

Modification Report
Creation of a NTS Entry Capacity Retention Charge within the Uniform Network
Code
Modification Reference Number 0265
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 Uniform Network Code* (UNC).*

Background

The 2007 Transmission Price Control Review created a new obligation on National Grid NTS to undertake Entry Capacity Substitution (see Licence condition C8D paragraph 10 and C8A paragraph 1). This obligation requires National Grid NTS to use reasonable endeavours to undertake Entry Capacity Substitution when proposing to release capacity incremental to the prevailing level of obligated entry capacity, thus seeking to minimise the amount of investment that is required to satisfy incremental demand.

Hence Entry Capacity Substitution is where National Grid NTS moves unsold non-incremental entry capacity from one ASEP to meet the demand for incremental obligated entry capacity at a different ASEP.

In accordance with the Licence, National Grid NTS is required to implement Entry Capacity Substitution from, and including, the March 2010 QSEC auction and is required to submit its proposed Entry Capacity Substitution Methodology Statement (the “Methodology Statement”) to the Authority for approval no later than 7th September 2009.

After a series of industry workshops throughout 2008 and 2009 and an informal consultation in May 2009 a proposed Methodology Statement was submitted to the industry for formal consultation on the 24th July 2009. This proposed methodology is based on the “Options Approach” developed through the workshops. To avoid confusion with other Option products references to “Options” have been replaced with “Retainer” as this more accurately describes the role of the product.

Assuming the Methodology Statement is approved and Entry Capacity Substitution is implemented in accordance with the proposed methodology, Users* will be able to exclude unsold non-incremental obligated entry capacity at potential donor ASEPs from being substituted, in response to an incremental signal elsewhere, by the purchase of a Retainer. The rules and processes for Retainers are detailed in the proposed Methodology Statement which includes the requirement for a charge to be paid in respect of a Retainer. Under

circumstances defined in the Methodology Statement this charge will be refunded.

The NTS Entry Capacity Retention Charge will be subject to a charging consultation which will determine the magnitude of the charge, the treatment of revenues, and the derivation of the charge. It is expected that the NTS Entry Capacity Retention Charge will be a Transportation Charge as defined by the Uniform Network Code* (UNC). The charging proposal will be subject to approval by the Authority independent of this Modification Proposal* and the proposed Methodology Statement.

Nature of the Proposal

This Modification Proposal will define the NTS Entry Capacity Retention Charge as a Transportation Charge within the UNC and so allow National Grid NTS the ability to invoice for (and refund) the revenue associated to this charge. Hence approval of this proposal is integral to the implementation of the substitution methodology.

Suggested Text

UNIFORM NETWORK CODE – TRANSPORTATION PRINCIPAL DOCUMENT

SECTION B – SYSTEM USE AND CAPACITY

Amend paragraph 1.7.1(a)(i) to read as follows:

“charges (other than Energy Balancing Charges or Storage Charges) payable by a User in respect of a transportation arrangement under the Code, and (subject to paragraph 1.7.8) comprise Capacity Charges, Commodity Charges, Customer Charges, CSEP Charges, ~~and~~ User Pays Charges and NTS Entry Capacity Retention Charges; and”

Insert the following as a new paragraph 2.15 as follows:

“2.15 NTS Entry Capacity Retention

2.15.1 For the purposes of the Code, **“NTS Entry Capacity Substitution Methodology Statement”** means the methodology statement published pursuant to the Standard Special Condition C8D of National Grid NTS’s Gas Transporter’s Licence.

2.15.2 National Grid NTS may, from time to time in accordance with the NTS Entry Capacity Substitution Methodology Statement, invite Users to enter into an arrangement with National Grid NTS pursuant to which National Grid NTS may exclude certain amounts of unsold NTS Entry Capacity from being substituted from an ASEP to meet demand for incremental obligated NTS Entry Capacity at one or more other ASEPs. Any amount payable by a User (or to be refunded to a User) pursuant to such an arrangement shall be a “NTS Entry Capacity Retention Charge”

2.15.3 The terms and conditions applicable to any such arrangement and the payment of NTS Entry Capacity Retention Charges shall be specified in

the NTS Entry Capacity Substitution Methodology Statement and/or the relevant invitation published by National Grid NTS.”

2 User Pays

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

No classification is required as no costs are anticipated.

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

Not applicable.

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

None.

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

Not applicable.

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;

Implementation would facilitate the introduction of Entry Capacity Substitution thus enabling the substitution of existing entry capacity at one or more NTS Entry Points to meet demand for incremental entry capacity at other entry points, thereby reducing the need for investment. This would be consistent with the achievement of this relevant objective.

EDFE consider that these benefits are attributable to the implementation of the substitution methodology rather than the proposal itself. In the event that the proposal were implemented and the methodology not, it would not be possible to substitute capacity and, therefore, implementation of this proposal will not have any positive or negative impact on 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 the achievement of this relevant objective.

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

Implementation would help to meet the licence obligation to introduce Entry Capacity Substitution.

EDF Energy note that implementation of this modification proposal would introduce the NTS Entry Capacity retention Charge as a defined term, and so be included in the calculation of collected TO Revenue. This is controlled by Licence Condition C8B.1 (a) which places a requirement on NGG NTS to not over recover revenue. It would appear that implementation of this proposal would have a detrimental impact on this Licence Condition as it introduces further uncertainty and risk into NGG's charge setting exercise.

Standard Special Condition A11.1 (d): so far as is consistent with subparagraphs (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***

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

Standard Special Condition A11.1 (e): so far as is consistent with subparagraphs (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 the achievement of this relevant objective.

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

Implementation would clarify how retainers would be administered as the charge would be recognised and included within the UNC.

EDFE suggest that if the substitution methodology is implemented, then this proposal will ensure that the UNC and substitution methodology are aligned. In addition in the eventuality that the substitution methodology is rejected, then this proposal would also facilitate the implementation of any other methodology that is reliant on an NTS Entry Capacity Retention Charge.

4

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

This Proposal is purely related to the inclusion of the NTS Entry Capacity Retention Charge as a new Transportation Charge within the UNC and as such has no impact on security of supply.

No implications for the 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:

None.

b) Development and capital cost and operating cost implications:

No cost implications have been identified.

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

Not applicable.

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

Not applicable.

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

No such consequences have been 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

It is proposed that the NTS Entry Capacity Retention Charge will be invoiced (and where applicable refunded) via ad-hoc invoices. Hence there should be no impact on the UK Link Systems and related computer systems of the Transporters.

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)

Minor administrative or operational implications relating to the administration

of invoices have been identified.

Development and capital cost and operating cost implications

With the exception of the case where the retainer was not refunded due to the NTS Entry Capacity not being taken up in a subsequent auction, any Development, capital or operating cost implications are expected to be minor.

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

No consequences on the implementation for other relevant persons have been 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

- It would add the NTS Entry Capacity Retention Charge to the UNC which would facilitate the introduction of Entry Capacity Substitution and the associated benefits that Entry Capacity Substitution presents.
- It would ensure that the NTS Entry Capacity Retention Charge was covered by the credit arrangements of the UNC.

Disadvantages

- EDFE believe that implementation of this proposal has the potential to create greater uncertainty in TO Collected Revenue, thereby increasing the requirement for TO Commodity rebate corrections which increases TO Commodity volatility.

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:

National Grid NTS	NGNTS	Support
-------------------	-------	---------

British Gas Trading Limited	BGT	Support
RWE npower plc	RWE	Support
Scottish and Southern Energy plc	SSE	Not in Support
Statoil (UK) Limited	STUK	Support
Shell Gas Direct	SGD	Support
EDF Energy plc	EDFE	Support

Of the seven responses received, one respondent was in full support of implementation of the Proposal whilst five respondents indicated support of the Proposal but not the associated substitution methodology or proposed Licence Condition changes, and one respondent was not in support of either implementation of the Proposal or adoption of the associated substitution methodology.

SSE believe that the 2 Stage Auction methodology provides for a better solution, because:

1. It will make use of the existing QSEC process and, by making use of an existing process, will be more efficient. It avoids the added complexity of retainer payments in a regime that is already complex which creates a barrier to new entrants.
2. Users will only have to bid to protect capacity from substitution once incremental capacity has been signalled. The Retainer method is less efficient as Users lack certainty and will have to make untargeted retainer payments due to lack of transparency about future investment signals.

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

No programme for works would be required as a consequence of implementing the Modification Proposal.

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

In order to meet the deadline for implementation of the Entry Capacity Substitution obligation, it is necessary for this Proposal to be implemented by 08 December 2009.

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

**UNIFORM NETWORK CODE – TRANSPORTATION PRINCIPAL
DOCUMENT**

SECTION B – SYSTEM USE AND CAPACITY

Amend paragraph 1.7.1(a)(i) to read as follows:

“charges (other than Energy Balancing Charges or Storage Charges) payable by a User in respect of a transportation arrangement under the Code, and (subject to paragraph 1.7.8) comprise Capacity Charges, Commodity Charges, Customer Charges, CSEP Charges, User Pays Charges and NTS Entry Capacity Retention Charges; and”

Insert the following as a new paragraph 2.15 as follows:

“2.15 NTS Entry Capacity Retention

2.15.1 For the purposes of the Code, “**NTS Entry Capacity Substitution Methodology Statement**” means the methodology statement published pursuant to the Standard Special Condition C8D of National Grid NTS’s Gas Transporter’s Licence.

2.15.2 National Grid NTS may, from time to time in accordance with the NTS

Entry Capacity Substitution Methodology Statement, invite Users to enter into an arrangement with National Grid NTS pursuant to which National Grid NTS may exclude certain amounts of unsold NTS Entry Capacity from being substituted from an ASEP to meet demand for incremental obligated NTS Entry Capacity at one or more other ASEPs. Any amount payable by a User (or to be refunded to a User) pursuant to such an arrangement shall be a “**NTS Entry Capacity Retention Charge**”

- 2.15.3 The terms and conditions applicable to any such arrangement and the payment of NTS Entry Capacity Retention Charges shall be specified in the NTS Entry Capacity Substitution Methodology Statement and/or the relevant invitation published by National Grid NTS.”

For and on behalf of the Relevant Gas Transporters:

Tim Davis

Chief Executive, Joint Office of Gas Transporters