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Dear Julian

Re : UNC Modification Proposals 0195 and 0195A – “Introduction of Enduring NTS Exit Capacity Arrangements”

Thank you for the opportunity to comment on these Modification Proposals.

We provide below a summary of our views on each Modification Proposal (including a brief summary of where these Modification Proposals fit in with the 0116 suite of Modification Proposals) and our supporting rationale. We have also provided an appendix which comments on the Draft Modification Report.

Summary

- National Grid NTS would support the implementation of Modification Proposal 0195 and provide qualified support to Modification Proposal 0195A if the Ofgem Impact Assessment on Exit Reform demonstrates that the benefits of these Modification Proposals outweigh the industry's costs.
- With regard to the suite of 0116 Modification Proposals, National Grid NTS is concerned that the Modification Proposals are now “out of date” as the UNC and the proposed Exit Reform implementation timetable have been changed since they were produced and the dates in the Modification Proposals are no longer applicable. National Grid NTS is therefore unsure how any of these Modification Proposals could be approved and subsequently implemented. Bearing this concern in mind our comments on the Modification Proposals are as follows:
 - National Grid NTS offers qualified support to Modification Proposal 0116CVV.
 - We are unable to support implementation of Modification Proposal 0116V at this time, as the cost benefit analysis, based on the Competition Commission outcome, was adjudged not to have adequately demonstrated that the benefits outweighed the industry's costs for Modification Proposal 0116V. National Grid NTS still believes that going forward scarcity of “NTS Exit (Flexibility) Capacity” will need to be addressed by the industry. National Grid NTS would like to take this opportunity to re-iterate that we will only be “allocating” a maximum of 22mcm/d (subject to National Grid NTS' Licence Obligations) via the OCS process and therefore may not be able to allocate all requests in full.
 - National Grid NTS does not support the implementation of Modification Proposals 0116A, 0116BV and 0116VD.

National Grid NTS' detailed comments on the 0116 suite of Modification Proposals were contained within the responses to these Modification Proposals.

- National Grid NTS remains concerned over the timelines for implementing any of the Modification Proposals for July 2009, both in terms of implementing systems and associated processes/procedures (for example, Exit Capacity Release Methodology, Substitution Methodology and Pricing consultations). A timely decision on NTS Exit Reform would be most welcome to ensure that sufficient lead times can be accommodated to deliver such change.

Rationale

UNC Modification Proposal 0195

This Modification Proposal has been developed via the 0166 Review Group and is based on a broad consensus reached by the industry. The Modification Proposal has developed the principles and processes that were detailed within Modification Proposal 0116CVV.

We understand that the broad consensus of the industry is to avoid the implementation and operational costs imposed by the introduction of an NTS Exit (Flexibility) Capacity Product.

The Modification Proposal has introduced the principle of Users utilising an Agent to allocate the initialised Flat capacity rights; National Grid NTS considers that this is a positive enhancement to the 0116 regime Modification Proposals and that this has addressed some parties' concerns over the proposed regime.

The key change has been in the development of an alternative release process outside of the annual window. National Grid NTS still believes that all Users should bid for NTS Exit (Flat) Capacity during an Annual Application window as this provides the most equitable and efficient outcomes. The Modification Proposal has addressed some of our concerns with the introduction of "materiality tests" before a User/developer is able to utilise the alternative process but there is a risk that this Modification Proposal could undermine the Annual Application 'fixed window' process. National Grid NTS also has concerns over the ability to enforce the same rules/principles between developers and Users, as the developer requirements will be dependant upon negotiation of a bi-lateral ARCA rather than the User requirements defined under the UNC.

National Grid NTS would like to take this opportunity to point out that the alternative process may result in capacity being substituted (in accordance with National Grid NTS' Exit Capacity Substitution obligation) from one NTS Exit Point to another with the NTS Exit Point where the capacity is substituted from not having an opportunity to buy that capacity in the same window as the other Exit party; in effect introducing an element of a first come first served process.

This alternative process enables Users/developers to request NTS Exit (Flat) Capacity for non October start dates and non 38 month lead times but National Grid NTS will be obliged to detail a Demonstration Date where the User/developer must demonstrate to National Grid NTS' satisfaction that the site will be ready for the agreed start date. National Grid NTS has two concerns over the Demonstration Date;

- there is the potential that Users / developers may hoard capacity and just keep pushing the Demonstration Date and requirement back;
- the evidence Users / developers are required to provide National Grid NTS to meet the demonstration requirements and this may be different for each NTS Exit Point.

We note that the reduction process has been amended to allow National Grid NTS to hold an ad-hoc reduction process and believe that this potentially facilitates the most efficient investment outcome by allowing Users to signal spare capacity (via the ad-hoc reduction process) and for National Grid NTS to utilise such capacity.

The Modification Proposal also recognises changes to the regime that have taken place since the 0116 suite of Modification Proposals were raised i.e. Modification Proposal 0139 - changes to the DN's booking of Flexibility, Pressures and Flat (the two week window at the end of September) and the credit modifications that have been implemented. As such the Modification Proposal has incorporated the principles established with the implementation of Modification Proposal 0139 "Amendments to UNC TPD OCS Process and Long Term Allocation of Capacity in the Transitional Period" but National Grid NTS would like to re-iterate:

- that no additional network analysis will be carried out in this window
- any changes will impact the network model going forward i.e. demand patterns
- any changes may impact National Grid NTS' view of network investment (dependant upon the size and location of the change)

Although the Modification Proposal maintains the concept of the within day flow reduction tool National Grid NTS remains concerned that there is no incentive on Users to deliver any within day flow reduction that National Grid NTS has purchased from Users, particularly as we consider that this will be an essential tool in managing constraints in the future.

The change in the bidding process for years Y+1, Y+2 and Y+3 from an auction to an application process could potentially result in Users overstating their required amounts to ensure that if any proration occurs they are allocated the quantity they require. We recognise that this scenario only has the potential to occur at a small proportion of NTS Exit Points due to the minimal number of multiple User sites. We also believe that holding the Long Term Application (Y+4, Y+5 and Y+6), the reduction process and the Y+1, Y+2 and Y+3 application process in the same month (July) could result in confusion for Users.

National Grid NTS understands the requirement for additional information to be provided but we have yet to be persuaded of the benefits of:

- providing Linepack and Flexibility data on D+1 and when there are any subsequent changes in data in addition to D+6.
- providing Linepack as well as Flexibility utilisation data.

Our view is that all Exit related data should be published on D+6 where the data is effectively closed out.

UNC Modification Proposal 0195A

This Modification Proposal is the same as 0195 but introduces an additional element into the release of daily Off-Peak NTS Exit (Flat) Capacity. National Grid NTS recognises that this product is likely to provide benefits to those Users (Storage, bi-directional, back-up sites etc) who wish to utilise spare capacity on the NTS, but do not need to flow at peak times. Although National Grid NTS appreciates the Modification Proposal is looking to utilise spare capacity, on balance we still believe that it should be for the Transporter to determine how much Interruption is required and should then be able to procure such services from Users rather than for Users to choose to be interruptible. The Modification Proposal does provide a degree of risk for those Users who purchase Daily Off-Peak NTS Exit (Flat) Capacity, however if the daily interruptible product had a zero reserve price the Modification Proposal could still undermine the firm regime. National Grid NTS therefore only offers qualified support to this Modification Proposal. If pricing suggestions had accompanied this Modification Proposal and had an element of non zero pricing then National Grid NTS may have been able to support the 0195A Modification Proposal.

National Grid NTS also has concerns over Users accruing Daily Off-Peak rights and flowing gas into those rights after a scale-back has occurred, as this Modification Proposal will provide more NTS Exit (Flat) Interruptible Capacity to be made available this would (depending on the time of the scale-back) result in greater quantities of accrued rights.

There are also several areas within the Modification Proposal that require further clarification:

- The Modification Proposal states the highest overrun assessment will take place in the preceding year prior to the Annual Application window. National Grid NTS interprets this as the 30th June but Users will not know their June NTS Exit (Flat) Capacity Overrun position until August and as such cannot book the NTS Exit (Flat) Capacity Overrun quantity in the July application window.
- The assignment of a User's obligation to book their NTS Exit (Flat) Capacity Overrun in the Annual Application window is unclear in its timings i.e. its relationship to when the NTS Exit (Flat) Capacity Overrun year ends, when the Annual Application window starts and when a User can assign their NTS Exit (Flat) Capacity Overrun Quantity.
- The Daily Off-Peak NTS Exit (Flat) Capacity auction will be held at 15.00 but National Grid NTS has no obligation to publish the result of the Maximum Supply Point Offtake rate element of the Daily Off-Peak NTS Exit (Flat) Capacity calculation until 15.00. This would mean that Users would not know the quantity that National Grid NTS would make available as Daily Off-Peak NTS Exit (Flat) Capacity prior to placing their bids.

I hope you find the comments useful, please contact me if you require any further information.

Yours sincerely,

Martin Watson
Gas Access and Charging Manager

Appendix. Comments on the Draft Modification Report

- 2. Extent to which implementation of this Modification Proposal would better facilitate the achievement (for the purposes of each Transporter's Licence) of the Relevant Objectives:**
- a) Standard Special Condition A11 1(a) the efficient and economical operation of the pipe-line system to which this licence relates:**
- National Grid NTS believes that the implementation of Modification Proposal 0195 or 0195A would better facilitate the efficient and economic operation of the NTS pipe-line system as it would enable Users to register, using a common process, their NTS Exit (Flat) Capacity requirements up to six years in advance. This would allow National Grid NTS to take better informed investment decisions.
 - Both Modification Proposals enable Users and developers the ability, subject to "materiality tests", to provide National Grid NTS with investment signals in accordance with the User's/developer's timelines. They may also enable National Grid NTS to align to the User's/developer's timeline if the capacity can be made available.
- b) Standard Special Condition A11 1(b) so far as is consistent with sub-paragraph (a), the coordinated, efficient and economical operation of (i) the combined pipe-line system, and/or (ii) the pipe-line system of one or more other relevant gas transporter(s):**
- Modification Proposal 0195 and to a lesser extent, 0195A, would enable National Grid NTS and DNO Users to formally confirm NTS Exit Capacity levels to support their respective investment decisions beyond September 2011 and thereby better facilitate the co-ordinated, efficient and economic operation of the combined pipe-line system.
 - In addition, both Modification Proposals should enable National Grid NTS to better respond to its Exit Capacity incentive by optimising the provision of Exit Capacity at times of high demand by efficiently trading off pipe-line investment against buyback contracts, thus enabling National Grid NTS to operate the pipe-line system in a co-ordinated, efficient and economical manner.
 - Modification Proposal 0195A via the addition to the Daily Off-Peak NTS Exit (Flat) Capacity release enables Users to procure spare capacity that is not being utilised by firm capacity holders. National Grid NTS is entitled to scaleback this capacity if the NTS is no longer able to support this spare capacity i.e. due to firm users utilising that capacity or a constraint occurring on the NTS. The combined effect of the utilisation of spare capacity with the ability of National Grid NTS to remove that capacity should ensure that the pipe-line system is operated economically.
- c) 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:**
- National Grid NTS believes that implementation of Modification Proposals 0195 and 0195A would further National Grid NTS' GT Licence obligation standard special condition A6, by ensuring its transportation business is conducted in a manner to avoid unfair or unduly discriminatory arrangements. It is noted that Modification Proposals 0195 and 0195A would only result in consistent arrangements for NTS Exit (Flat) Capacity, but National Grid NTS considers that this would better facilitate achievement of special condition A6 compared to the current arrangements.
- d) 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**

- Modification Proposals 0195 and 0195A offer NTS Exit (Flat) Capacity to all Users on a non-discriminatory basis and allow Users to better reflect the value placed on Firm NTS Exit Capacity and the costs of constraint management.
- Modification Proposals 0195 and 0195A facilitate competition between relevant shippers and Distribution Network Operators (DNO's) for the NTS Exit (Flat) product where the product is constrained via the use of auctions.
- Consideration needs to be given as to whether the Modification Proposals ensure GB compliance with European Gas Regulation 1775.

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

- National Grid NTS believes that Modification Proposals 0195 and 0195A provide National Grid NTS with a wider range of improved system management tools than the current regime.
- National Grid NTS recognises that Modification Proposal 0195 removes the concept of NTS interruptible load and that Stages 2 and 3 of a Network Gas Supply Emergency may be reached at an earlier stage but it believes that the additional commercial constraint management tools will help replace the effect of National Grid NTS interrupting sites directly. Modification Proposal 0195A maintains a degree of NTS interruption so it should prevent Stages 2 and 3 of a Network Gas Supply Emergency being entered as early as Modification Proposal 0195. However, it does change the way that NTS interruption works, in that it becomes a commercial mechanism and this could result in User's utilising their interruptible accrued rights.

4. The implications for Transporters and each Transporter of implementing this Modification Proposal, including:

a) The implications for operation of the System:

National Grid NTS believe that Modification Proposals 0195 and 0195A would provide a wider range of system management tools to better manage any transportation constraints than the current regime.

b) The development and capital cost and operating cost implications:

National Grid NTS will take an initial view on the systems and ongoing operational costs for each Modification Proposal as part of the Ofgem Impact Assessment.

c) Whether it is appropriate to recover all or any of the costs, and, if so, a proposal for the most appropriate way for these costs to be recovered:

The appropriate funding of systems developments incurred as a result of implementation of any of the Modification Proposals will be recovered in accordance with agreed arrangements.

d) The consequence (if any) on the level of contractual risk of each Transporter under the Uniform Network Code proposed to be modified by this Modification Proposal

National Grid NTS does not consider that the level of contractual risk on each Transporter under the Code is affected.

5. The extent to which the implementation is required to enable each Transporter to facilitate compliance with a safety notice from the Health and Safety Executive pursuant to Standard Condition A11 (14) (Transporters Only)

No comment

6. The development implications and other implications for the UK Link System of the Transporter, related computer systems of each Transporter and related computer systems of Users

- In the event of implementation of 0195 and 0195A there will be significant changes to the UK Link systems as described on a generic basis below. More detailed analysis will be provided as part of National Grid NTS' response to Ofgem's Impact Assessment.
- The Gemini system will need to be modified to facilitate the new NTS Exit Capacity processes and these costs (for each Modification Proposal including variations) will be included as part of National Grid NTS' impact assessment response and separately in the Agency's impact assessment response.
- Impacts in IGMS/MIS and MIPI processes will need to be considered.
- National Grid NTS will need to make changes to the National Grid web-site to enable publication of NTS Exit information to all interested parties (i.e. publicly available information).
- National Grid NTS will need to develop and enhance internal operational management tools and associated internal Management Information Systems.

No programme of works has been provided as both National Grid NTS and the Agency will be unable to finalise a programme until a decision is made by the Authority on these Modification Proposals. However, National Grid NTS believes that the system changes as a result of implementation of Modification Proposals 0195 and 0195A will result in significant systems costs and lead times. Indicative costs will be provided by both National Grid NTS and the Agency as part of their responses to Ofgem's Impact Assessment.

7. The implications for Users of implementing this Modification Proposal, including the development and capital cost and operating cost implications and the level of contractual risk

National Grid NTS will be detailing the administrative and operational costs as part of its response to the Impact Assessment on the potential new arrangements for both Modification Proposals.

National Grid NTS consider that changes to National Grid NTS' Gas Transmission Transportation Charging Methodology Statement and DN's Gas Distribution Charging Methodology Statements would be required as part of the changes to the NTS Exit regime for Modification Proposals 0195 and 0195A.

8. The implications of the implementing for other relevant persons (including, but without limitations, Users, Connected System Operators, Consumers, Terminal Operators, Storage Operators, Suppliers and producers and, to the extent not so otherwise addressed, any Non-Code Party)

No comment

9. Consequences on the legislative and regulatory obligations and contractual relationships of the Transporters

No comment

10. Analysis of any advantages or disadvantages of implementation of the Modification Proposal

Advantages

Modification Proposal 0195

- Provide all Users (Shippers and DNO Users) with the ability to:

- Obtain the NTS Exit (Flat) Capacity in the same capacity registration processes for capacity utilisation over the same periods and thereby avoid scope for unfair or unduly discriminatory arrangements;
- Signal their long term Flat Capacity requirements over a number of years, backed by a financial commitment, to support efficient and economic investment planning in both the NTS and any NTS Exit Point;
- Place their value on NTS Exit (Flat) Capacity and the costs of constraint management;
- Provide certainty to Users by confirming holdings well in advance of gas flow.
- Better co-ordinate their project planning, development and construction with that of National Grid NTS' for new Enduring NTS Exit (Flat) Capacity.
- Provides both Users and non-users the opportunity to signal their requirements, subject to a "materiality test", outside the Annual Application window;
- Provide National Grid NTS with the ability to hold ad-hoc reduction processes to ensure that the most efficient investment outcome is achieved.
- The window provided to the DN's to amend their unconstrained NTS Exit (Flat) Capacity requirements if their pressure/flexibility requests have been rejected should enable the most efficient total system investment to be determined.
- Provide National Grid NTS with a range of system management tools to better manage the NTS in a safe, economic and efficient manner.
- Provides Users with aggregated information in respect of Capacity applications and bookings to better inform User intentions in respect of future use of the NTS.
- Provides a better 'fit' of NTS Exit Capacity arrangements under a divested industry structure that exists following the sale of a number of Gas Distribution Networks in 2005.
- Recognises changes to the UNC that have occurred since the 0116 suite of Modification Proposals.

Modification Proposal 0195A

- This Modification Proposal provides all of the advantages detailed above.
- Provides Users with the ability to purchase a guaranteed level of Daily Off-Peak NTS Exit (Flat) Capacity with a level of risk to the User.
- Addresses the concerns of storage users, bi-directional and back-up gas supplies in relation to utilising the NTS when there is spare capacity.
- Strengthens the Overrun incentives by requiring Users to book their overrun quantity as firm NTS Exit (Flat) Capacity in the next Annual Application process (for Y+4).

Disadvantages

Modification Proposal 0195

- Introduces complex systems and processes into the regime.
- Increases costs for Users.
- Lack of opportunity for shippers to obtain rights to vary their offtake flows.
- The non Annual Application window may not afford all Users the same opportunities to procure NTS Exit (Flat) Capacity at the same time and this may result in NTS Exit (Flat) Capacity being substituted to other NTS Exit Points.
- May result in Users hoarding NTS Exit (Flat) Capacity via the non Annual Application window by continually extending the Demonstration / Registration Dates.
- The window provided to the DNs to amend their NTS Exit (Flat) Capacity requirements, subject to their pressure/flexibility requests not being met in full, will impact on National Grid NTS' network analysis, as these changes will need to be factored into the model for consideration in the entry capacity auctions and future exit analysis.

Modification Proposal 0195A

- As detailed above for 0195

- Users indicating their requirements for an interruptible product rather than National Grid NTS purchasing its interruptible requirements.
- There is the potential for the firm product to be devalued.
- May result in Users incurring Overruns and NTS investing for such Overruns.

11. Summary of representation received as a result of consultation by the Proposer (to the extent that the import of those representations are not reflected elsewhere in this Modification Proposal)

No comment

12. Detail of all other representations received and considered by the Proposer

No comment

13. Any other matter the Proposer considers needs to be addressed

No comment

14. Recommendations on the time scale for the implementation of the whole of any part of this Modification Proposal

Unable to comment at this stage.

15. Comments on Suggested Text

No comment

16. Suggested Text

No comment