

Modification Report
Allocation of Daily NTS Entry Capacity Within-Day
Modification Reference Number 0295
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

Purpose

The purpose of this Modification Proposal is to bring clarity to the relevant section(s) of the UNC dealing with the allocation of (firm) Daily NTS Entry Capacity within-day. In the view of the proposer, the existing UNC rules are ambiguous and open to interpretation as to *when* during the day National Grid NTS must allocate capacity once a bid has been submitted within-day (subject to there being Available Daily Capacity¹).

This Modification Proposal seeks to provide contractual certainty by removing the scope for undue discretion being exercised by National Grid NTS in deciding when to initiate a capacity allocation period. This proposal obliges National Grid NTS to initiate a capacity allocation period on the next hour bar, where one or more valid bids have been submitted at that Aggregate System Entry Point (ASEP) (subject to there being Available Daily Capacity).

For clarity, this Proposal does not increase the likelihood of capacity being allocated compared to the current arrangements. It does, however, provide a framework for the timely consideration of daily capacity bids by National Grid NTS, which currently is not as clear as it could be.

Nature

This proposal is to give Shipper Users certainty that where a valid daily capacity bid is submitted within-day, subject to there being Available Daily Capacity, the bid must result in either;

- (i) allocation of Daily NTS Entry Capacity; or
- (ii) no allocation of Daily NTS Entry Capacity

following the initialisation of a capacity allocation period; which for the purposes of this proposal, shall be on the next hour bar, after a valid bid has been submitted. In accordance with current UNC rules², the Shipper User shall then be notified if an allocation of capacity has been made in respect of their bid.

For the avoidance of doubt, where Daily NTS Entry Capacity is not allocated in respect of a bid, such bid shall not be extinguished and shall still be available and can be amended or withdrawn by the Shipper User. Unless the bid is withdrawn, National Grid NTS shall initiate a capacity allocation period on the next hour bar, where the bid shall be re-considered for capacity allocation

¹ As currently defined at UNC TPD B 2.4.13

² UNC TPD B 2.7.7(c)

purposes.

In practice, this means that a daily capacity bid cannot remain on National Grid NTS's system for longer than one hour without National Grid NTS taking affirmative action to either accept or reject³ the bid. Where a bid is not accepted but not withdrawn, it must be considered by National Grid NTS on the next hour bar and the Shipper User notified if an allocation has been made (in accordance with UNC TPD B 2.7.7(c)).

The aim of this proposal is to encourage timely acceptance by National Grid NTS of bids where an allocation can be made and timely re-consideration of bids made previously, whether they remain unchanged from the initial bid, or have since been amended.

It should be noted that neither under this proposal nor under current UNC rules, is there an obligation on National Grid NTS to inform each Shipper User where no allocation of capacity is made in response to a bid for daily entry capacity. Hence, this proposal would not change current operational practice in this regard.

Although this proposal is not contingent, it is anticipated that an effect of implementing Modification Proposals 284 and/or 285 will be that entry capacity bookings will more closely match actual gas flows, than is the case currently. It will, therefore, be extremely important that sufficient opportunities are provided within-day to bid for entry capacity; particularly for Shipper Users with a large and/or variable supply portfolio. It could be argued that under existing UNC rules, if the rules were to be strictly interpreted, National Grid NTS would only have to initiate one capacity allocation period (per ASEP) each gas Day. The proposer understands that this is not National Grid NTS's intention in practice, but strongly believes a rules-based approach is more appropriate, rather than the current reliance on National Grid NTS's discretion and goodwill.

2 User Pays

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

This proposal is not classed as User Pays, since there is no anticipated impact on UK Link systems.

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

No User Pays charges applicable.

³ Unless capitalised words are used, this is not the UNC Defined Term for the purpose of this proposal. The word reject is used to aid understanding in plain English.

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

No User Pays charges applicable to Shippers.

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

No charges applicable for inclusion in ACS.

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 not be expected to better facilitate 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;

Implementation would not be expected to better facilitate 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;

Implementation would be expected to better facilitate this relevant objective by removing the current potential disadvantage on Shipper Users who have submitted daily capacity bids and who are awaiting allocation of Daily NTS Entry Capacity at an ASEP. Undue delay by National Grid NTS and the resultant uncertainty may have adverse commercial implications on a Shipper User, if they are unable to flow gas whilst waiting for National Grid NTS to allocate capacity in response to their bid.

Furthermore, By ensuring all daily capacity bids are dealt with in a timely fashion, Entry Shipper Users will gain commercial benefits from the enhanced certainty and timeliness of the daily entry capacity allocation process.

All respondents were in agreement that implementation would provide Shippers with greater certainty regarding the availability of capacity.

Total E&P UK Ltd also pointed out that increased certainty would be of particular importance should UNC Modification Proposal 0284 (Removal of the Zero Auction Reserve Price for Within-day Daily NTS Entry Capacity (WDDSEC)) be approved for implementation.

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 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 be expected to better facilitate this relevant objective by clarifying existing Daily NTS Entry Capacity allocation rules, removing (or at least reducing) the current scope for disagreement between Shipper Users and National Grid NTS, in respect of when a daily capacity bid must be accepted and capacity allocated.

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

Implementation would potentially enhance security of gas supply. For instance, should one or more major NTS entry points suffer operational difficulties within-day and a supply portfolio Shipper User has to find entry capacity at very short notice at another entry point, implementation would provide certainty that bids would result in capacity either being allocated or not allocated in the next applicable capacity allocation period, which for the

purposes of this Proposal would be initiated at the next hour bar. The affected Shipper User(s) would then know what measures they needed to take to rectify their entry capacity position, in a timescale that reflected the urgency of the situation. Under the existing 'ambiguous' rules, daily capacity bids could *potentially* sit on National Grid NTS's system for several hours without being accepted and capacity allocated, which ultimately could result in adverse security of supply implications if capacity were not allocated quickly enough and gas could not flow to meet demand.

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

a) Implications for operation of the System:

The Proposer believes that implementation would simply codify existing operational best practice by National Grid NTS.

However, for the avoidance of doubt, National Grid NTS has clarified that on the day Capacity Allocation Periods can only start on the hour commencing at 07:00am and ending 02:00am subject to bids being placed by Shipper Users. This Modification Proposal would not change the actual amount to be allocated but clarifies that any bids placed at an ASEP within-day will be processed within the hour and an allocation of capacity at that ASEP may or may not be made subject to the existing UNC rules.

b) Development and capital cost and operating cost implications:

No costs 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:

No additional costs to National NTS are anticipated as implementation would simply codify existing operational best practice.

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

No consequences have been 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

Implementation would remove (or at least reduce) the contractual risk of a dispute between Shipper Users and National Grid NTS as to when a capacity allocation period should be initiated under current UNC rules.

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

The Proposer anticipates no UK Link impact, and this view is supported by National Grid NTS, which believes that the Proposal clarifies its existing processes in accordance with current UNC rules and there will therefore be no systems implications.

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)

Significant operational benefit for Shipper Users from implementation is anticipated due to the enhanced certainty provided by the enhanced rules on allocation of daily NTS entry capacity.

Development and capital cost and operating cost implications

Improved timeliness in allocation of daily capacity by National Grid NTS could potentially lower operating costs of Shipper Users because the risk, of daily capacity bids being accepted and capacity allocated when it is too late, is reduced.

Consequence for the level of contractual risk of Users

Implementation would remove (or at least reduce) the contractual risk of a dispute between Shipper Users and National Grid NTS as to when a capacity allocation period should be initiated under current UNC rules.

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

Access to short-term NTS entry capacity and its timely allocation is important for many different Users of the NTS, including those with a large or varied supply portfolio.

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

No implications have been identified.

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

Advantages

In addition to the benefits identified above:

- Increased flexibility for Shipper Users to choose when to submit daily entry capacity bids.
- Assists Shipper Users in better profiling their firm entry capacity requirements, as there is guaranteed opportunities (subject to there being Available Daily Capacity) to bid for capacity close to the point of delivery of gas into the system.
- No more need for Shipper Users to “second-guess” when National Grid NTS will allocate capacity in response to daily entry capacity bids.
- Removes ability for National Grid NTS to exercise undue discretion over when to initiate the daily entry capacity allocation process and promotes the equal treatment of all bids submitted.
- Introduces a more customer-friendly approach to Daily NTS Entry Capacity allocation.
- Encourages timely acceptance by National Grid NTS of bids where an allocation has been made, and timely reconsideration of bids made previously, whether they remain unchanged from the initial bid, or have since been amended.

Disadvantages

- May require additional IT / staff resources to help manage potential for more frequent capacity allocation periods being initiated.
- Neither under this proposal nor under current UNC rules, is there an obligation on National Grid NTS to notify each Shipper User whose bid has not resulted in an allocation of capacity. The lack of formal notification may be considered by some to be a deficiency.

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	Supports
EDF Trading	Supports
E.ON UK	Supports
National Grid NTS	Supports
RWE npower and RWE Supply and Trading GmbH	Supports
Scottish and Southern Energy	Supports
Total E&P UK Ltd	Supports

Of the seven representations received, there was unanimous support in favour of implementation of this Modification Proposal.

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)

1 October 2010 – Implementation date.

Although this Proposal is not contingent, the Proposer believes that the need for its implementation would be even greater should Modification Proposals

0284 and/or 0285 be implemented. On this basis, the Proposer requests the same implementation date and suggests the following schedule to help facilitate this:

July to October 2010 – Modification Proposal with Ofgem for decision and able to be considered in Regulatory Impact Assessment process for entry charging review proposals, if appropriate.

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