline NTS Entry Capacity for that QSEC auction.

11.3 Where there is demand for Firm NTS Entry Capacity that is in excess of Available Unsold Baseline NTS Entry Capacity levels at an ASEP then National Grid NTS will:

- (a) where such demand has passed the Net Present Value test (in accordance with the IECR), to the extent that it can, utilise substitution to meet some or all of the demand
- (b) at its discretion, release Incremental NTS Entry Capacity to meet some or all of the demand

Where a) or b) are not possible then National Grid NTS will not allocate Firm NTS Entry Capacity that is in excess of Available Unsold Baseline NTS Entry Capacity levels at the ASEP.

12 NTS Entry Capacity – PARCA triggered Ad-Hoc Quarterly System Entry Capacity Auction

- 12.1 UNC (TPD B2.2.18) details the provisions for Ad-hoc QSEC auctions, which currently apply to new ASEPs only. This solution redefines the purpose of the Ad-hoc QSEC auction as an auction that allows all Entry Users the opportunity at any ASEP, outside of the annual March QSEC, to signal demand for Unsold Baseline NTS Entry Capacity that may otherwise be reserved through a PARCA. Capacity required for New ASEPs may be reserved through the PARCA or applied for through the March QSEC (as per any ASEP).
- 12.2 Where Quarterly NTS Entry Capacity is requested through a PARCA, within ten (10) Business Days of initiation of the Phase 1 PARCA Works of that PARCA, National Grid NTS will invite Users to participate in an Ad-hoc QSEC with at least twenty eight (28) Days notice (i.e. in accordance with current UNC provisions). In addition to the existing UNC ad-hoc QSEC invitation provisions, the invitation will include information that is pertinent to the relevant PARCA (whilst respecting commercial confidentiality) e.g. identify where Available Unsold Baseline NTS Entry Capacity maybe at risk.
- 12.3 An ad-hoc QSEC will not be triggered where initiation of the Phase 1 PARCA Works occurs between the Annual Invitation being issued for the March QSEC and the final bid window of that March QSEC closing.
- 12.4 The ad-hoc QSEC will not run between and including the months of February to May of the same Gas Year (to allow the March QSEC process to reach conclusion).
- 12.5 Where further NTS Entry Capacity is requested through subsequent PARCAs and National Grid NTS has published details of that PARCA in accordance with paragraph 13, a further Ad-hoc QSEC invitation will only be issued where the final bid window for the previous ad-hoc QSEC has closed or where the final bid window of the March QSEC has closed so that the available NTS Entry Capacity can be determined.
- 12.6 Only Available Unsold Baseline NTS Entry Capacity will be made available through the ad-hoc QSEC auctions, however price steps will still be published for different incremental amounts so that Entry Users are able to bid for the available Unsold Baseline NTS Entry Capacity at different price steps.).
- 12.7 For the avoidance of doubt, Entry Users can submit bids at all price steps defined for each ASEP.
- 12.8 Allocation of Quarterly NTS Entry Capacity will be in accordance with UNC (ref TPD B2.6)
- 12.9 Given the above changes, secondary ad-hoc QSEC auctions (ref TPD UNC B2.2.18 d) will no longer be required.
- 12.10 National Grid NTS will allocate Quarterly System Entry Capacity to successful bids within ten (10) Business Days of the final bid window closing.

13 Information publication

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- 13.1 Within ten (10) Business Days of initiation of the Phase 1 PARCA Works, National Grid NTS will publish:
- (a) The geographical area of the PARCA NTS Exit Point and/or NTS Entry Point
 - (b) An indicative range of Enduring Annual NTS Exit (Flat) Capacity and/or Quarterly NTS Entry Capacity based upon the maximum quantity of capacity requested.
 - (c) The indicative Capacity Reservation Date
 - (d) The requested Capacity Registration date

and National Grid NTS shall publish updates to any of the above information from time to time as applicable

- 13.2 Within ten (10) Business Days of the Reservation of Enduring Annual NTS Exit (Flat) Capacity and/or Quarterly NTS Entry Capacity, National Grid NTS will publish:
- (a) Where substitution is proposed, the quantity (if any) of Unsold Enduring Annual NTS Exit (Flat) Capacity and/or Quarterly NTS Entry Capacity that has been reserved from each donor NTS Exit Point(s) and/or NTS Entry Point(s) and the relevant periods.
 - (b) The geographical area of the PARCA NTS Exit Point and/or NTS Entry Point or the NTS Exit and/or NTS Entry Point if known.
 - (c) The quantity (if any) of Unsold Enduring Annual NTS Exit (Flat) Capacity and/or Quarterly NTS Entry Capacity reserved at the PARCA defined NTS Exit and/or NTS Entry Point and the relevant periods.
 - (d) The total quantity (if any) of Enduring Annual NTS Exit (Flat) Capacity and/or Quarterly NTS Entry Capacity reserved at the PARCA defined NTS Exit and/or NTS Entry Point.

and National Grid NTS shall publish updates to any of the above information from time to time as applicable

- 13.3 National Grid NTS will publish, as soon as reasonably practicable and respecting commercial confidentiality, details of the progress made against the phases of each PARCA. This will include in each case the submission of application for a development consent order (if required), receipt of a development consent order (if required), and calculation of any required revenue drivers.

- 13.4 Within ten (10) Business Days of the Termination of a PARCA, National Grid NTS will publish the quantity (if any) and location of any NTS Exit (Flat) Capacity and/or NTS Entry Capacity that is no longer reserved and is being made available to the market as Unsold NTS Capacity.

- 13.5 Not more than twenty four (24) hours after the time at which National Grid NTS notifies the Nominated User or Reservation User of their allocation of Quarterly NTS Entry Capacity, National Grid NTS will notify all Users in respect of each calendar quarter:

- (a) the price (in pence/kWh) accepted for NTS Entry Capacity by a User (and the amount of NTS Entry Capacity applied for);
- (b) the volume of NTS Entry Capacity allocated;
- (c) the incremental volume NTS Entry Capacity allocated
- (d) the amount of Unsold NTS Entry Capacity (if any) following the allocation;

- 13.6 Not more than twenty four (24) hours after the time at which National Grid NTS notifies the Nominated User or Reservation User of their allocation of Enduring Annual NTS Exit (Flat) Capacity, National Grid NTS will notify all Users of the following information:
- (a) The volume of Enduring Annual NTS Exit (Flat) Capacity allocated
 - (b) The incremental volume of Enduring Annual NTS Exit (Flat) Capacity allocated

14 Funding and Charging

- 14.1 The Phase 1 PARCA Fee charged to the PARCA Applicant will be based upon reasonably estimated costs of the effort required and the man power costs required to complete the PARCA Phase 1 Works and will be reviewed, updated and published on an annual basis to reflect any changes to National Grid NTS costs associated with completing Phase 1 PARCA Works. The Phase 1 PARCA Fee will be payable by all PARCA Applicants in order to progress with the PARCA and must be settled in full by the PARCA Applicant before National Grid NTS commences works on Phase 1. After delivery of the Phase 1 PARCA Works Report, a reconciliation of the Phase 1 PARCA Fee will take place whereby National Grid NTS will calculate the actual costs incurred for the Phase 1 PARCA Works.
- (a) Where actual costs are less than the Phase 1 PARCA Fee paid by PARCA Applicant, a payment for the difference will be made by National Grid NTS to the PARCA Applicant.
 - (b) Where actual costs are more than the Phase 1 PARCA Fee paid by the PARCA Applicant will be required to pay National Grid NTS for the difference.
- 14.1.2 Changes to UNC Section Y Section 2 (Connection Charging Methodology) will be required to reflect the introduction of the Phase 1 PARCA Fee.
- 14.2 Security will be required to be put in place by the PARCA Applicant as a form of financial commitment for the reservation of capacity post PARCA Stage 1 up to the allocation of capacity. This financial commitment can be provided by putting in place an acceptable form of security (in accordance with the terms of the PARCA for the appropriate amount or by providing monies for the appropriate amount to National Grid NTS.
- 14.3 The amount required to be covered by the PARCA Applicant will be the PARCA Security Amount. The PARCA Security Amount will be calculated using the prevailing PSAex or PSAen on the date the PARCA Application is confirmed as a Competent PARCA Application and phased as follows:

Exit Capacity:

Total PARCA Security Amount (£) = $(PSA_{ex} / 100) \times Q_{ex} \times 365$

Where:

PSA_{ex} = the weighted average price of registered annual and enduring NTS Exit (Flat) Capacity, to be 0.0079 (p/kWh/Day), until values are published in the Statement of Gas Transmission Transportation Charges. National Grid NTS is to be required to publish this value in all future Statements of Gas Transmission Transportation Charges and it shall be calculated as

$$PSA_{ex} = \frac{\sum_{j=1}^n (ExitRegCap_j * ExitPrice_j)}{\sum_{j=1}^n (ExitRegCap_j)}$$

Where:

ExitRegCap_j = The Registered Annual plus Enduring Annual NTS Exit (Flat) Capacity, as at the time of publication of actual charges, for each NTS Exit Point j.

ExitPrice_j = The prevailing Applicable Daily Rate, in accordance with The Statement of Gas Transmission Transportation Charges for each NTS Exit Point j.

Q_{ex} = the maximum amount of NTS Exit Capacity to be Reserved by the PARCA Applicant (kWh/Day) as specified in the Phase 1 PARCA Works Report

Entry Capacity:

Total PARCA Security Amount (£) = (PSA_{en} / 100) x Q_{en} x 365

Where:

PSA_{en} = the weighted average price of Registered Quarterly NTS Entry Capacity, to be 0.0098 (p/kWh/Day) until values are published in the Statement of Gas Transmission Transportation Charges. National Grid NTS is to be required to publish this value in all future Statements of Gas Transmission Transportation Charges and it shall be calculated as

$$PSA_{en} = \frac{\sum_{i=1}^n (EntryRegCap_i * EntryPrice_i)}{\sum_{i=1}^n (EntryRegCap_i)}$$

Where:

EntryRegCap_i = The Registered NTS Entry Capacity booked through the QSEC and AMSEC processes, as at the time of publication of actual charges, for each ASEP i.

EntryPrice_i = The prevailing MSEC reserve price in accordance with The Statement of Gas Transmission Transportation Charges for ASEP i.

Q_{en} = the maximum amount of NTS Entry Capacity to be Reserved by the PARCA Applicant (kWh/Day) in any one quarter as specified in the Phase 1 PARCA Works Report

Annual Phasing:

The PARCA Security Amount will be phased on an annual basis as an annual requirement in accordance with the following:

- Security requirement for PARCA Year Y = Total PARCA Security Amount x 0.25
- Security requirement for PARCA Year Y+1 = Total PARCA Security Amount x 0.50
- Security requirement for PARCA Year Y+2 = Total PARCA Security Amount x 0.75
- Security requirement for PARCA Year ≥ Y+3 = Total PARCA Security Amount x 1.0

Where PARCA Year Y is the period of twelve (12) calendar months from, and including, the calendar month in which the PARCA was counter signed.

- 14.4 Should the PARCA be terminated prior to the registration of the reserved capacity then, subject to the provisions in the PARCA, the PARCA Applicant will be liable for the PARCA Termination Amount, which is calculated in accordance with paragraph 14.5.
- 14.5 In the event of PARCA termination and subject to the provisions in the PARCA, a PARCA Termination Amount will be invoiced to the PARCA party and will take into account the effective day of the PARCA termination e.g. if PARCA phase 2 began on January 1st 2015 and PARCA terminates 31st January 2015, the number of days = 31
- (a) Termination Amount = min of ((Total PARCA Security Amount / 1461*) x no. of days) or Total PARCA Security Amount
- (*Where 1461 = 4 years in days)
- Where no. of days = number of days between and including the date the PARCA is counter signed (in accordance with paragraph 2.6) and the date the PARCA terminates.
- 14.6 Once the allocation of capacity takes place the existing arrangements for Users providing commitment / security to such capacity will apply. Any allowed revenue as a result of the PARCA capacity request will be recovered via NTS Transportation Charges.

User Pays
Classification of the modification as User Pays, or not, and the justification for such classification.
The modification is not classed as User Pays, since there will be no user pays service either created nor amended. No additional costs as a result of this modification have been identified by National Grid NTS.
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.
n/a
Proposed charge(s) for application of User Pays charges to Shippers.
n/a
Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.
n/a

4 Relevant Objectives

Where consultation responses are referenced below they relate to Modification 0452 and 0465. They are included here as they are still appropriate after the Modification Panel unanimously agreed on 19th December 2013 that SSEs Variation Request for Modification 0465 was immaterial. Modification 0465V continued from the same point in the process.

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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.	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.	None

Implementation would put into the UNC a consistent and transparent process to be followed when additional NTS capacity is required by a customer. This therefore delivers certainty and clarity, with confidence that all parties will be treated equally. At present, customers have to either sign an ARCA or bid in capacity auctions to acquire capacity rights. As a result of this modification, and associated licence and methodology statement changes, agreeing a PARCA would be the only route via which National Grid NTS would expect to allocate incremental capacity where system reinforcement is necessary. The proposed approach:

- allows additional parties to enter into agreements rather than being restricted to non-code parties for ARCAs, and Code parties for auctions;
- signals the requirement for additional capacity such that other users can respond, extending the ad-hoc QSEC process and introducing a PARCA window;
- allows flexibility, if circumstances change for example, for customers to withdraw from projects while avoiding the potential for National Grid NTS to be committed to invest to reinforce the network;

c. Efficient discharge of the licensee's obligations.

Implementation would provide a transparent and consistent process for all customers wishing to obtain incremental NTS capacity. Ensuring a non-discriminatory approach is incorporated within the UNC helps to meet licence obligations not to unduly discriminate.

d. Securing of effective competition between relevant shippers; between relevant suppliers; and/or between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers

The certainty introduced by the proposed processes would reduce risk for those wishing to acquire additional capacity rights. Implementation would therefore potentially reduce the barriers to entry to the GB gas market as far as those seeking to acquire incremental capacity rights are concerned. These may be either new NTS connections or expanded existing connections. To the extent that this attracts additional exit capacity, there would be a larger market to be supplied – thereby helping to secure effective competition among Shippers and Suppliers. With respect to additional entry capacity, this will facilitate increased supplies being made available to the GB market and hence would provide additional choice to Shippers regarding the sources of gas relied upon. By increasing the supplies available to the market, implementation would therefore be expected to facilitate the securing of effective competition between Shippers.

The weighted average cost methodology proposed to calculate the PARCA Security value facilitates competition by introducing a consistent cost that treats all users equally. In addition, this proposal reduces the risk of socialisation of costs not recovered due to low amounts of locational security and reduces the potential for higher locational security amounts deterring investment.

Whilst National Grid NTS broadly agrees that *“The weighted average cost methodology proposed to calculate the PARCA Security value facilitates competition by introducing a consistent cost which treats all users equally. In addition, this proposal reduces the risk of socialisation of costs not recovered due to low amounts of locational security and reduces the potential for higher locational security amounts deterring investment”*, it considers that this should be balanced against the fact that the weighted average cost methodology could mean that the PARCA Security Amount required is higher or lower than the value of capacity reserved from the market. This potentially reduces competition between shippers by introducing a barrier to entry for some customers and could also increase the risk of socialisation of costs not recovered due to low amounts of weighted average security when compared to the value of the reserved capacity itself. National Grid NTS therefore believes that, on balance, it cannot be concluded that using the weighted average cost methodology directly better facilitates competition between shippers.

Energy UK considers implementation of the proposed processes will increase certainty and reduce risk for parties seeking to secure additional capacity rights. Where this reduces barriers to entry to the GB gas market this may increase the overall demand in the market in respect of exit capacity or for entry increase supply choice, thereby supporting competition between shippers and suppliers. Modification 0465 further supports competition between users since a consistent approach is applied to the PARCA security requirements. Whereas Modification 0452 favours some projects over others as a result of their location.

RWE and ScottishPower considers the main benefit is giving confidence and certainty to shippers or developers that NTS capacity will be available in timescales consistent with their own project requirements. In their view, the calculation of the PARCA security amount based upon locational NTS capacity costs undermines the promotion

of competition by imposing differential security obligations between similar projects arbitrarily based upon location.

Scotia Gas Networks considers the modification may have a detrimental impact on securing effective competition between DN Operators as they will be subject to the Phase 1 fee in cases of general growth, which they will not be able to recover from the end consumers causing the growth.

Impact of the modification on the Relevant Connection Charging Methodology Objectives:	
Relevant Objective	Identified impact
a) Compliance with the connection charging methodology facilitates the discharge by the licensee of the obligations imposed on it under the Act and by this licence;	None
b) Compliance with the connection charging methodology facilitates competition in the supply of gas, and does not restrict, distort, or prevent competition in the transportation of gas conveyed through pipes;	None
c) Compliance with the connection charging methodology results in charges which reflect, as far as is reasonably practicable (taking account of implementation costs), the costs incurred by the licensee in its transportation business and, where the Act enables, to charge a reasonable profit;	Positive
d) So far as is consistent with sub-paragraphs (a), (b) and (c), the connection charging methodology, as far as is reasonably practicable, properly takes account of developments in the licensee's transportation business; and a. Compliance with the connection charging methodology ensures that the licensee shall not show any undue preference towards, or undue discrimination against, any person who operates, or proposes to operate, a pipe-line system in relation to the connection of that system to the pipe-line system to which this licence relates.	Positive
e) 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) Compliance with the connection charging methodology results in charges which reflect, as far as is reasonably practicable (taking account of implementation costs), the costs incurred by the licensee in its transportation business and, where the Act enables, to charge a reasonable profit

A methodology change to require the introduction of the Phase 1 PARCA Fee further facilitates this objective. The Phase 1 PARCA Fee is to be one universal fee for all PARCA Applicants (based on a reasonable estimate of the costs of the Phase 1 activities) and reconciled using actual costs incurred for the Phase 1 Activities

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required by National Grid NTS. This will result in charges to the PARCA Applicant which reflects the costs incurred by the licensee.

- d) So far as is consistent with sub-paragraphs (a), (b) and (c), the connection charging methodology, as far as is reasonably practicable, properly takes account of developments in the licensee's transportation business; and**
- a. Compliance with the connection charging methodology ensures that the licensee shall not show any undue preference towards, or undue discrimination against, any person who operates, or proposes to operate, a pipe-line system in relation to the connection of that system to the pipe-line system to which this licence relates**

Implementing a universal Phase 1 PARCA Fee (that is ultimately reconciled to actual costs incurred) would support the achievement of this objective because all PARCA Applicants will be required to pay the same fee, therefore preventing any undue discrimination.

National Grid NTS considers the introduction of a PARCA Security Amount, based on the value of capacity, facilitates this objective as the calculation will be equitable for all PARCA Applicants with the same methodology applied in calculating the NTS Entry Capacity or NTS Exit (Flat) Capacity charges (utilising the NTS Transportation Model to generate the NTS Entry and NTS Exit (Flat) Capacity charges). Other Workgroup attendees considered the approach in Modification 0465 would be preferable since the Security Amount would be equal for all applicants irrespective of location, and therefore avoid the extremes of either high or low amounts.

The modification does not conflict with:

- (i) paragraphs 8, 9, 10 and 11 of Standard Condition 4B of the Transporter's Licence; or
- (ii) paragraphs 2, 2A and 3 of Standard Special Condition A4 of the Transporter's Licence.

5 Implementation

No implementation timescales are proposed.

No significant lead-time is required to implement this modification, and no systems changes are required. However, to allow consistent licence changes to be made and licence related documents to be modified and approved, National Grid NTS considers implementation is unlikely to be practical before 1 April 2014. Shippers have indicated that, given the potential benefits, earlier implementation would be desirable.

In its response National Grid NTS stated that an implementation date of 01 April 2014 is preferable. It understands that this would allow its customers that are intending to bid in the March 14 QSEC to do so without the uncertainty of a pending regime change. Additionally an April 2014 implementation date would, ideally, allow the potential changes to its methodology statements and GT licence (as detailed in the draft modification report) to be delivered within similar timeframes to the UNC changes that this modification would introduce if implemented.

A number of respondents preference is for implementation as soon as possible with a target of 01 April 2014.

RWE and SSE consider implementation should be consistent with the Electricity Market Reform Capacity Mechanism auctions due to be run in late 2014.

Scotia Gas Networks request at least a 3 month implementation period to ensure that connections' materials and legal documentation can be updated to include the referral to NTS and the potential increase in timescales to 7 years where a PARCA may be required.

6 Legal Text

Final legal text is published alongside this report.

7 Consultation Responses

The consultation responses provided below relate to Modification 0452 and 0465. They are included here as they are still appropriate after the Modification Panel unanimously agreed on 19th December 2013 that SSEs Variation Request for Modification 0465 was immaterial. Modification 0465V continued from the same point in the process.

Representations were received from the following parties:

Company/Organisation Name	Support Implementation or not?	Stated Preference for 0452 or 0465
British Gas	Supports	0465
EDF Energy	Supports	0452
Energy UK	Supports	0465
E.ON UK	Qualified Support	0465
National Grid Distribution	Supports	0452
National Grid NTS	Supports	0452
RWE Supply & Trading GmbH	Supports	0465
Scotia Gas Networks	Supports	0452
ScottishPower	Supports	0465
SSE	Supports	0465

Of the 10 representations received 9 supported implementation and 1 offered qualified support.

Where stating a preference in representations, 4 preferred Modification 0452 and 6 preferred Modification 0465.

Summary Comments

British Gas notes that concerns have been expressed that planning processes conducted under the Planning Act 2008 could result in significantly extended lead times for new energy infrastructure. The worst case lead times – variously estimated at up to 8 years – would result in a significant misalignment with actual construction durations, and more significantly the established NTS capacity delivery lead times established in the UNC. This modification therefore seeks to provide potential developers/connectees to the NTS with certainty about the availability and delivery of new NTS capacity, as well as greater flexibility in obtaining such new capacity.

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Energy UK favours Modification 0465 over 0452 since it contains more equitable arrangements for the PARCA security required. Modification 0465 establishes a single value for projects at entry (0.0098 p/kWh/day initially) and at exit (0.0079 p/kWh/day) so that all entry and all exit projects are treated equitably. Whereas Modification 0452 determines the PARCA security from the prevailing charges which for exit can lead to a very wide variation in security requirements depending on the project location. A range from £18k to £5M for a 50GWh exit requirement (approx 1GWe CCGT) in year 4 of phase 2 of the PARCA. £18k would seem to be insufficient to promote appropriate behaviour, such as early termination if the project is not going to proceed, whilst £5M could act as a barrier to entry and deter investment. Whilst neither approach is intended to accurately recover National Grid's costs, they would expect that the approach included in Modification 0465 would lead to lower over or under recovery in costs that would need to be reflected in charges.

National Grid Distribution notes that the two proposals differ in relation to the calculation of the PARCA security, with Modification 0465 introducing a weighted average cost methodology. The application of this consistent approach for all has its merits in terms of ease of understanding. This has the potential to create a scenario where the Security Amount could be in excess of the value of capacity being reserved and hence may mean the PARCA option is less attractive to customers wishing to connect in an area of the network where capacity charges are comparatively low. However, National Grid Distribution considers that it is appropriate to base the PARCA Security Amount on the locational charges, which will mean that they more closely reflect the value of the capacity being reserved.

RWE agrees with the proposed funding and financial commitment arrangements for Phase 1 (reconciled NGG costs) and Phase 3 (capacity allocation under existing UNC arrangements), that are common between Modifications 0465 and 0452. However, they support Modification 0465 for the calculation of the Phase 2 PARCA security amount rather than that set out in Modification 0452. The costs to be covered during Phase 2 are the costs of National Grid taking a project through planning. These costs should be broadly consistent between projects and geographic locations and not related to capacity charges. The wide range of NTS exit capacity charges will lead to a wide variation in security requirements. At the extremes of the range, this would increase the risk on shippers of exposure to costs not recovered due to low value of "locational" security or create a barrier to entry at the high end. Therefore, RWE do not support basing security upon capacity costs. They do support the creation of a single, weighted average p/kWh/day charge for NTS entry capacity and a single, weighted average p/kWh/day charge for NTS exit capacity as proposed in Modification 0465. This approach strikes an appropriate balance between discouraging a large number of speculative applications while setting security at a level unlikely to deter investment.

Scotia Gas Networks notes that GDNs will see impacts to their connections and capacity processes as additional steps will have to be put in place for any substantial new connections and load increase enquiries. In such instances where additional capacity is required GDNs will have to get advice from NTS as to any potential capacity constraints, which may require a PARCA during the capacity enquiry period, which may delay the process for the end user. They will also require additional legal agreements between the GDN and any end user who may trigger a PARCA.

Scotia Gas Networks notes that this modification can have a negative impact on GDNs where generalised growth requires them to enter into a PARCA. Unlike a directly connected end user, GDNs are responsible for providing capacity on their own networks to millions of customers and where generalised growth occurs which would require NTS investment the relevant GDN would be responsible for the Phase 1 fee which could not be recovered and so will be a bottom line cost. Although SGN appreciate the reason behind the fee not being socialised by NTS and being picked up by the user triggering the investment this is not a fair arrangement for GDNs where the need has been triggered by the social capacity requirement on a specific network. This modification yet again highlights the flaws of the current capacity arrangements where GDNs are treated in the same manner as NTS directly connected customers.

In regards to the comparison between Modification 0452 0465, although SGN support both modifications, they would prefer 0452 as basing the reservation charges on the indicative capacity price appears more suitable than using an average price across the

country as the charge is related to the reservation of capacity.

ScottishPower offers support for the implementation of this modification as it promotes a process that would allow firm, timely, capacity to be reserved and guaranteed prior to full registration but always subject to the provision of a level of financial commitment. They favour implementation over the “alternative “ Modification 0452, for which they have offered qualified support, in that they consider Modification 0465 proposes a more proportionate and equitable financial commitment package without the significant differential element that would be introduced by locational security arrangements, and therefore they would advocate its implementation in preference.

SSE observed that implementation of this modification will allow Users to have exclusive rights to reservation, and subsequent registration, of Firm NTS Capacity through commitment to a PARCA contract and security amount, and that without this, investment in capacity could not be aligned with the Planning Act 2008, which would prevent efficient investment. SSE is of the opinion that Modification 0465 implements this in a superior way to Modification 0452 because it applies consistent annual security amounts to entry (0.0098 p/kWh/day) and exit (0.0079 p/kWh/day), which ensures equal treatment, whereas Modification 0452 uses the prevailing charges to calculate the PARCA Security Amount which can result in significant differences. In the event of project default, Modification 0452 runs the risk due to low locational charges of 0.0001 p/kWh/day (e.g. annual security of £18k) that any shortfall in security will be socialised to other Users. Also, Modification 0452 runs the risk due to high locational charges of up to 0.0278 p/kWh/day (e.g. annual security of £5.5m) that high locational security amounts act as a barrier to entry and deter investment.

EDF Energy commented that it is clear the timescales for delivering NTS capacity will increase under these proposals, mainly as a result of incorporating into the process the more complicated planning regime. However, EDF notes that no incentives were placed on National Grid during the RIIO process to deliver capacity at the earliest opportunity. Instead, greater information transparency requirements were placed on National Grid to better understand any delays. EDF believes there is merit in financial incentives being set to address this risk and request Ofgem’s views on how these can be incorporated to support these arrangements and whether this could be expedited before the 4-year RIIO review window.

Energy UK notes that there are times when comparison between the electricity and gas arrangements are useful, they consider this is one such case. The parallel arrangements in the electricity market, to phase 2 of a PARCA, as defined in the CUSC section 15 (CMP 192 User Commitment Arrangements) provide for non-locational security amounts to fund Attributable Works prior to committing to the capacity. These are £1,2,3 kW/year in years 1,2,3 after a connection agreement is signed.

E.ON is concerned that it is not clear in the Modification (and ‘draft PARCA contract’) whether National Grid failing to obtain planning permission is a termination “event”, which could lead to liabilities being crystallised. In their view, it would be undesirable if Shippers and Developers were expected to shoulder the cost of failed or inadequate planning applications by National Grid NTS, over which they have no control. They would welcome clarification from the National Grid NTS on this point.

E.ON consider that this modification and Modification 0452 should be treated as alternatives as they implement the same framework, but offer different approaches to “indemnifying” National Grid NTS under Phase 2 of the PARCA process. Overall, it is clear that neither modification fully protects the wider Shipper community from the risk of socialisation of costs in the event that following termination, the project-specific security provided under Phase 2 inadequately covers the actual costs incurred by National Grid NTS in the planning application phase.

On balance, E.ON UK considers that because Modification 0452 could, by using capacity reserve prices as the basis for calculating security required, result in instances of significant under-securitisation by individual market participants (for example where the reserve price is at or near zero), the “alternative” Modification 0465 represents their preferred approach. They also note that the cost of submitting and progressing planning applications should not differ significantly by geographic region

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and therefore a single “averaged” cost for all projects intuitively feels more appropriate than a locational charge. However, in the absence of any published information on the actual costs of National NTS going through planning, it is difficult for Shippers to accurately gauge whether the security being requested under either Modification is appropriate.

National Grid NTS understands the rationale put forward in the proposal for the PARCA Security Amount being based upon a uniformly applied weighted average capacity charge. However, in a regime where actual NTS capacity charges are derived and applied on a locational nodal basis National Grid NTS considers this part of the proposal has the potential to drive different behaviour, depending upon where capacity is required. For example, under Modification 0465, the PARCA Security Amount could be in excess of the value of capacity being reserved and hence may mean the PARCA option is less viable to customers wishing to connect in an area of the network where capacity charges are comparatively low. Given the above National Grid NTS consider it is more appropriate to base the PARCA Security Amount upon location specific NTS capacity charges (as proposed in Modification 0452) so as to be more consistent with the value of the capacity being reserved.

ScottishPower is of the view that increasingly it should be the case that arrangements in electricity and gas and their interactions should be considered together where new CCGT projects are being developed, and as such greater alignment of such arrangements should be considered wherever possible and appropriate to facilitate project co-ordination. To that extent the proposals in Modification 0465 are more akin to the recently approved non-locational security provisions in the CUSC and therefore provide some measure of precedent for the adoption of similar such arrangements for the securing of gas capacity.

Workgroup consideration of Additional Issues Identified by Panel

Workgroup 0452 was requested to consider the following points by Panel:

- the treatment of costs for failed planning applications

Workgroup 0452 noted the point and considered the views provided by the Proposer. This was believed to be a PARCA contract development issue and outside the scope of this modification, however the Proposer acknowledged that, although cross referenced in the Summary, the Solution did not make clear that the a PARCA termination was subject to the terms of the PARCA contract. The Workgroup agreed that, subject to confirmation by the Proposer of the relevant PARCA contract text, this was not a material change.

Opinions varied as to whether Modification 0452 covered the issue and the Proposer agreed to consider raising a variation to add clarity.

8 Panel Discussions

The Panel Chair summarised that this modification specifies a process to be followed when parties wish to obtain long term NTS capacity. This brings forward the time within the UNC when an initial commitment to book future capacity can be made, ahead of full user commitment being given through the extant auction processes. As a result of this modification, and associated licence and methodology statement changes, agreeing a PARCA would be the only route via which National Grid NTS would expect to allocate incremental capacity where system reinforcement is necessary.

Members recognised that implementation would introduce to the UNC a transparent and consistent process for the provision of incremental NTS capacity. Codifying the processes to be followed would help to demonstrate that all parties are being treated similarly, with no undue discrimination, and give certainty to the parties involved. In addition, the proposed arrangements provide flexibility such that changes in circumstances can be reflected in commercial agreements – for example, if timelines are extended or if Planning Permission is not forthcoming. The certainty and flexibility introduced by the proposed processes would reduce risk for those wishing to acquire additional capacity rights. Implementation would therefore potentially reduce a barrier to entry to the GB gas market as far as those seeking to acquire incremental capacity rights are concerned. These may be either new NTS connections or expanded existing connections. To the extent that this attracts additional exit capacity, there would be a larger market to be supplied – thereby helping to secure effective competition among Shippers and Suppliers. With respect to additional entry capacity, this will facilitate increased supplies being made available to the GB market and hence would provide additional choice to Shippers regarding the sources of gas relied upon. By increasing the supplies available to the market, implementation would therefore be expected to facilitate the securing of effective competition between Shippers.

Members also recognised that circumstances can arise under the existing arrangements whereby National Grid NTS may invest in capacity that is no longer required, or where capacity may be booked but not paid for. This creates the possibility, with hindsight, of uneconomic investment and for costs to be socialised between Shippers. The increased flexibility would be expected to reduce the amounts at risk, through the lower commitment prior to full user commitment in an auction process, and, through the flexibility to adjust or cancel requests for additional capacity, to reduce the prospect of an inefficient investment signal being acted upon. Members therefore felt that implementation could help to reduce the possibility of inappropriate cost allocations, in the interests of securing effective competition, and help to ensure that investment by National Grid NTS is economic and efficient, facilitating the efficient discharge of its licence obligations in this respect.

Members noted that the modification proposes a change to the charging methodology in Section Y of the UNC, introducing a PARCA fee. By supporting the introduction of the proposed approach, this would facilitate the charging methodology relevant objectives by recognising a development in the transportation business.

Members considered the Workgroup assessment of the termination issue that had been referred back and recognised that this was a PARCA contract development issue and that there was still work to be done on it.

One member expressed an opinion that he could not support this modification at this time because of the need to see both the Final Modification Report and the finished PARCA contract at the same time. Further, this member felt he could not take a view against any of the Relevant Objectives without completing both items.

Members then voted with 10 votes in favour (out of a possible 11) that the implementation of Modification 0465V would be expected to further the relevant objectives, and hence recommended that it be implemented.

While Modifications 0452V and 0465V did not meet the requirements for alternative modifications as set out on the Code Administration Code of Practice, and as codified in the UNC Modification Rules, Members nonetheless considered which, if one were to be implemented would be expected to better facilitate achievement of the relevant

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objectives.

Some Members considered that, since capacity is being reserved and the costs that ultimately arise will be the costs associated with that capacity, it is appropriate for the financial security requirements when reserving capacity to be based on capacity charges in the area concerned. Hence they felt that Modification 0452V would better meet the relevant objectives since it would reflect geographic cost variations and so may avoid creating inappropriate disincentives to seek capacity in low cost areas, and vice versa.

Other Members felt that there is no evidence that the costs being securitised, which relate to the planning stages of a project rather than physical works, vary geographically to any significant extent, and are certainly not correlated with capacity charges. Introducing a non-geographic approach, as proposed by Modification 0465V, would avoid very high security being sought in some areas, and so avoid a barrier to entry. Avoiding very low security requirements in other areas would help to avoid speculative applications and the potential for socialisation of costs where projects do not proceed.

Members felt that the security amounts in both modifications were not reflective of the costs incurred by National Grid NTS and so were imperfect in nature. One member noted that there was a balance to be struck between creating a barrier to entry and the level of security, and members agreed that it was very difficult to determine a perfect solution.

Members then voted and, with 10 votes cast in favour, determined to recommend that Modification 0465V should be implemented. Members then considered which of the two modifications, if one were to be implemented, would be expected to better facilitate the relevant objectives. With 7 votes preferring Modification 0452V, and 4 votes preferring Modification 0465V, Members determined that, of the two, Modification 0452V would be expected to better facilitate the relevant objectives.

9 Recommendation

Panel Recommendation

Having considered the Modification Report, the Panel recommends

- that proposed Modification 0465V should be made, and;
- that proposed Modification 0452V better facilitates the Relevant Objectives than proposed Modification 0465V;