

Workstream Report
Reservation of Firm NTS Exit Capacity at new NTS Exit Points in the transitional period
Modification Reference Number 0214

Version 1.0

This Workstream Report is presented for the UNC Modification Panel's consideration. The Transmission Workstream considers that the Proposal is sufficiently developed and should now proceed to the Consultation Phase. The Workstream also recommends that the Panel requests the preparation of legal text for this Modification Proposal.

1 The Modification Proposal

The effect of implementation of Modification Proposal 198 has been to extend the transitional period for the release of NTS Exit Capacity by one year. As such the enduring period, after which any new enduring NTS Exit Capacity release arrangements may become effective, will now commence with effect from 1st October 2012 at the earliest.

Modification Proposal 198 represents the third time the sunset clauses (which give rise to the transitional period) have been extended and was necessary because of the Authority's need to reconsider its decision to implement Modification Proposal 116V, which was quashed by the Competition Commission.

Over the last year Users have spent a considerable amount of time revisiting the initial discussions on NTS Exit Reform which formed the basis of Modification Proposal 116V, and all its variants. This has resulted in Modification Proposals 195 and 195AV being raised, both of which have been recommended for acceptance by the Modification Panel. We understand the Authority intends to consider these Modification Proposals in conjunction with Modification Proposal 116V, and all its variants, with a view to reaching a decision of enduring NTS Exit Reform in November 2008.

It is to be hoped therefore that by the end of 2008 appropriate arrangements will be in place for enduring NTS Exit Reform and all Users will be able to signal their requirements for incremental enduring NTS Exit Capacity in July 2009 (to take effect from Gas Year 2012) subject to consistent and robust new UNC provisions that complement National Grid NTS's (NG) licence obligations.

Prior to 1st October 2012 however, Users will need to acquire NTS Exit Capacity in accordance with current UNC arrangements and NG's prevailing NTS Exit Capacity Release Methodology Statement. We believe these contain certain inconsistencies and risks for Shippers Users seeking to acquire NTS Exit Capacity for new NTS Exit points in the transitional period, and this Modification Proposal has been raised to address these.

NG's latest NTS Exit Capacity Release Methodology Statement (ExCR) for the transitional period states that:

- Where existing exit capacity at NTS System Exit Points is available it will be

allocated on a first come first served basis and Shipper Users shall be required to request NTS Exit Capacity in accordance with UNC section G2 and B3.2

- Where incremental exit capacity is required within investment lead times it will be allocated only if a safe operating system can be maintained and if economic analysis of the costs and benefits demonstrates that it is economical to do so
- Where incremental exit capacity is required beyond investment lead times an ARCA will be offered providing specific reinforcement is required and the incremental request is for greater than 20m therms p.a.

Section B3.2.2.b of the UNC currently states that Shipper Users are not allowed to apply for NTS Exit Capacity at NTS Connected System Exit Points earlier than 6 months prior to the proposed date of registration. Although this must be an Eligible Capacity Registration Date there do not appear to be any further restrictions on this date, although the ExCR implies that capacity is not be able to be booked until six months prior to gas flowing.

In the case of new NTS Supply Point Components no such restriction appears to exist in section G2 regarding the proposed registration date, although NTS Exit Capacity can only be registered once the Supply Point is included on the Supply Point Register. This requires completion of the relevant connections work and this presumably applies equally to NTS CSEPs. Once again however, the ExCR implies that capacity is not be able to be booked until six months prior to gas flowing.

The basis on which Shipper Users are entitled to apply to register NTS Exit Capacity at a new NTS Exit Point in the transitional periods is not entirely clear therefore, as there seems to be an inconsistency between how Shipper Users register capacity under the UNC and how NG will allocate capacity under the ExCR. In contrast the basis on which DNO Users are entitled to apply for increases in NTS Offtake Capacity at NTS/LDZ Offtakes is clearly set out in section B6.3 and the ExCR makes it clear that NG will allocate capacity in accordance with this process.

As Shipper Users could be competing for existing exit capacity with DNO Users it is important that the UNC clearly defines how all Users can register their exit capacity requirements in a manner consistent with NG's ExCR.

Throughout the transitional period Shipper User's requiring firm NTS Exit Capacity at a new NTS Exit Point are also currently exposed to the risk of capacity they have been told is available from a certain date not being available at the point they can apply to register for it. This is because if NG does not make an ARCA available because at the time of the enquiry existing capacity is available, specific reinforcement is not required or the request is for less than 20m therms p.a. they will be free to allocate this capacity elsewhere in the intervening period. Such a risk is unacceptable to a Shipper User committed to making a significant capital investment in their own offtaking facility and could significantly delay commissioning of further CCGTs, storage facilities and interconnectors which are necessary to enhance the security of gas and electricity supplies.

It is therefore proposed that in the case of any request for NTS Exit Capacity required to be made available during the transitional period at a new NTS Exit Point the UNC should specify the circumstances whereby NG will be required to enter into an Advanced Capacity Reservation Agreement (ARCA), with either non code party or a Shipper User. The UNC would also include high level details about the nature of the terms expected to be included in an ARCA.

These circumstances where an ARCA would be required would be where:

- Specific reinforcement is required on the NTS in order to make the requested firm exit capacity available; or
- Existing firm exit capacity is available or specific reinforcement is not required but a Shipper User has been able to demonstrate to NG's reasonable satisfaction that its relevant consents have been secured, or are securable, and that its relevant construction programme is on target to offtake gas by the date specified in the capacity request.

The UNC would specify that any such ARCA would be valid only in relation to the transitional period such that a Shipper User's opportunity to register NTS Exit Capacity up to the level reserved via the ARCA would expire after the last day of the enduring period.

Whilst outside the specific terms of an ARCA are outside the scope of this Modification Proposal the UNC would specify that the ARCA would be expected to contain terms relating to the:

- Duration and registration dates
- Scheduling and rescheduling of any specific reinforcement
- NG's obligations and liabilities when making capacity available
- Shipper User's obligations and liabilities to pay charges and provide security
- Assignment, force majeure and other boilerplate conditions
- Site specific offtake parameters

which would, where possible, be generic for all Shipper User's and non code parties.

NG shall be required to offer an ARCA within 10 business days of successful demonstration by a Shipper User of their ability to offtake gas in accordance with NG's firm NTS Exit Capacity offer. Shipper User's would then have 20 business days to accept the ARCA or, as is currently the case, appeal to Ofgem if they were unhappy with the terms offered.

NG would not be required to offer an ARCA to a Shipper User that is subject to a credit restriction. For the avoidance of doubt the terms, rights, obligations and liabilities contained in any existing ARCA that NG had entered into with any User prior to this Modification Proposal coming into force would be unaffected.

Whilst outside the scope of this Modification Proposal were it to be approved NG might be expected to amend the terms of their ExCR to reflect this change. They may

also reconsider the terms of the current generic ARCA to align the user commitment therein with that included in the enduring offtake reform Modification Proposals, which might lessen the likelihood of future ARCA appeals.

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

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

This Modification Proposal is expected to facilitate achievement of this relevant objective by ensuring Shipper Users are able to reserve the capacity they require based on a readily identifiable commitment to their offtake related project such that they are not faced with capacity being unavailable when they come to commissioning. This would in turn provide appropriate and timely information to National Grid NTS, thereby facilitating economic and efficient operation of the pipe-line system.

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

This Modification Proposal is expected to facilitate achievement of this relevant objective by ensuring clear and fair processes exist by which all Users can secure firm exit capacity (regardless of whether this is currently available or incremental) during the transitional period for new NTS Exit Points. [WHICH LICENCE OBLIGATION IS FACILITATED?]

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;*

This Modification Proposal is expected to facilitate achievement of this relevant objective by ensuring all Users are able to secure firm exit capacity for new NTS Exit Points during the transitional on a clear and broadly consistent basis.

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 (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;

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.*

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

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

Providing Shipper Users with surety that capacity they require can be reserved at the point in time they commit to their offtake related project will remove the unwelcome possibility of that capacity being unavailable once the project is ready to be commissioned. This could help to promote security of gas supply in respect of storage and interconnector projects and electricity supply in the case of CCGTs.

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

a) implications for operation of the System:

Providing NTS with clear and timely signals of demand for incremental exit capacity during the transitional period should help ensure that the system can be operated efficiently, reflecting changing patterns of demand.

b) development and capital cost and operating cost implications:

No development or capital costs are envisaged.

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

No additional cost recovery mechanism is proposed.

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

No such consequence is anticipated.

5 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

By obliging it to enter into an ARCA, contractual risk would be increased for National Grid NTS.

6 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

No significant development implications for the UK Link System or the related computer systems of each Transporter/User arise from this Modification Proposal.

7 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)

Shipper Users requiring firm NTS Exit Capacity at a new NTS Exit point during the transitional period may require extra administrative resource to demonstrate their ability to offtake gas in accordance with NG's capacity offer, and to enter into an ARCA.

Development and capital cost and operating cost implications

No such costs have been identified.

Consequence for the level of contractual risk of Users

Defining a clear basis for Shipper User's to reserve capacity for new NTS Exit Points under the UNC removes any contractual risk associated with the inconsistency there is currently be between the UNC and the ExCR.

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

The benefits afforded to Shipper Users by this Modification Proposal apply equally to Non Code Parties.

9 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

Entering into an ARCA following demonstration by a Shipper User of their commitment to offtake gas at a new NTS Exit Point may help NG to justify that any investment they are required to make has been efficiently incurred during the

transitional period.

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

Advantages

- Brings clarity to the process of reserving firm NTS Exit Capacity at all new NTS Exit points during the transitional period.
- Removes the risk of firm NTS Exit Capacity not being available during the transitional period when new offtake projects (for which there is a readily identifiable commitment to proceed) require gas for commissioning.

Disadvantages

None identified

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

No written representations have been received.

12 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.

13 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.

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

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

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

It is recommended that this Modification be implemented to commence at the start of Gas Year 2008, thereby making its provisions applicable for at least three whole Gas Years.

16 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.

17. Workstream recommendation regarding implementation of this Modification Proposal

The Transmission Workstream considers that the Proposal is sufficiently developed and should now proceed to the Consultation Phase. The Workstream also recommends that the Panel requests the preparation of legal text for this Modification Proposal.