



Modification No 195 / 195A: Introduction of Enduring NTS Exit Capacity Arrangements
Comments from AEP¹

The Association welcomes the opportunity to comment on these modification proposals.

The Association believes that both 195 and 195A would further the relevant objectives. At this time we consider that 195A better facilitates the relevant objectives.

We rank the proposals in the following order most favoured first:

- 116A – support
- 195A – support
- 195- support
- 116CVV – not support
- 116BV – not support
- 116 VD – not support
- 116V – not support

Our views concerning the relative merits of the 116 variants have not changed from previous submissions and we think that 116A still has merits. It would provide certainty and stability going forward at a time when substantial investment in gas fired plant is needed. We are also of the view that with respect to flexibility capacity it would be more appropriate to monitor utilization to better understand these issues than it would be to implement change which is not yet proven to be necessary.

We also support 195 and 195A, and consider these both further the relevant objectives more than the other 116 variants. These proposals were led and developed by industry following the Competition Commission decision in relation to the appeal to the decisions regarding 116V and 116A. We think these proposals progress the desire for change to the exit capacity regime, for there to be a stronger signal from those wanting incremental capacity, whilst retaining some of the beneficial aspects of the current ARCA regime, such as

¹ The Association of Electricity Producers (AEP) represents large, medium and small companies accounting for more than 95 per cent of the UK generating capacity, together with a number of businesses that provide equipment and services to the generating industry. Between them, the members embrace all of the generating technologies used commercially in the UK, from coal, gas and nuclear power, to a wide range of renewable energies.

flexible commitment and start dates. Both proposals only bring forward changes necessary to achieve this and do not include flexibility bookings for all offtakes. 195A also responds to the Competition Commission's specific comments concerning the utilization of 'spare capacity' by ensuring that all capacity that can be made physically available is made available on an interruptible basis outside of peak demand periods.

Modification proposals 195 and 195A do not treat all offtakes in exactly the same manner, but we maintain this is not a necessary requirement given the fundamentally different nature of the offtakes and the businesses they serve. However both proposals do allow DNs to book the flexibility they require to meet their licence obligations and demands of customers connected to their networks. We consider treating all offtakes in the same manner for exit capacity products would set a precedent implying that all offtakes should be treated in the same manner for all other aspects of transportation services including charges, pressure commitments etc. This could have wide ranging and unintended consequences both now and in the future and could ultimately constrain the efficiency of the gas and electricity markets.

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

Gas Transporter Licence Standard Special Condition A11.1

- (a) *the efficient and economic operation of the pipe-line system to which this licence relates;*

Both 195 and 195A provide for the provision of information concerning incremental investment and notice for capacity no longer required in investment timescales. This would help to inform NTS investment decisions which should in turn facilitate the efficient operation of the system.

The alternative process for release of enduring flat capacity and flexibility included in the notification process for reductions in capacity are well developed positive features of these proposals, that also seek to link into the commercial regime some of the physical realities of large scale engineering projects. We believe these principles demonstrate that 195 and 195A better facilitate the relevant objectives more than the 116 variants. DNOs/ shippers / developers would be able to advise National Grid of increases or reductions in capacity at dates outside of the Application Window and for there to be non-October dates or a range of dates as the desired timescale. The provision of this information in a more timely manner to National Grid, ie not restricted to the Application Window, and for there to be non-October applicable dates provides National Grid with better and earlier information with which to plan and manage its investment programme and hence improve overall efficiency of the operation of the system. Else for example capacity might have to be requested and built for an October start when it is not actually required until March or June.

The inclusion of an off-peak product as part of 195A will also promote the use of spare capacity on the system and increase utilisation and hence efficiency of system operation.

Both proposals also provide NG with a range of tools for managing transportation constraints efficiently.

- (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 transporters;*

Implementation of either 195 or 195A will provide enduring arrangements under which both National Grid and DNs can make efficient investment decisions. As stated above we consider the flexibility under the alternative approach to capacity release and notification of reductions will only enhance efficiency of investment and thereby operation of the whole system.

The ability for DNs to adjust their flat capacity bookings if they do not secure the flexibility or assure offtake pressure they require under the OCS process recognises the interaction between these three elements and should provide for efficient allocation of capacity across the whole system.

- (c) *so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;*

The proposals link in with NG's licence obligation to substitute unsold baseline capacity by providing a common framework for application and release of enduring capacity and a defined process outside of the annual application window by which Ng can comply with its obligations.

By providing a framework for signalling enduring capacity requirements and these proposals would support NG in meeting its licence obligations concerning the provision of capacity for 1 in 20 demand requirements. The proposals also support National Grid's obligations to meet all reasonable demands for gas, the simple definition of the user commitment helps to define 'reasonable'.

195A should also provide for more cost reflective charges as off-peak users do not drive investments to meet the 1 in 20 demand obligations.

- (d) *so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition:*
- (i) *between relevant shippers*
 - (ii) *and suppliers;*

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

Implementation would introduce the same NTS exit (flat) capacity arrangements for shippers to direct connects as to DNs, allowing DNs to offer comparable terms to shipper in respect of similar rates of offtake.

Similarly the introduction of common arrangements for the disposal of enduring capacity to address a transportation constraint or to support incremental capacity requests will provide for competition between Users.

The ability to appoint an agent for the initial allocation of enduring rights will also help to ensure capacity is allocated to the appropriate parties in a fair manner, so they may compete on equal terms.

These proposals also allow shippers to book capacity more than 6 months ahead where that capacity already exists and no investment is required. This will enable shipper to manage the risks associated with securing capacity in such circumstances and be consistent with promoting competition.

Also depending on the charges for daily off-peak capacity (which are not yet known) 195A may further support competition between shippers as shippers will be able to manage access risks particularly at storage, interconnectors and plant with back-up fuel capability and enhance their ability to compete in the market.

- (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 (within the meaning of paragraph 4 of standard condition 32A (Security of Supply – Domestic Customers) of the standard conditions of Gas Suppliers’ licences) are satisfied as respects the availability of gas to their domestic customers; and*

We do not consider that this objective is impacted by any of the proposals

- (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.*

We do not consider that this objective is impacted by any of the proposals

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

Introducing these arrangements may be beneficial for security of supply and operation of the system by providing an enduring framework for the release of exit capacity. National Grid will also have enhanced system management tools for assisting in the management of a transportation constraint.

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

a) implications for operation of the System:

To the extent that these proposals promote economic and efficient investment in the System, system operation would be expected to benefit. In addition National Grid will have a wider range of system management tools available to manage a transportation constraint.

b) development and capital cost and operating cost implications:

We expect these issues to be more fully explored in the impact assessment.

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

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

Transporters contractual risk pursuant to the UNC will reduce as a result of the larger User Commitment required to secure incremental capacity. Revisions to transmission and distribution charging methodologies will need to be progressed, in the case of the latter to recover the cost of NTS flat capacity.

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

The level of risk faced by a transporter under the UNC will be reduced.

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

Would expect impact on UK Link System to be similar to that for 116CVV. Full systematisation of all features may not be cost effective eg requirement for overrunning user apply for enduring rights at next Application window. The publication of linepack and flexibility information will impact National Grid's website rather than UK LINK directly.

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

Users will face an increased level of contractual risk due to the increased User Commitment term, but this may be offset by avoiding an ARCA appeal and the ability to reserve capacity more than six months ahead even when no reinforcement is required. Operational procedures and system will need to be updated to manage the new processes and system management products.

At multi-user sites allocation arrangements may need to be revised.

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

Non-code parties when agreeing ARCAs will also face a larger User Commitment than currently, or would have to understand the risks of the Daily off-peak product.

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

Notwithstanding the absence of a long term interruptible product the proposals are broadly consistent with the EU Gas Regulation 1775 concerning access to gas networks. The standing offer of a daily off-peak product with a defined quantity to be made available provides a reasonable proxy for this.

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

The Association agrees with the advantages and disadvantages listed in the draft modification report

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

We expect that NG NTS will have to seek a change to its safety case rather than this arising from a change in safety legislation.

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

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

Proposed implementation timetable (including timetable for any necessary information systems changes)

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

Further Comments

4th April 2008