

Interim Review Group Report
Review Proposal Reference Number 0166
Review of necessary reform of NTS Offtake Arrangements
Version 0.1

This Interim Review Group Report is presented for the UNC Modification Panel's consideration. The consensus of attendees at the Review Group was that, whilst there was further work to be done in respect of Flexible Exit Capacity, sufficient progress had been made and hence Modification Proposals should be raised in respect of enduring Firm and Interruptible Exit Capacity.

The Review Group has therefore developed two Modification Proposals that seek to introduce in turn:

- Enduring Firm Exit Capacity Arrangements, which take as their starting point the “**Interim Arrangements**”, which in the UNC are subject to “**sunset clauses**”. Certain elements of Proposal 0116V “Reform of the NTS Offtake Arrangements”, such as a four year User commitment, are, however, included.
- Enduring Interruptible Exit Capacity Arrangements, which build on the Enduring Firm Exit Capacity Arrangements Proposal outlined above, and which set-out four distinct Interruption services.

In addition, some members of the Review Group believed that the feature of the current arrangements, which allows Users to nominate NTS Supply Points as Interruptible, should continue, albeit in revised form. The Review Group was unable to reach consensus on this, but some work was carried out to assist a prospective Proposer in defining a coherent Proposal.

The Review Group believes that further development of these Proposals is not required and that they should proceed to the consultation phase. It would, however, support a Panel decision that required legal text to be developed, in the absence of Suggested Text, and would wish to arrange an open session of the Review Group for the purpose of reviewing the legal text. In anticipation of this, the Review Group has requested that Suggested Text be provided by National Grid NTS.

1 Review Proposal

British Gas Trading raised Review Proposal 0166, for which the Terms of Reference are in Appendix 1.

2 Review Process

In accordance with the Modification Rules, at its meeting on 16 August 2007, the Modification Panel determined that this Review Proposal should be referred to a Review Group for progression. This Review Group Report was subsequently compiled by the Joint Office of Gas Transporters, and approved by Review Group attendees.

3 Areas Reviewed

The Review Group discussions focussed on the following areas:

a) Decision of the Competition Commission (CC)

E.ON UK had appealed against the decisions of the Authority in respect of Modification Proposals 0116A and 0116V. The CC decided, after hearing the appeal, to quash the Authority's decision to implement 0116V but did not make any order to implement 0116A, which would have extended the Interim Arrangements indefinitely.

The Review Group received a presentation from E.ON UK that explored its view of some of the detail within the CC decision and sought to draw lessons on the form that enduring Exit Arrangements might take. Ofgem took the opportunity of

emphasising to the Review Group the importance of reading the full CC report, rather than relying upon any presentations that might be made on the subject.

The Review Group concluded that it should concentrate on three main areas:

- i) Enduring Arrangements for Firm Exit Capacity
- ii) Enduring Arrangements for Interruptible Exit Capacity
- iii) Arrangements for Flexible Exit Capacity that reflect the current availability of Within-Day flexibility.

It was agreed that priority should be given to the first two areas. This is reflected in the areas reviewed in this Interim Report. The Review Group does, however, intend to produce a Final Report when it has finished its work on Flexible Exit Capacity.

b) Enduring Firm Exit Capacity Arrangements

To obtain the view of the Review Group members and develop a coherent Proposal, the Joint Office circulated a questionnaire. A number of members responded and these formed the basis of discussion by the Group. A high degree of consensus was evident in these responses and in the meeting itself, which greatly assisted the Review Group in reaching a conclusion.

The Review Group took the view, in the light of the CC decision, that the enduring regime should include a four year User commitment to Firm Exit Capacity. This would be the main change proposed to the Interim Arrangements. For new Exit Points and substantial increases in Exit Capacity at existing Exit Points, it was agreed that four year Advanced Reservation of Capacity Agreement (ARCA) principles would be appropriate for gaining the required commitment from the User or developer. Rules were also agreed on how commitment might be required on a staged basis.

The Review Group concluded that, whilst applications for substantial increases in capacity could be made at any time, incremental Exit Capacity applications for less than [25] % of baseline should be made within an application window in July each year. This would be compatible with applications made by the DNs for NTS Offtake (Flat) Capacity.

At the same time as this annual application window, Users would be able to notify National Grid NTS of any reductions in Exit Capacity. These reductions would take effect from 1 October in the following calendar year.

No changes were suggested in the current requirement for National Grid NTS to make firm Exit Capacity available at the earliest date consistent with the application. However, it was recognised that National Grid NTS' firm obligation should be four years from acceptance of application.

A minor change to the overrun calculation was agreed. The overrun price would be set at the higher of the existing price and 1.1 times the highest buy-back price set for that Day at that Exit Point.

No changes were suggested in the current arrangements, which provide for NTS Exit Capacity to be transferred or assigned between Users and the ARCA obligation to be transferred from the Non-User concerned to a User.

Finally, the Review Group concluded that the same requirements could apply at NTS Exit Points, NTS Offtakes, NTS CSEPs and Shared NTS Supply Meter Points. Where more than one User held Exit Capacity, an Overrun User could continue to be appointed.

The attached Modification Proposal is supported by the Review Group as a reflection of the consensus achieved.

c) Enduring Interruptible Exit Capacity Arrangements

Views from Review Group members were also sought through the issue of a questionnaire. In this case, however, two distinct views were expressed in responses.

E.ON UK, Scottish and Southern Energy and Centrica Storage argued that a “**general entitlement**” interruption service should be available in respect of all NTS Exit Points, based upon a zero capacity charge. This view was not shared by British Gas Trading and RWE Npower who suggested that any rebate of firm capacity charges should be related to the probability of interruption. Both views attracted support from other Review Group Members.

In this context, the Review Group discussed but did not reach consensus on the interpretation of Article 4(1) (b) of EU Directive 2003/55/EC which states that Transmission system operators shall:

“provide both firm and interruptible third party access services. The price of interruptible capacity shall reflect the probability of interruption;”

This had also been raised by E.ON in the Energy Code Modification Appeal but whilst the CC summarised and commented on the submissions made by E.ON and GEMA, it did not “*express any view on the proper interpretation of Article 4(1) b*” in respect of 0116A. The CC also commented that it was “*not persuaded that 116V is incompatible with the Regulation*”.

It was acknowledged by the Review Group that consensus was unlikely in respect of any general entitlement service. However, it was agreed that consensus could be achieved on the elements of the interruptible service set-out in 0116V, other than the fact that such provisions may be unused if a general entitlement service were implemented. The following paragraphs, therefore, summarise the revised 0116V provisions, which are incorporated more fully in the second Modification Proposal, and the current development of the general entitlement service.

i) Agreed Interruptible Services

The Review Group agreed that the following Interruptible services should be available:

- **Use it or Lose it (UIOLI)** rights where NTS Exit Capacity is anticipated to become available the following Day at a NTS Exit Point as a result of underutilised firm capacity.
- **Long-Term Buy-Back** contracts where National Grid NTS buys-back firm NTS Exit Capacity for twelve months or more, for example through a general tender arrangement.
- **Short-Term Buy-Back** contracts where National Grid NTS buys-back firm NTS Exit Capacity for specific Gas Days, for example through a pay as bid auction.
- **Interim Arrangements** where National Grid NTS is unable to provide NTS Exit Capacity to a User on the date requested but where a commitment to provide it at a later date is made.

UIOLI

The Review Group concluded that the calculation of the capacity available set-out in 0116V was unduly complicated. It therefore agreed to leave discretion with National Grid NTS on release of UIOLI NTS Exit Capacity, on the understanding that it would seek to maximise the release of Interruptible Capacity.

It was agreed that National Grid NTS would allocate UIOLI NTS Exit Capacity at 15.00 D-1 on the basis of User bids, submitted at, or prior to, 13.00 D-1.

Long-Term Buy-Back

The Review Group accepted the principle that National Grid NTS should be able to enter into these contracts as an alternative to investment in the NTS.

The Review Group concluded that Modification Proposal 0090 "Revised DN Interruption Arrangements" set-out a suitable governance framework for Interruptible tenders. This model therefore forms part of the attached Modification Proposal and includes requirements to agree a methodology statement, details within the invitation, criteria for selection of offers and notification of information.

Short Term Buy-Back

For this service the Review Group agreed that National Grid NTS should have this facility, primarily for handling short-term capacity constraints.

It was agreed that auctions for this would be held as required by National Grid NTS, after 15.00 D-1, on a pay as bid basis.

Interim Interruption

The Review Group agreed that the current arrangements should be retained. This addresses the situation where applications are made for firm NTS Exit Capacity but this capacity could not be provided on a firm basis by the requested date. In the interim period prior to this capacity being available the applicant would be offered Interruptible NTS Exit Capacity.

It was further agreed that any such Interruptible NTS Exit Capacity should not be subject to NTS Exit Capacity Charges.

It was agreed that the current Failure to Interrupt charges should be retained and that National Grid NTS should retain the ability to test consumers' ability to Interrupt.

ii) General Entitlement Interruptible Services

E.ON UK and other Review Group members supported provision of a general entitlement service for truly Interruptible points.

For this reason a threshold of [85] % of the 1 in 20 National peak day demand, as forecast at D-1, was suggested. Above this level, Users would either have to reduce their daily quantities to their firm NTS Exit Capacity or agree to pay firm NTS Exit Capacity charges both for the current Gas Year and for at least the first four Gas Years at which National Grid NTS could make that capacity available.

If Users did not elect to pay these charges, and continued to flow above their firm NTS Exit Capacity, they would be subject to Firm Capacity Overrun charges whether or not Interruption had not been exercised on that Day by National Grid NTS.

It was suggested that Users opting for this service would not pay NTS Exit Capacity Charges. Some Review Group members did not share this view, believing that any discount on an NTS Exit Capacity charge should more closely reflect the probability of Interruption.

The supporters of this Proposal also acknowledged that it should not be available to New NTS Exit Points that could only be connected if the NTS was materially extended.

The supporters of this service agreed to take into account the views of the Review Group prior to making any Modification Proposal seeking to introduce the service.

4 Further Work

Neither of the attached Modification Proposals contains Suggested Text but it is assumed that respondents would wish to see and comment on the legal text. The Review Group therefore proposes to organise an open session, prior to close-out where legal text can be discussed in detail and has asked National Grid NTS to prepare it.

The Review Group recognises that more work needs to be done in the area of Flexibility Capacity. Proposals 0116V and 0116CVV adopted very different approaches in this respect and the justifications for each Proposal need to be examined prior to establishing any consensus on the way forward.

For this reason, in addition to any legal text session it is anticipated that three Review Group meetings will be needed in order to finalise its recommendations. It therefore requests that an extension be granted to the January Modification Panel. This should not prevent progress for the two Modification Proposals attached to this report.

5 Recommendations

The Modification Panel is invited to accept this Interim Report and the recommendations that:

1. When formally raised, Modification Proposals substantially in the form of the attached draft Modification Proposals should enter the consultation phase, and that an open session of the Review Group be held, during the consultation period, to discuss any available legal drafting.
2. An extension be granted for the finalisation of the Report to the January Modification Panel

Appendix 1 Terms of Reference

1. Background

Following the decision of the Competition Commission to uphold the appeal against the decision to implement Modification Proposal 0116V it is clear that the industry should consider what alternative NTS offtake arrangements should be brought forward.

2. Purpose

This Review Group shall consider:

- How best to monitor the availability of, and variation in, NTS linepack and the adequacy of arrangements for managing within-day flow variation for all NTS users.
- The size, duration and flexibility of user commitments for incremental NTS capacity taking into account the primary needs of National Grid NTS and Users to make efficient investment decisions. This shall include arrangements for all Users to secure capacity in advance.
- The need to consider User requirements and NTS requirements or characteristics and their effect on the design of relevant exit capacity products. The appropriateness and compatibility of these products for example, for exports through interconnectors, injections into storage and back-up supplies to directly connected customers shall be considered. In particular, cost reflectivity of exit capacity products that provide access, given different patterns of usage, shall be considered. The design of products should also involve, inter alia, consideration of overrun rules, initial prevailing rights allocations and accommodation of any party operating at such an exit point that has been granted an exemption by the Secretary of State.
- How interruptible services shall be offered to NTS users. This shall include consideration of the implications of Transmission Access Regulation EC NO 1775/2005 and the Third Directive.
- Compensation arrangements should exit capacity not be made available.
- Relevant consequential impacts on Gas Distribution Networks.
- Exit capacity overrun arrangements
- The release mechanisms for exit capacity.

3. Scope and Deliverables

The Review Group's remit is to focus on changes to the Uniform Network Code and relevant ancillary documents. Where there are likely to be interactions with other industry documents that are not subject to UNC Governance such as the charging methodologies, the Incremental Capacity Release Statement and Procurement Guideline the group shall suggest possible amendment for consideration by National Grid.

The Review Group shall endeavour to complete its deliberations in time for the UNC Panel of 20 December 2007. The target deliverable shall be to submit any fully drafted Modification Proposal that enjoys consensus support of the Review Group.

Monthly process reports shall be provided to the UNC Panel.

4. Limits

The Review Group shall seek to develop proposals that are cost effective and focus on reforms that are proportionate, targeted and necessary. It is not proposed that the Review Group should undertake a detailed cost-benefit analysis, but the Group should seek to gather as much evidence and data as possible in support of any resulting Modification Proposal, and to inform any subsequent Ofgem Impact Assessment.

5. Composition

As the implications of changes to the NTS offtake arrangements are wide-ranging it is important that the group membership is drawn from a cross-section of industry representatives and relevant stakeholders. Thus in addition to National Grid NTS, Distribution Networks and UNC Users, the regulator, interconnector users, storage operators and directly connected customers have been invited to participate.

Name	Organisation	Alternate
Tim Davis	Joint Office of Gas Transporters	
John Bradley	Joint Office of Gas Transporters	Lorna Dupont
Mike Young (Proposer)	British Gas Trading	Chris Wright
Avian Egan	Bórd Gáis Networks	
Beverley Grubb	Scotia Gas Networks	
Christian Hill	RWE Npower	Steve Rose
Christiane Sykes	Statoil UK	Richard Street
Conor Purcell	Electricity Supply Board	
Eddie Proffitt	Major Energy Users Council	
Graham Thorne	Canatxx	John Baldwin
Jeff Chandler	Scottish and Southern Energy	
Julie Cox	Association of Electricity Producers	
Lee Foster	Xoserve	Karen Healy
Liz Spierling	Wales & West Utilities	
Mark Feather	Ofgem	Paul O'Donovan
Mark Freeman	National Grid Distribution	
Martin Watson	National Grid NTS	Steve Fisher
Nick Wye	WatersWye Associates	Rekha Patel
Peter Bolitho	E.ON UK	Richard Fairholme
Phil Broom	Gaz de France ESS	
Robert Cameron-Higgs	Northern Gas Networks	Keith Dixon
Roddy Monroe	Centrica Storage	Stuart Waudby
Stefan Leedham	EDF Energy	

A Review Group meeting will be quorate providing at least 2 Transporter and 2 User representatives are present.

The Review Group may invite specialists to attend as necessary

6. Information Sources

- Uniform Network Code – Section B
- National Grid Gas plc, Gas Transporter Licence in respect of the NTS.
- Relevant public domain papers provided by parties to the Competition Commission during the 0116V/0116A appeals process and papers provided subsequently by the Commission itself.

7. Timetable

- Frequency of meetings – at least monthly. The frequency of meetings will be subject to review and potential change by the Review Group.
- Meetings will be administered by the Joint Office and conducted in accordance with the Chairman's Guidelines.

Appendix 2 Firm Proposal

Appendix 3 Interruptible Proposal