

CODE MODIFICATION PROPOSAL No 0243V

**Amendments to the process for initialisation of Enduring NTS Exit (Flat) Capacity at
the Moffat NTS Exit Point**

Version 1.0

Date: 20/03/2009

Proposed Implementation Date: 01/4/2009

Urgency: Non Urgent

1 The Modification Proposal

a) Nature and Purpose of this Proposal

Summary

The Moffat NTS exit point constitutes a connection between two regulated pipeline systems, the NTS and Gaslink systems, each having its own transportation arrangements regulated under separate jurisdictions. From Moffat, gas is shipped to three jurisdictions (the Republic of Ireland, Northern Ireland and Isle of Man) via interconnectors which are subject to the provisions of inter-governmental treaties between the UK and Irish Governments.

The situation at Moffat is fundamentally different from that at NTS exit points where gas is consumed directly or stored (Direct Connects), in that additional measures are required to ensure consistency and linkage between the transportation arrangements upstream and downstream of the exit point. The requirement for additional measures where regulated pipelines connect is exemplified by the different treatment of NTS exit points serving Gas Distribution Networks (GDNs) – additional provisions are incorporated to ensure an effective linkage between NTS and GDN transportation arrangements, in terms of both gas balancing and NTS exit capacity booking.

Existing Moffat arrangements provide the upstream/downstream linkage in part via the capacity certification process, which ensures harmonisation of gas trade volumes at Moffat with upstream and downstream capacity booking levels.

Modification 0195AV, which takes effect from 1 April 2009, does not recognise the need for additional measures to provide consistency between the transportation regimes at Moffat – the capacity certification process is to be discontinued and Moffat is to be treated in the same way as a Direct Connect. In particular, the way in which initial enduring capacity is to be allocated (by 1 May 2009) to individual Moffat users based on their historic capacity holdings will immediately create mismatches between future upstream and downstream capacity holdings, and break the link with the traded volumes.

The proposer believes that the absence of a link between traded volumes and

capacity booking may increase the complexity, risk and costs associated with gas trading at Moffat and make Moffat a less attractive source of gas for the markets in Ireland. Furthermore, as a result of the de-linking of booked capacities and traded volumes, National Grid NTS may receive inaccurate signals as to the aggregate requirements for Moffat capacity, detracting from one of the key objectives underpinning Modification 0195AV. This in turn has the potential to impact on security of supply levels in the downstream gas and electricity markets in Ireland.

To counter these adverse effects it is proposed firstly that the registration of the aggregate initial enduring capacity with individual NTS users at Moffat is deferred until, at latest, May 2011; deferral allows time for a mechanism similar to the existing capacity certification methodology to be established and used in registering holdings of initial enduring capacity at Moffat – the registered amounts would be “certified” by downstream capacity holders. This initialisation process would retain the linkage between traded volumes and capacity booking levels for 2012/13.

The proposer believes the Modification could be expected to realise the following benefits:

(1) Enhanced competition and liquidity in the wholesale market at Moffat

Due to the retained linkage between traded volumes and capacity booking levels, wholesale gas trading at Moffat will be less complex and have lower risk as market participants will be able to concentrate on commodity sales, without the need to source NTS exit capacity independently. More participants could be attracted to the Moffat market as a result.

(2) Improved efficiency in the wholesale market at Moffat

NTS users will compete for gas sales at Moffat on a “level playing field”, whereas initialisation under the Modification 0195AV rules would accord those NTS users granted initial enduring rights an unwarranted advantage. Use of the non-discriminatory initialisation process linked to gas sales avoids this undesirable outcome.

(3) Improved signals of NTS exit capacity requirements at Moffat

Initialisation deferral avoids the immediate creation of capacity and traded volume mismatches, addressing concerns over the signals as to aggregate Moffat capacity requirements that might be provided to National Grid NTS. Instead the aggregate initial enduring rights are retained and then linked to traded volumes following initialisation, providing more reliable signals in the subsequent application window.

(4) Improved utilisation of booked NTS exit capacity at Moffat

A closer match of booked NTS exit capacity with traded volumes could be expected to result in better utilisation of booked capacities, consistent with economic and efficient NTS pipeline operation.

(5) Lower overall costs of NTS exit capacity at Moffat

A closer match of booked NTS exit capacity with traded volumes could also be expected to reduce the overall costs of NTS exit capacity to NTS users at Moffat, a more efficient outcome which will contribute to making Moffat more competitive as a source of gas for the growing Irish markets (see below).

(6) Moffat more competitive as a source of gas for the Irish markets

Moffat throughput in 2007/8 was around 7% of total NTS throughput, and demand in the Irish markets is expected to grow significantly. The benefits outlined above concerning enhanced efficiency and liquidity in the wholesale market at Moffat, and lower overall capacity costs, should contribute to making Moffat better able to compete with new sources becoming available to the Irish markets. This, in turn should benefit all NTS users as enhanced Moffat throughput should contribute to reduced unit NTS transportation charges.

(7) Downstream security of supply issues addressed

There are downstream concerns that under the Modification 0195AV arrangements NTS users would not be well placed to independently signal the downstream requirements for Moffat capacity. This is addressed by retaining the linkages between capacity and traded volumes. This is a crucial point for the three downstream jurisdictions, because security of supply in the gas and electricity markets downstream of Moffat is highly dependent on the availability of Moffat capacity.

It should be noted that this Modification deals only with the adverse impacts associated with the enduring capacity initialisation process under Modification 0195AV – it does not address the ongoing need for linkage between the capacity regimes beyond 2011. However, initialisation deferral provides time for suitable longer term solutions to be considered and developed as necessary.

Introduction

Modification 0195AV, which takes effect from 1 April 2009, does not recognise the requirement at Moffat to provide an effective linkage between the upstream and downstream transportation regimes, thus facilitating economic and efficient market transactions and appropriate pipeline capacity provision. Instead, the existing capacity certification process is to be discontinued and Moffat is to be treated in the same way as a Direct Connect.

The proposer believes that there will be a number of adverse impacts concerning gas trading and capacity provision at Moffat if Modification 0195AV is implemented without amendment.

This proposal is put forward to address these concerns.

Capacity treatment at different types of NTS exit point

The need for this Modification hinges on concerns over the capacity arrangements that would otherwise apply at Moffat under Modification 0195AV. The proposer believes that a clear distinction can be drawn between the capacity booking arrangements required at:

- (1) NTS exit points where gas is offtaken and consumed directly or stored (Direct Connects); and
- (2) NTS exit points where regulated pipeline systems, both having their own distinct transportation arrangements, are connected (Regulated Systems Connects). Examples of such exit points include the Moffat NTS exit point, and NTS exit points serving Gas Distribution Networks.

Capacity booking processes at Direct Connects are relatively straightforward because the capacity requirements can be specified in agreements between the downstream entity (e.g. the power station or storage operator) and the user concerned, ensuring that appropriate levels of capacity are booked and signalled to the transporter. The “lead shipper” concept can be employed where multiple shippers are involved or, alternatively, the downstream entity can become a user and deal with capacity requirements directly.

Capacity booking arrangements at Regulated Systems Connects can require a different treatment because of the multiplicity of users and consumers involved, and the overriding need to provide sufficient capacity in aggregate to meet the demands of a competitive downstream market with changing user market shares. The aggregate capacity requirements may not even be transparent to individual users. In these circumstances individual NTS users cannot be expected to secure NTS exit capacity entirely independently – some form of linkage between upstream and downstream capacity arrangements is required.

Capacity booking at NTS Exits serving GDNs

Nowhere is the need for upstream and downstream linkages more clearly illustrated than in the case of NTS Exits serving the GDNs. Currently (pre-Modification 0195AV) NTS users shipping into GDNs do not book NTS exit capacity; it is simply allocated to the user based on the capacities of its downstream supply point portfolio. In other words capacity is tied to the supply point, facilitating competition in the downstream market and avoiding the potential for NTS exit capacity “ransom strips”. Following implementation of Modification 0195AV, NTS users will be further removed from the NTS exit capacity booking process; GDNs will book and pay for the NTS exit capacity directly, on behalf of all NTS users shipping into the GDN, and recover the costs through charges for use of the GDN network. NTS users facing uncertainty in their own downstream market share are not involved in signalling NTS exit capacity requirements – the GDN does this directly, ensuring sufficient capacity to meet aggregate downstream requirements.

Existing Moffat arrangements

The Moffat NTS exit point constitutes a direct connection between two regulated pipeline systems, the NTS and Gaslink systems, each having its own transportation arrangements regulated under separate jurisdictions. There is a multiplicity of NTS users (17) and Gaslink users (20), in some cases operating on both pipeline systems.

There are some analogies between the existing capacity arrangements at the Moffat NTS exit point and NTS exit points serving GDNs. Moffat NTS exit capacity bookings are driven, through the capacity certification process, by the volumes traded with counter-parties and their downstream capacity holdings. In other words, the NTS exit capacity booked by the NTS user is based on the user's trading arrangements – analogous to the supply point portfolio criterion in GDNs.

These existing arrangements facilitate wholesale trading at Moffat, as an automatic match is created between the trade quantities, the downstream capacity booking and the NTS capacity booking. As with GDN arrangements, the need for NTS users to book NTS exit capacity independently, and the potential for capacity “ransom strips”, is avoided and wholesale competition is enhanced as a result.

Impact of Modification 0195AV at Moffat

Under Modification 0195AV the capacity certification process is to be discontinued, and the initial enduring rights to capacity for 2012/13 onwards will be allocated to individual NTS Users based on their historic Moffat capacity holdings in 2007/8. The allocation process is to be completed by 1 May 2009.

The use of historic holdings rather than the capacity certification process for allocation of initial enduring rights represents a departure from established practice at Moffat, and will immediately create mismatches between future upstream and downstream capacity holdings, and break the link with the traded volumes, giving rise to number of adverse impacts:

- (1) Gas trading at Moffat will become more complex and risky due to de-linking of downstream capacity holdings and traded volumes from NTS exit capacity – potentially capacity “ransom strips” may become an issue as well. Additional complexity would adversely affect those NTS users active in supplying the Irish markets.
- (2) Competition in gas trading at Moffat may be distorted – NTS users granted initial enduring capacity (based on historic holdings) may be put at an advantage to those without initial rights (because of the lesser user commitment associated with initial rights).
- (3) Moffat may consequently become a less attractive source of gas for the downstream markets in Ireland, less able to compete with the new sources planned to come on stream. This would depress NTS

throughput to the detriment of all NTS users in terms of unit transportation charge levels.

- (4) Because initial enduring capacities will not be linked to traded volumes, National Grid NTS may receive unreliable signals as to the aggregate requirements for Moffat capacity, detracting from one of the key objectives underpinning Modification 0195AV in terms of the economic and efficient planning, investment and operation of the pipeline system with regard to Moffat.
- (5) The absence of capacity and traded volume linkage may add risk for NTS users active at Moffat, given the uncertain liquidity of the untested secondary markets in exit capacity. For example, users allocated initial enduring rights in excess of their apparent future requirements will need to decide whether to retain the rights (to cater for increased load or to sell in the secondary market) or relinquish the rights. Conversely users with less than their requirements will need to decide whether to apply for increases in enduring capacity, wait for shorter term releases, or rely on the secondary market. This adds complexity and risk (as well as an additional administrative burden) compared with a situation where mismatches are avoided at the outset.
- (6) The potential for National Grid NTS to be provided with unreliable signals as to the aggregate requirements for Moffat capacity impacts upon security of supply levels in the downstream gas and electricity markets.

Proposal Overview

This Proposal has been raised by a specific User at the Moffat exit point, with support from other parties, in order to counter the adverse effects that would otherwise arise if Modification 0195AV were implemented without amendment, and to better facilitate National Grid NTS's code relevant objectives. Business Rules which define, and are part of, this Proposal are provided in section 16 to implement the following approach specifically for Moffat (it would apply elsewhere in a non-discriminatory manner if there were other exit points with the same characteristics):

- (1) The registration of the aggregate initial enduring capacity with individual NTS users at Moffat is deferred until either May 2010 or, at latest, May 2011; and
- (2) A mechanism similar to the existing capacity certification methodology is established for registering holdings of initial enduring capacity at Moffat – the registered amounts would be “certified” by downstream capacity holders.

The purpose of this Modification in the first instance is to defer ‘initialisation’ under Modification 0195AV at Moffat, thus avoiding the immediate creation of capacity and traded volume mismatches and ensuring that the aggregate level of initial enduring rights is preserved for an

appropriate period until a certification process can be established. This addresses immediate concerns over the signals as to aggregate Moffat capacity requirements that might otherwise be provided to National Grid NTS in the annual application windows.

The aggregate initial rights will then be registered, no later than May 2011, in accordance with the new capacity certification arrangements developed to ensure the necessary linkage between the upstream and downstream capacity regimes. It is expected that the closer in time to 2012/13 that initialisation is performed, the better the match between capacities and traded volumes will be – hence the May 2011 deadline, which constitutes the latest date for initialisation without compromising the user commitment principles within Modification 0195AV. However, an opportunity to initialise earlier, in May 2010, is provided for, should this become possible. The initialisation process ensures that Moffat trades for 2012/13 retain the capacity linkages, and avoids the added trading complexity that would otherwise arise.

Proposal benefits

The proposal could be expected to realise a number of benefits, compared to implementation of Modification 0195AV without amendment:

(1) Enhanced competition and liquidity in the wholesale market at Moffat

Due to the retained linkage between traded volumes and capacity booking levels, wholesale gas trading at Moffat will be less complex and have lower risk as market participants will be able to concentrate on commodity sales. They will not be subject to the uncertainties associated with independent sourcing of NTS exit capacity and forecasting their future market shares in a growing but uncertain downstream market. More participants could be attracted to the Moffat market as a result.

(2) Improved efficiency in the wholesale market at Moffat

NTS users will compete for gas sales at Moffat on a “level playing field”, whereas initialisation under the Modification 0195AV rules would accord those NTS users granted initial enduring rights an unwarranted advantage. Use of the non-discriminatory initialisation process linked to gas sales avoids this undesirable outcome.

(3) Improved signals of NTS exit capacity requirements at Moffat

Initialisation deferral avoids the immediate creation of capacity and traded volume mismatches that would otherwise occur under Modification 0195AV, addressing concerns over the signals as to aggregate Moffat capacity requirements that might be provided to National Grid NTS. Instead the initial enduring rights are retained and then linked to traded volumes following initialisation, providing more reliable signals in the subsequent application window.

(4) Improved utilisation of booked NTS exit capacity at Moffat

A closer match of booked NTS exit capacity with traded volumes could be expected to result in better utilisation of booked capacities, consistent with economic and efficient NTS pipeline operation.

(5) Lower overall costs of NTS exit capacity at Moffat

A closer match of booked NTS exit capacity with traded volumes could also be expected to reduce the overall costs of NTS exit capacity to NTS users at Moffat, a more efficient outcome which will contribute to making Moffat more competitive as a source of gas for the growing Irish markets (see below).

(6) Moffat more competitive as a source of gas for the Irish markets

Moffat throughput in 2007/8 was around 7% of total NTS throughput, and demand in the Irish markets is expected to grow significantly. However, Moffat will be subject to increased supply competition as new sources (offshore, LNG import, storage) are developed to serve the Irish markets. The benefits outlined above concerning enhanced efficiency and liquidity in the wholesale market at Moffat, and lower overall capacity costs, will contribute to making Moffat more competitive as a source of gas for the Irish markets. This, in turn, could be expected to benefit all NTS users as enhanced Moffat throughput should contribute to reduced unit NTS transportation charges.

(7) Downstream security of supply issues addressed

There are downstream concerns that under the Modification 0195AV arrangements NTS users would not be well placed to independently signal the downstream requirements for Moffat capacity. This modification addresses this issue by retaining the linkages between booked capacities and traded volumes. This is a crucial point for the three downstream jurisdictions, because security of supply in the gas and electricity markets downstream of Moffat is highly dependent on the availability of Moffat capacity. Over 90% of gas demand in the Republic of Ireland, and 100% of gas demand in Northern Ireland and the Isle of Man, is sourced at Moffat. In the electricity sector, over 60% of electricity in Ireland is generated using natural gas. Further, the Irish Government has commitments under the Interconnector Treaties to make gas available to Northern Ireland and the Isle of Man that are dependent on the availability of Moffat capacity.

Longer term solutions

It should be emphasised that this Modification does not affect the Moffat capacity booking arrangements beyond the deferred initialisation process, and in some senses can therefore be viewed as an interim measure. Deferral, as well as enabling initialisation consistent with capacity certification principles, also provides an opportunity to consider appropriate longer term solutions.

The objectives of longer term solutions would be to ensure the benefits of this Modification, in particular relating to the Moffat wholesale market and

signalling Moffat capacity requirements, are retained on an ongoing basis. There are a number of possibilities as to the contractual vehicle(s) through which these arrangements might be given effect, including; the downstream transportation terms, a “Moffat Capacity Agreement” (similar to the existing Moffat Administration Agreement), the Uniform Network Code, or a combination of these. It will be for those involved in shipping gas through Moffat to develop suitable arrangements, as necessary.

Deferral also dovetails with the Common Arrangements for Gas (CAG) project, currently being developed by the regulatory authorities in Ireland and Northern Ireland. This project seeks to harmonise transportation arrangements in Ireland and may impact on the Moffat arrangements. It is envisaged that the first phase of this project will be implemented in October 2010, following which the downstream parties will be in a better position to understand their ongoing requirements at Moffat.

Other points

Other more detailed points to note with this proposal are:

- (1) For the avoidance of doubt, the proposed initialisation process will follow the existing capacity certification principles – the amount of initial enduring capacity an individual NTS shipper may be registered as holding will be “certified” by downstream capacity holders, based on the entitlements to Moffat entry capacity in the downstream networks from 2012/13. NTS users may then apply for initial enduring capacity in the amount specified in the certificates.
- (2) The aggregate amount of initial enduring capacity to be registered in this way will not exceed the aggregate amount National Grid NTS would have registered and notified to NTS shippers by 1 May 2009 in the absence of deferral. If initialisation via capacity certification for some reason does not take place, then the default initialised quantities will be those that would have obtained under the Modification 0195AV rules in the absence of this Modification.
- (3) The proposal is concerned only with enduring capacity – the application process for annual (i.e. not enduring) capacity during the 2010 application window will remain unaffected. The amount of annual capacity to be offered will reflect the Moffat baseline less the aggregate initial enduring rights for which initialisation has been deferred.
- (4) The ongoing application processes for incremental enduring capacity assume initial enduring rights have been previously registered with individual users. It would therefore be inappropriate to accept applications for incremental enduring capacity in the period when initialisation has been deferred, and the proposed business rules accordingly preclude this.
- (5) The proposal preserves the user commitment principles embodied

within Modification 0195AV. Initialisation will be completed ahead of the July 2011 application window, and enduring rights retained after this window will be subject to the Modification 0195AV user commitment levels in the normal manner.

b) Justification for Urgency and recommendation on the procedure and timetable to be followed (if applicable)

Urgent procedures are not requested, but the Modification Panel is asked to expedite consideration of the Proposal in light of the timescales involved.

c) Recommendation on whether this Proposal should proceed to the review procedures, the Development Phase, the Consultation Phase or be referred to a Workstream for discussion.

Modification 0195AV was approved by Ofgem on 20 January 2009, and comes into effect on 1 April 2009, impacting upon capacity allocation arrangements at Moffat in the manner described above. The initial allocation process is to be completed by 1 May 2009.

The Proposal is designed to address these concerns by amending the initial allocation process. The Proposer therefore recommends that this Modification Proposal is implemented at the same time as, or immediately following, Modification 0195AV i.e. 1 April 2009.

The Proposer recommends the following procedure and timetable:

Event or activity	Assumed time requirement (Business Days)	Date complete
Submit Proposal	–	Tues 3 Mar
Present Proposal at Transmission Workstream	–	Thurs 5 March
Panel consideration	2	Thurs 5 March
Issue Proposal inviting representations	1	Fri 6 Mar
Final day for representations	6	Thurs 12 Mar
Draft Final Modification Report Issued	1	Fri 13 Mar
Panel consideration	3	Thurs 19 Mar
Ofgem decision	8	Tues 31 Mar

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

The proposal impacts only on the achievement of the Relevant Objectives for National Grid NTS – other Transporters are unaffected.

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

The Proposer considers that the closer match of booked NTS exit capacity with traded volumes could be expected to result in better utilisation of booked NTS exit capacity at Moffat, thereby promoting the economic and efficient operation of the system.

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

The Proposer considers this proposal would ensure a better match between upstream and downstream capacity booking arrangements and traded volumes at Moffat. This would provide more reliable signals for investment planning to National Grid NTS and thereby promote more efficient discharge of its licence obligations with respect to economic and efficient development of the System.

Standard Special Condition A11.1 (d): so far as is consistent with subparagraphs (a) to (c) the securing of effective competition between relevant shippers, between relevant suppliers and/or between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers

The Proposer considers that the proposal will enhance competition and liquidity in the wholesale market at Moffat because wholesale gas trading at Moffat will become less complex and have lower risk. There will also be improved efficiency in the wholesale market at Moffat because NTS users will compete for gas sales at Moffat on a “level playing field” – the proposed initialisation process is non-discriminatory. These features will promote effective competition between Moffat NTS users.

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

The proposal will ensure the registration of initial enduring rights is with users having ongoing commercial relationships at Moffat, requiring the capacity to fulfil their obligations thereunder. Conversely, registration based on historic rights (which bear no relation to future commercial arrangements) is avoided. Hence, the proposal can be expected to avoid the administrative burden associated with unnecessary and inappropriate initial registration at Moffat, and the subsequent process of enduring capacity reductions.

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

The Proposer believes that this Proposal, if implemented, could improve security of supply by providing National Grid NTS with improved signals as to the downstream requirements for Moffat capacity. Improved signals of capacity requirements at Moffat could be expected to play a part in improving operation of the Total System. The proposal would not materially impact upon industry fragmentation in GB.

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

The proposal impacts only on National Grid NTS – other Transporters are unaffected.

a) The implications for operation of the System:

Improved signals of capacity requirements and better utilisation of booked NTS exit capacity at Moffat could be expected to play a part in improving operation of the System.

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

The Proposer believes there would be negligible effect on the operating cost associated with implementation of Modification 0195AV – National Grid NTS already operates a similar capacity certification process at Moffat.

By promoting improved signals of capacity requirements, implementation might be expected to provide a capital benefit to National Grid NTS.

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 Proposer does not believe this will lead to any material additional implementation costs.

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

The Proposer believes that improved signals of capacity requirements could be expected to reduce the level of contractual risk that National Grid NTS is exposed to.

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)

Not applicable

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

This proposal is strictly localised to the Moffat NTS Exit Point and will affect only National Grid NTS and even then to a very limited extent to accommodate (a) a deferral of initialisation at Moffat and (b) a one-off certification process at Moffat. It is expected that simple manual processes can be used to conduct these activities. National Grid NTS and existing Moffat NTS users already operate in accordance with a similar capacity certification process at Moffat.

7 The implications for Users of implementing the Modification Proposal, including:

The proposal impacts directly only on registered Moffat NTS Users – other Users are unaffected. However, to the extent the Modification results in Moffat successfully competing against other supply sources for the downstream markets, Moffat throughput will be enhanced to the benefit of all NTS users in terms of unit NTS transportation charges.

a) The administrative and operational implications (including impact upon manual processes and procedures)

The proposed procedures for initialisation at Moffat are very similar to the existing capacity certification procedures already in place at Moffat.

Operations related to gas trading at Moffat will be simplified by the retained linkage between traded volumes and capacity booking levels.

b) The development and capital cost and operating cost implications

The Proposer does not believe that initialisation under the proposal will lead to any material additional costs because similar procedures are already in place for Moffat.

The simplified gas trading arrangements at Moffat could be expected to have a lower cost.

The closer match of booked NTS exit capacity with traded volumes could be expected to reduce the overall costs of NTS exit capacity to NTS users at Moffat.

c) The consequence (if any) on the level of contractual risk of Users under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal

The Proposer believes this Modification will reduce the level of contractual risk that Moffat Users are exposed to by reducing the complexity and risk of gas trading at Moffat, through the retained linkage between traded volumes and capacity booking levels.

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

In the absence of this Proposal the many parties concerned with the transportation and supply of gas downstream of Moffat may be adversely affected by the potential impacts of exit reform, particularly those relating to gas trading at Moffat, and the signals provided to National Grid NTS regarding aggregate requirements for Moffat NTS exit capacity.

These parties include but are not limited to the downstream transporters (Gaslink, PTL, Phoenix Natural Gas and BGE(NI)), users of those transportation systems, and the regulatory authorities for the Republic of Ireland (CER), Northern Ireland (NIAUR) and the Isle of Man (MEA).

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

The Proposer believes there are none

10 Analysis of any advantages or disadvantages of implementation of the Modification Proposal not otherwise identified in paragraphs 2 to 9 above

Advantages

Already stated above

Disadvantages

No disadvantages have been identified

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

The implications of NTS exit reform (in the context of Moffat and the downstream jurisdictions) have been extensively consulted upon¹ across Ireland, Northern Ireland, and the Isle of Man, and certain Moffat NTS users have been involved in this process. Many concerns have been expressed regarding the discontinuance of the capacity certification process at Moffat and the implications for gas trading at Moffat, and the downstream implications for security of supply and market foreclosure.

¹ Implications for Ireland of Planned Reforms of UK Gas Transmission Exit Regime, Consultation Paper CER/06/222 (20th October 2006) and Decision Document CER/07/002 (10th January 2007); and

NTS Exit Reform Review of Moffat Options, CER and NIAUR Staff Working Paper (23rd December 2008)

The Proposal has the support of industry and the regulatory bodies in the three downstream jurisdictions.

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

See 11 above

13 Any other matter the Proposer considers needs to be addressed

None

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

On 1 April 2009

15 Comments on Suggested Text

Design of the proposed business rules

This section provides context for the proposed business rules set out in Section 16, Suggested Text. Below, the Modification 0195AV initialisation rules and the existing Moffat capacity certification arrangements are summarised in bold, whilst a commentary on the design of the proposed business rules amending these arrangements is given in italics.

As part of the enduring NTS Offtake arrangements introduced by Modification 0195AV, Users will be granted an initial amount of Enduring Annual NTS Exit (Flat) Capacity, effective from 1 October 2012 when the enduring period begins. The processes associated with initialisation of this capacity are set out in the Modification 0195AV legal text (paragraph 8.2, Transition Document Part IIC).

The initial amounts for each User at each NTS Exit Point are based on the sum of their maximum Firm and Interruptible Capacity held at that point in Gas Year 2007/08. As an alternative, Users at a particular NTS Exit Point may appoint an Exit Capacity Booking Agent for the purposes of allocating the aggregate initial amount amongst those Users. Users will be notified of their initial Enduring Annual Exit (Flat) Capacity no later than 1 May 2009.

The proposed business rules facilitate deferral of this initialisation process for Moffat and replacement with the capacity certification arrangements (see below). There are two opportunities to complete initialisation in this manner, either by 31 May 2010 or at latest by 31 May 2011. If initialisation via capacity certification does not take place, then the initialised quantities are those that would have obtained under the Modification 0195AV rules, as if deferral had not taken place.

Having been registered as holding an initial amount of Enduring Annual NTS Exit (Flat) Capacity, Users may adjust the amount held by notifying a reduction or applying for increases in the Annual Application Windows in July each year, commencing July 2009.

The ongoing application processes for incremental enduring capacity assume initial enduring rights have been previously registered with individual users. It would therefore be inappropriate to accept applications for incremental enduring capacity in the period when initialisation has been deferred, and the proposed business rules accordingly preclude this. Deferral automatically precludes reductions until after initialisation.

The July 2011 Annual Application Window is the last time a User can notify a reduction to the enduring capacity held for 2012/13 and be certain that this will be effective (assuming no applications for increases have been made). Enduring rights retained after this window will be subject to the Modification 0195AV user commitment levels in the normal manner.

The 31 May 2011 deadline under the proposed business rules for completion of Moffat initialisation ensures that user commitment to initial enduring capacity remains unaffected.

National Grid NTS will also make available Annual NTS Exit (Flat) Capacity for 2012/13 (these are annual rather than enduring rights) in the July 2010 Annual Application Window. The amount to be made available is, effectively, the Baseline for the NTS Exit Point less the aggregate registered Enduring Annual NTS Exit (Flat) Capacity.

Under the proposed business rules initialisation and registration may be deferred until after the 2010 Annual Application Window – in which case under the above rule the full baseline would be made available (because the registered capacity is zero). The proposed business rules therefore amend the calculation for the amount to be made available. This becomes the baseline less the aggregate initial enduring capacity at Moffat (for which registration has been deferred).

The existing capacity certification process is set out in the CSEP Ancillary Agreement for Moffat, between National Grid NTS and Moffat NTS users. This, in turn, draws on certain provisions of the CSEP NExA or Connected Systems Agreement for Moffat, between National Grid NTS and the Connected System Operator (now Gaslink).

The proposed business rules embody certain of the key principles relating to the existing capacity certification process as highlighted below.

NTS users may apply for NTS Exit Capacity at Moffat provided they submit to National Grid NTS certificates signed by downstream capacity holders authorising registration in specified quantities for specified periods.

There are limitations on the quantities that may be registered in certain situations:

- **Where a downstream capacity holder authorises registration of an amount greater than its downstream capacity entitlement**
- **Where the amount applied for exceeds the uncommitted available capacity**

The Connected System Operator provides details of the identities of the downstream capacity holders and their respective downstream capacity entitlements, so that National Grid NTS can operate the booking rules and quantities restrictions.

The proposed business rules apply these principles for the purpose of facilitating applications by NTS users for initial Enduring Annual NTS Exit (Flat) Capacity, with amendments to reflect the different nature of the one-off initialisation process compared to the existing rolling NTS exit capacity booking regime:

- *The Connected System Operator will initiate the initialisation process either in March 2010 or March 2011 by notifying National Grid NTS of the identities of the downstream capacity holders and their respective downstream capacity entitlements (these will be for gas year 2012/13 rather than for rolling the 12 month periods under the existing rules).*
- *Applications for initial Enduring Annual NTS Exit (Flat) Capacity are made by NTS users in the following April using the certification process*
- *Quantities limitations are applied – excessive authorisations by downstream capacity holders will be subject to pro-rated reductions. (This pro-rating process makes the Firm sub-CSEP concept within the existing Ticket-to-Ride rules redundant for initialisation purposes). The excesses to be pro-rated comprise:*
 - *Authorisations in excess of individual downstream entitlements; and*
 - *Authorisations which in aggregate exceed the maximum (set under the Mod.0195AV rules) that that can be registered for Moffat*
- *NTS users are notified of their registered amount of initial Enduring Annual NTS Exit (Flat) Capacity by no later than 31 May (2010 or 2011 as the case may be)*

16 Suggested Text

The suggested text is in the form of proposed business rules at a sufficient level of detail to facilitate ready conversion to legal drafting.

The proposed business rules involve amendments to the NTS Exit Capacity Regime Initialisation process as set out in the Modification 0195AV legal text, paragraph 8 of the Transition Document Part IIC. The existing capacity certification process is set out in the CSEP Ancillary Agreement for Moffat and this, in turn, draws on certain provisions of the CSEP NExA for Moffat. It may be necessary to amend these agreements to give legal effect to certain of the proposed business rules below.

Explanatory notes to the business rules are given in italics.

Proposed business rules

1. Applicability

- 1.1. The rules set out below are to apply only at the Moffat NTS Exit Point

This limits the proposal to changes in the arrangements for Moffat, for the reasons set out earlier in this proposal.

- 1.2. User in these rules means a Registered User at the Moffat NTS Exit Point at the time the context requires

This is a corollary of the rule above and ensures the rules only apply to registered NTS users at Moffat.

2. Registration Deferral

- 2.1. The process for initialisation of Enduring Annual NTS Exit (Flat) Capacity and notification of the registered amounts to Users by 1 May 2009, as set out in paragraph 8.2 of the Transition Document Part IIC shall not apply

- 2.2. Instead, the registration of the amounts of initial Enduring Annual NTS Exit (Flat) Capacity with individual Users at Moffat will take place not later than 31 May 2011 in accordance with these rules

These rules defer initialisation and facilitate a change to the Modification 0195AV initialisation process for Moffat.

3. Consequences of registration deferral

- 3.1. Applications for incremental Enduring Annual NTS Exit (Flat) Capacity at Moffat will not be accepted unless initialisation has been completed in accordance with these rules.

The ongoing application processes for incremental enduring capacity assume initial enduring rights have been previously registered with individual users. It would therefore be inappropriate to accept applications for incremental enduring capacity in the period when initialisation has been deferred.

- 3.2. Where initialisation has not been completed in accordance with these rules prior to the Annual Application Window in July 2010 the amount of Annual NTS Exit (Flat) Capacity to be made available in that application window will be the Moffat Baseline less the Aggregate Moffat Capacity.

This redefines the calculation of the annual (not enduring) rights that are made available in July 2010 (if initialisation and registration is not complete), replacing registered quantities in the calculation with the Aggregate Moffat Capacity (defined below)

4. Definition and publication of Aggregate Moffat Capacity

- 4.1. “Aggregate Moffat Capacity” in these rules means the aggregate quantity of Enduring Annual NTS Exit (Flat) Capacity that all Users would be registered as holding at Moffat (based on historic holdings), notified no later than 1 May 2009, if the initialisation process took place in 2009 in accordance with the Modification 0195AV rules (paragraph 8.2.1(a))

This defines the aggregate amount that National Grid NTS would initialise and register for Moffat by 1 May 2009, in the absence of this modification. The amount to be registered under the rules below cannot be greater than this aggregate (see rule 9.3).

- 4.2. National Grid will make public the amount of Aggregate Moffat Capacity at the Moffat NTS Exit Point in the invitation letter for the July 2009 Annual Application Window

This ensures that the amount of Aggregate Capacity at Moffat is transparent from the outset, although registration at an individual user level has been deferred.

5. Initialisation Notification

- 5.1. The CSEP NExA provides for the Connected System Operator to notify to National Grid NTS (the Initialisation Notification) the identity and the Downstream Capacity Entitlement of each Downstream Capacity Holder, and references to a Downstream Capacity Holder and its Downstream Capacity Entitlement are to what is so notified by the Connected System Operator to National Grid NTS.

National Grid NTS needs to be informed of the identity of downstream capacity holders and their downstream capacity entitlements in order to be able to register the correct amounts of initial enduring rights in accordance with the certification process below. This information is provided by the Connected System Operator in a similar manner to that in which the existing capacity certification process operates.

- 5.2. The Initialisation Notification may be given on any day in March 2010, or any day in March 2011.

The notification initiates the initialisation process, either in March 2010 or March 2011.

- 5.3. The following definitions apply in these rules:

- (a) Downstream Capacity Holder means a person which is recognised by the Connected System Operator as having a contractual entitlement to have gas conveyed in the Connected Offtake System
- (b) Downstream Capacity Entitlement is the maximum quantity (in kWh/Day) of gas which a Downstream Capacity Holder is entitled on a firm basis to have conveyed in the Connected Offtake System

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- (c) Connected Offtake System means the GB-Ireland interconnectors
- (d) Connected System Operator means the operator of the Connected Offtake System
- (e) CSEP NExA means the Connected Systems Agreement dated 25/08/98 between National Grid NTS and the Connected System Operator, as amended

These definitions are similar to those in the CSEP Ancillary Agreement between National Grid NTS and Moffat users, dated 25/08/98 in which the existing capacity certification process is set out. A key change is in (b) where the downstream entitlement relates to 2012/13 in line with initial enduring exit capacity rights for the NTS.

6. Initialisation Period

- 6.1. The Initialisation Period will commence 2 days after the Initialisation Notification is received by National Grid NTS and will continue until the next following 30 April.

The Initialisation Period is the period in which NTS users may apply for initial enduring capacity using certificates provided by downstream capacity holders (see below). It lasts at least for the whole of April and may include days in March dependent on when the Initialisation Notification is given.

- 6.2. National Grid NTS will notify each User of the date of commencement of the Initialisation Period as soon as reasonably practicable after receipt of the Initialisation Notification.

This ensures that the start of the Initialisation Period is transparent to participating NTS users.

7. Certification

- 7.1. A User may be registered as holding initial Enduring Annual NTS Exit (Flat) Capacity provided that the User has submitted to National Grid NTS one or more Capacity Certificates
- 7.2. A Capacity Certificate is a certificate submitted by a User and signed by a Downstream Capacity Holder:
 - (b) Authorising the User to apply for initial Enduring Annual NTS Exit (Flat) Capacity; and
 - (c) Specifying the amount of initial Enduring Annual NTS Exit (Flat) Capacity which is (following such registration) to be held by the User in accordance with that Capacity Certificate

These rules mirror the existing capacity certification process, making certification a pre-condition for registration.

8. Application

Where a User wishes to apply for initial Enduring Annual NTS Exit (Flat) Capacity the User shall:

- (a) Notify National Grid NTS of its intention to apply for such capacity, specifying the amount to be applied for (such amount being the aggregate of the amounts specified in the Capacity Certificates submitted with the application);
- (b) Submit to National Grid NTS the relevant Capacity Certificates completed in accordance with rule 7.2; and
- (c) Make its application during the Initialisation Period.

Again, these rules mirror the principles of the existing certification process, and enable individual users to apply for initial enduring capacity in the Initialisation Period in the amounts specified in the capacity certificates submitted with the application.

9. Quantities to be registered

- 9.1. A User will be registered as holding an amount of initial Enduring Annual NTS Exit (Flat) Capacity equal to the aggregate of the amounts specified in the Capacity Certificates submitted with its application (after taking account of any deemed reductions in accordance with rules 9.2 and 9.3)

This rule requires registration of the amounts specified in the certificates submitted by the user (subject to any pro-rated reductions – see the next two rules below).

- 9.2. Where the aggregate of the amounts specified in all the Capacity Certificates signed by a Downstream Capacity Holder exceeds its Downstream Capacity Entitlement then the amount specified in each such Capacity Certificate shall be deemed reduced pro-rata such that the aggregate of the reduced amounts equals the Downstream Capacity Entitlement

This rule provides for pro-rating of quantities downwards where a Downstream Capacity Holder issues certificates for which the quantities in total exceed its entitlement.

- 9.3. Where the aggregate of the amounts specified in all the Capacity Certificates signed by all Downstream Capacity Holders (after taking account of any deemed reductions in accordance with rule 9.2) exceeds the Aggregate Moffat Capacity then the amount specified in each Capacity Certificate shall be deemed reduced pro-rata such that the

aggregate of the reduced amounts equals the Aggregate Moffat Capacity

Similar to the previous rule, this provides for pro-rating of quantities downwards where all the quantities in all certificates exceed the aggregate that may be registered for Moffat.

- 9.4. Where by 31 March 2011 National Grid NTS has not received the Initialisation Notification the amounts to be registered for each User shall be determined in accordance with paragraph 8.2.1(a) of the Transition Document Part IIC

If for some reason there is a failure to initiate the certification process then the amounts to be registered are those that would have obtained under the Modification 0195AV rules had there been no deferral.

National Grid NTS calculates and then registers the initial enduring capacities in accordance with the allocation rules in this section 9. The month of May is allowed to complete this process – the initialisation period for applications closes on 30 April and registered quantities are notified by 31 May (see rule 10).

10. Notification of Registered Quantities

National Grid NTS shall notify each User of the amount of its initial Enduring Annual NTS Exit (Flat) Capacity, registered in accordance with these rules by not later than:

- (a) 31 May 2010, where the Initialisation Period is in 2010; or
- (b) 31 May 2011, in any other case

The initialisation process is completed and the registered quantities notified by 31 May (in 2010 or 2011 as the case may be), ahead of the following July annual application window.

Code Concerned, sections and paragraphs

Uniform Network Code

Modification 0195AV legal text, paragraph 8 of the Transition Document Part IIC.

CSEP Ancillary Agreement for Moffat

CSEP NExA for Moffat

Section(s) Various – see above and section 16 Suggested Text

Proposer's Representative

Mark Sutton (TPA Solutions Limited)

Proposer

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Conor Purcell (Electricity Supply Board)