

Modification Report
Change System Capacity Transfers Notification Time Limit from 04:00 hours to 03:00 hours
Modification Reference Number 0287
Version 1.0

This Modification Report is made pursuant to Rule 9.3.1 of the Modification Rules and follows the format required under Rule 9.4.

1 The Modification Proposal

Where capitalised words and phrases are used within this Modification Proposal, those words and phrases shall usually have the meaning given within the Uniform Network Code (unless they are otherwise defined in this Modification Proposal). Key UNC defined terms used in this Modification Proposal are highlighted by an asterisk () when first used. This Modification Proposal*, as with all Modification Proposals, should be read in conjunction with the prevailing UNC.*

Background

The current UNC allows for Users* to undertake a System Capacity Transfer* for all or part of:

- their Available NTS Entry Capacity* (in accordance with UNC TPD B5.1.1.(a))
- their Available Firm NTS Exit (Flat) Capacity* (in accordance with UNC TPD B5.1.1.(b))

A System Capacity Transfer* may be for any Day* or consecutive Days within the period that the Transferor User* holds such capacity. In order to complete the System Capacity Transfer, the Transferor User and the Transferee User* are required under the UNC, to provide National Grid NTS* with specific information.

Once the Transferor User and the Transferee User provide the information to National Grid NTS the System Capacity Transfer will be effective if, within the 60 minute window:

- the System Capacity Transfer is approved by National Grid NTS; or
- the System Capacity Transfer is not rejected by National Grid NTS.

UNC TPD B5.2.2 stipulates that Users are permitted to ropose a System Capacity Transfer at any point during a Day but no later than 04:00 hours on the Day or first Day of the Transfer Period* (the Notification Time Limit).

However, parts of the UK Link* system (including Gemini), will not be operational at certain times and for certain periods ("**Planned UK Link Downtime***"). The Planned UK Link Downtime occurs between 04:00 hours and 06:00 hours on each Day and directly impacts on National Grid NTS' ability to either approve or reject a System Capacity Transfer. By virtue of this downtime National Grid NTS will not have a 60 minute window to either approve or not reject the transfer.

The Planned UK Link Downtime is used to enable the Transporters to operate and maintain the UK Link System effectively and is essential to ensure the continued successful operation of the UK Link System.

Proposal

National Grid NTS propose an amendment to the Notification Time Limit for System Capacity Transfers as outlined in UNC TPD B5.2.2 and B5.6.2(d). This will mean that any

proposed System Capacity Transfer may now be notified by the Transferor User and the Transferee User no later than 03:00 hours on the Day or first Day of the Transfer Period. This will enable National Grid NTS to fully utilise the 60 minute window to either approve or reject the transfer prior to the Planned UK Link Downtime.

For clarification, National Grid NTS can only reject a System Capacity Transfer where:

- the Transferred System Capacity exceeds the Transferor User's Available System Capacity or
- the Transferor User or the Transferee User does not provide the required information to National Grid NTS in a timely fashion; or
- in accordance with UNC TPD V3.

To clarify the proposed changes to the 04:00 hour Notification Time Limit for System Capacity Transfers would be applicable to the Transfer of both NTS Entry Capacity and NTS Exit (Flat) Capacity.

In addition to the above, National Grid NTS also proposes an amendment to UNC TPD B5.2.5 to add further clarity:

Currently UNC TPD B5.2.5 states that:

“A System Capacity Transfer in respect of NTS Exit (Flat) Capacity for which the Transfer period is a Day may not be withdrawn by a User following notification to National Grid NTS”

This paragraph may be misconstrued as indicating that any System Capacity Transfer in respect of NTS Exit (Flat) Capacity that is for a Transfer Period longer than a Day may be withdrawn after it has been notified to National Grid NTS. National Grid NTS proposes that this be amended to reflect that a System Capacity Transfer in respect of NTS Exit (Flat) Capacity for any Transfer Period may not be withdrawn by either the Transferor User or the Transferee User following notification (i.e. by both parties) to National Grid NTS.

2 User Pays

a) Classification of the Proposal as User Pays or not and justification for classification

It was the view of National Grid NTS that this Proposal was a change/addition to the services provided by xoserve and as such that this is a User Pays Proposal.

National Grid NTS believed that this change would provide a small benefit for Shipper Users*. National Grid NTS was of the view that there was a clearly discernable benefit to National Grid NTS in that it would allow National Grid NTS to fully comply with its UNC obligations.

EDFE pointed out that currently there are two definitions of a User Pays Modification Proposal, and in its view this particular Proposal met the definition of User Pays currently adopted by National Grid NTS. However, EDFE also believed that it would be beneficial were clarity to be provided by the Authority on what it believes is, and is not, a User Pays Modification Proposal.

b) Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification

Due to this Proposal requiring a change to the service offered by xoserve, for the exit transfer

time change, National Grid NTS was of the view (as outlined above) that this was a User Pays Proposal. xoserve has confirmed that the 04:00 hour Notification time Limit, whilst not a User configurable parameter, can be amended as part of the data migration exercise of Phase 2 of the Exit Reform system implementation and as such can be done at zero cost.

National Grid NTS proposed due to the reasons outlined above, that the split of the recovery of Implementation Costs should be:

10% Shipper Users 90% Transporters

National Grid NTS proposed that the Shipper User element of the Implementation costs be recovered via a one off implementation charge that would be met by those Shipper Users who have NTS Exit (Flat) Capacity holdings and would therefore benefit from this Proposal.

The Shipper User costs would be pro rated between Shipper Users based on their NTS Exit (Flat) Capacity holdings as a proportion of the total NTS Exit (Flat) Capacity holdings held by all Shipper Users as of the 1st October 2012 as registered by National Grid NTS on the implementation date of this Modification Proposal. These charges would be one off charges invoiced in the month following the introduction of the systems and processes that enable this change, in effect:

$$\frac{\text{Shipper User NTS Exit (Flat) Capacity holdings}}{\sum \text{all Shipper Users NTS Exit (Flat) Capacity holdings}} * \text{Shipper proportion of Implementation Costs}$$

However, a number of respondents believed implementation would reduce the services provided by xoserve to Shippers and only provide operational benefit to National Grid NTS. They therefore strongly disagreed that Shippers should fund any costs under the User Pays arrangements.

EDFE was not convinced that the proposed User Pays funding arrangements were appropriate, but given that this is expected to be a zero cost change, this may not be considered as material to the Proposal. However, were this position to change, and significant costs become incurred, would be an expectation that Ofgem scrutinise why these costs were incurred and whether they were efficient and economic. BGT also pointed out that a zero cost outcome was not guaranteed.

Both BGT and EDFE disagreed that this Proposal should be funded 10% by Shippers and 90% Transporters, pointing out that the alternative to implementation of this Proposal would be to reschedule planned UK Link Downtime. This, it was understood, would come at a significant cost to Transporters, and so they would appear to be the main beneficiaries and should therefore fund this Proposal in its entirety. BGT pointed out in this respect that Users are already able to avail themselves of safeguards against over-transfer of capacity by submitting requests prior to 03:00. For those who are confident in the transfer volumes, a later time without National Grid NTS verification provides more flexibility.

Both BGT and E.ON questioned the principle of targeting only Users who hold Exit capacity, since the “benefits” of reducing the window for capacity transfers would apply to both Entry and Exit capacity. The “benefits” of implementation would be enjoyed by all Entry and Exit capacity transferors and transferees who avail themselves of, and enjoy, this reduced transfer window post implementation, and it therefore does not seem appropriate to apportion costs based on a snapshot of only Exit capacity holdings at a particular point in time.

c) Proposed charge(s) for application of Users Pays charges to Shippers

Any final individually invoiced amount will be subject to an assessment of the NTS Exit (Flat) Capacity held by Shipper Users for the 1 October 2012 on implementation of this Modification Proposal and the final system implementation costs. Utilising the current levels of NTS Exit (Flat) Capacity held by Shipper Users (for the 1 October 2012) and the ROM Cost estimate provided by xoserve, gives the following cost:

Cost per unit of capacity held 0.0000p/kWh

d) Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from xoserve

Any charge applied will be based on the formula outlined in Section 2 b) above and will be dependent upon actual costs received from xoserve.

3 Extent to which implementation of the proposed modification would better facilitate the relevant objectives

Standard Special Condition A11.1 (a): the efficient and economic operation of the pipe-line system to which this licence relates;

National Grid NTS believed that implementation would be expected to facilitate this relevant objective because it would be able to consider the proposed System Capacity Transfer and reject where appropriate (under current UNC conditions). Therefore, it would better facilitate the economic, efficient operation of the NTS by allowing National Grid NTS to monitor whether a Transferor's User's Available System Capacity is not exceeded for either Firm NTS Entry Capacity or NTS Exit (Flat) Capacity and assess the impact the Transfer has on the NTS.

However, SSE did not agree that this Proposal would improve the efficient and economic operation of the pipeline. The ability of Shippers to transfer capacity and ensure it is allocated to whoever values it the most economically and efficiently will be reduced, and capacity over-run charges might be incurred. Ultimately, this will impact the use of UIOLI injection and withdrawal storage services and hence impact on the earnings of storage sites and will be detrimental to further investment in new storage projects.

BGT also did not believe the Proposal better facilitated this relevant objective.

Standard Special Condition A11.1 (b): so far as is consistent with sub-paragraph (a), the 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;

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (c): so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;

The Proposer believed that implementation would not be expected to better facilitate this relevant objective. BGT agreed with this view.

However, EDFE pointed out that National Grid has a Licence requirement not to unduly discriminate between Users of its pipeline system. As recognised by National Grid NTS,

implementation of this Proposal would ensure that National Grid NTS treats all capacity transfers and so Shippers in the same manner. This would therefore suggest that implementation of this Proposal would facilitate National Grid's Licence requirements not to unduly discriminate between Users and so further this relevant objective.

Standard Special Condition A11.1 (d): so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition:

(i) between relevant shippers;

(ii) between relevant suppliers; and/or

(iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers;

National Grid NTS believed that implementation would be expected to better facilitate this relevant objective. Under the current UNC rules those Shippers that notify National Grid NTS of a Transfer at 04:00 hours can do so without concern that National Grid NTS can reject the Transfer however those Shippers that notify National Grid NTS prior to 04:00 hours are not treated in the same way. Amending the Notification Time Limit ensures that all shipper Transfers will be treated in the same manner irrespective of the time at which they have notified National Grid NTS.

EDFE disagreed with this view and did not believe that implementation would have any impact on this relevant objective. EDF deemed National Grid NTS's assertion that treating all notifications in the same manner is beneficial to competition to be tentative at best, and arguably represented an attempt to support the application of 10% of costs to Shippers.

BGT also disagreed that implementation would be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (e): so far as is consistent with sub-paragraphs (a) to (d), the 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;

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (f): so far as is consistent with sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code;

National Grid NTS believed that implementation would be expected to facilitate this relevant objective for the following reasons:

- It would improve the efficiency in the administration of the UNC by clarifying the UNC rules with regards to the withdrawal of NTS Exit (Flat) Capacity transfers, ensuring consistent treatment of withdrawal requests.
- It would also improve the efficiency in the administration of the UNC as this proposal will enable National Grid NTS to fully utilise the 60 minute window to either approve or reject the transfer prior to the Planned UK link downtime.

A System Capacity Transfer may be for any Day or consecutive Days within the period that a Transferor User holds such capacity. In order to complete the System Capacity Transfer, the Transferor User and the Transferee User are required under the UNC, to provide National

Grid NTS* with specific information.

Once the Transferor User and the Transferee User provide the information to National Grid NTS the System Capacity Transfer will be effective if, within the 60 minute window:

- the System Capacity Transfer is approved by National Grid NTS; or
- the System Capacity Transfer is not rejected by National Grid NTS.

UNC TPD B5.2.2 stipulates that Users are permitted to propose a System Capacity Transfer at any point during a Day but no later than 04:00 hours on the Day or first Day of the Transfer Period (the Notification Time Limit). However, parts of the UK Link system (including Gemini), will not be operational at certain times and for certain periods ("Planned UK Link Downtime"). The Planned UK Link Downtime occurs between 04:00 hours and 06:00 hours on each Day and directly impacts on National Grid NTS' ability to either approve or reject a System Capacity Transfer. By virtue of this downtime National Grid NTS will not have a 60 minute window to either approve or not reject the transfer and may not be able to comply with its obligations under the UNC. By amending the Notification Time Limit to 03:00 hours National Grid NTS will be able to fully comply with its UNC obligations.

NGUKD agreed with the Proposer that the potential for commencement of Planned UK Link Downtime at 04:00 does not afford National Grid NTS the full 60 minutes, contemplated by UNC TPD Section B5.2.4, to either accept or reject an application for a System Capacity Transfer.

To this extent, NGUKD agreed that implementation would better facilitate this relevant objective because the current provisions would appear to permit the anomalous circumstance whereby a System Capacity Transfer can be submitted close to, or on the 04:00 deadline. This effectively does not afford National Grid NTS the time to reflect rejection (where appropriate) of such an application in the Gemini system.

EDFE believed this was a straightforward Modification Proposal to amend the UNC to ensure that National Grid NTS has 60 minutes within which to approve, or not reject a Capacity Transfer notification, and that this addresses the original intent of UNC Modification Proposal 0195AV; the discrepancy that has been identified was an oversight at the time. Viewed pragmatically, EDFE believed that this is a simpler solution than requiring National Grid NTS to re-schedule the planned UK Link Downtime, which would have significant implications and costs for both NGG and Shippers.

However, BGT disagreed that this Proposal would better facilitate this relevant objective. The bringing forward of the latest capacity transfer notification time, as proposed, will give Users one hour less per gas day in which to transfer capacity between themselves. This reduction in flexibility to utilise capacity is likely to result in potential transferor Users having to hold and pay for capacity which they no longer require, while potential transferee Users will have to apply for primary capacity in order to meet their capacity requirements. This situation would tend to suggest reduced efficiency in the capacity regime. BGT therefore sees this Proposal as being one that would allow National Grid NTS greater certainty in complying with the relevant section of the UNC, where it currently may not be able to do so in all circumstances, but at the expense of User flexibility and the efficient use of capacity.

BGT considered that alongside this, however, must be weighed the fact that, according to National Grid NTS figures, very little use is made of the capacity transfer service between the hours of 03:00 and 04:00. BGT also understood that the most obvious alternative to ensuring National Grid NTS's compliance with the current UNC terms – the pushing back of UK Link

down time to later in the gas day – is likely to be prohibitively expensive and disruptive for both National Grid NTS and Users. It would therefore appear that, from a pragmatic point of view and in the absence of any alternative solutions, this Proposal should be implemented thereby delivering a further reduction in National Grid NTS's contractual risk.

4 The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation

No implications on security of supply, operation of the Total System or industry fragmentation have been identified.

5 The implications for Transporters and each Transporter of implementing the Modification Proposal, including:

a) Implications for operation of the System:

In the view of a number of respondents it was not clear that National Grid NTS actually requires the full 60 minute window to either reject or accept a proposed capacity transfer. National Grid NTS has not suggested that the current 04:00 time limit has caused it operational problems in the past, and there seems no strong argument to change now.

RWE believed that Users should have the maximum time to respond to events and manage their capacity position and pointed out that reducing the time window for this is not beneficial to the market.

b) Development and capital cost and operating cost implications:

None identified.

c) Extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:

As detailed in section 2 all costs to be met proportionately by Shipper Users based on their NTS Exit (Flat) Capacity holdings as at the 1st October 2012 and invoiced in the month following implementation of the above system development.

d) Analysis of the consequences (if any) this proposal would have on price regulation:

None identified.

6 The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal

None identified.

7 The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users

National Grid NTS will need to undertake development of the UK Link system to accommodate this Proposal. National Grid NTS raised a ROM request with xoserve to ascertain the indicative costs; xoserve's response has indicated that the change can be done at

zero cost.

Please note the following:

- that the costs utilised are Rough Order of Magnitude Costs and may be subject to change
- that the NTS Exit (Flat) Capacity figure used reflects the level of capacity that Shipper Users currently hold and may be subject to change

As such any charge will be indicative only.

8 The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk

Administrative and operational implications (including impact upon manual processes and procedures)

None identified.

Development and capital cost and operating cost implications

National Grid NTS believes there are no development, capital or operation cost implications.

Consequence for the level of contractual risk of Users

No consequences on the level of contractual risk have been identified.

9 The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party

None identified.

10 Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal

None identified.

11 Analysis of any advantages or disadvantages of implementation of the Modification Proposal

Advantages

As identified in sections 2-10 of this report.

Disadvantages

SSE highlighted a number of negative unintended consequences of implementation within its representation. In summary, these were:

- It would reduce the available time for trading and transfers between counterparties by 1 hour, from 04:00 to 03:00, which may adversely affect a party's ability to balance its capacity position, and to avoid capacity over-run charges.

- Capacity transfers resulting from UIOLI injection and withdrawal services would also be adversely affected.
- Reducing the window for capacity trading would have the effect of closing the within-day gas market at 02:30, thereby reducing market liquidity.
- Shippers may not be able to increase flows through Beach Terminals, thereby reducing their ability to offer gas into the market and thus creating an unnecessary constraint and barrier to gas entering the NTS.
- CCGT fuel costs may increase late in the day as potential gas capacity overrun charges are passed through in BOA costs.
- Holders of Firm Entry Capacity will want to hold on to capacity as late as possible before releasing it; while retained it has option value to turn up supplies in response to other supply issues/other markets, eg Power. This Proposal could reduce the volume of capacity available for transfer.
- It would increase balancing costs, which will be passed through to Customers.

12 Summary of representations received (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)

Representations were received from the following parties:

Organisation		Position
British Gas Trading Limited	BGT	Neutral
EDF Energy plc	EDFE	Supports
E.ON UK plc	E.ON	Not in Support
National Grid Distribution	NGUKD	Supports
National Grid Transmission	NGUKT	Supports
RWE Npower and RWE Supply and Trading GmbH	RWE	Not in Support
Scottish and Southern Energy plc	SSE	Not in Support

Of the seven representations received, three respondents were in support of this Proposal, three were not in support, and one party provided comments but remained neutral.

13 The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation

Implementation is not required to enable each Transporter to facilitate compliance with safety or other legislation.

14 The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence

Implementation is not required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence.

15 Programme for works required as a consequence of implementing the Modification Proposal

None identified

16 Proposed implementation timetable (including timetable for any necessary information systems changes and detailing any potentially retrospective impacts)

Proposal could be implemented with immediate effect following direction from Ofgem.

17 Implications of implementing this Modification Proposal upon existing Code Standards of Service

No implications of implementing this Modification Proposal upon existing Code Standards of Service have been identified.

18 Recommendation regarding implementation of this Modification Proposal and the number of votes of the Modification Panel

19 Transporter's Proposal

This Modification Report contains the Transporter's proposal to modify the Code and the Transporter now seeks direction from the Gas and Electricity Markets Authority in accordance with this report.

20 Text

For and on behalf of the Relevant Gas Transporters:

Tim Davis
Chief Executive, Joint Office of Gas Transporters