

**CODE MODIFICATION PROPOSAL No xxxx**  
**Introduction of Enduring Firm Exit Capacity Arrangements**  
**Version 0.2**

**Date:** 19/10/2007

**Proposed Implementation Date:** 01/04/2008

**Urgency:** Non Urgent

**1 The Modification Proposal**

**a) Nature and Purpose of this Proposal**

*These proposed enduring arrangements for NTS Exit and NTS Offtake Capacity incorporate a number of elements of the current arrangements ie prior to any implementation of a “0116 series” Proposal, as well as some new elements. For clarity, this Proposal seeks to set out the complete structure and only distinguishes between current and new elements where stated.*

**Nature of Proposal**

It is proposed that the current NTS Exit Capacity and NTS Offtake Capacity Arrangements, in respect of NTS Offtake (Flat) Capacity be amended to be as follows:

**New NTS Exit Points and NTS Offtakes**

In respect of a new NTS Exit Points or a new NTS Offtake, a User may apply at any time to register the associated Exit Capacity.

In the case of a new NTS Exit Point, the application may be made by a Shipper User or a party with an interest in that NTS Exit Point on the basis that it agrees to enter into an “**Advanced Reservation of Capacity Agreement**” (ARCA) with National Grid NTS for the duration specified in that ARCA.

In respect of a new NTS Offtake, the DN User will make the application on the basis of entering into a commitment to reserve NTS Offtake (Flat) Capacity for the same duration as would have applied in an ARCA.

Where the applicant is not a User, National Grid NTS may require evidence of intent from the party such as the formal advice of a company board approval or a copy of the relevant excerpts of a signed project design and construction agreement.

**Incremental Exit or Offtake (Flat) Capacity**

For all applications equal to or exceeding [25]% of the prevailing <sup>1</sup>baseline capacity of an existing NTS Exit Point or NTS Offtake (the “**Capacity Application Threshold**”), a User may apply at any time to register for additional NTS Exit or NTS Offtake (Flat) Capacity at an existing NTS Exit Point or NTS Offtake.

For applications up to the Capacity Application Threshold, National Grid NTS will accept all such applications received by 15 July each year and consider these together.

Non Users may apply for incremental NTS Exit Capacity. In this event, for the purpose of the ARCA, this application shall be subject to the rights and obligations that would apply to a new NTS Exit Point.

### **Acceptance of Application**

National Grid NTS will accept, or notify rejection, of all applications as soon as reasonably practicable, but in any event:

- In the case of application at, or above, the Capacity Application Threshold within two months of the application date; or
- In the case of application below the Capacity Application Threshold, before the 16 September following the date of application.

National Grid NTS will only reject applications on the basis of credit checks and no change to current credit practice is proposed.

### **Effective Date of Registration**

National Grid NTS will have a reasonable endeavours requirement to provide the requested NTS Exit Capacity or NTS (Flat) Offtake Capacity by the date requested in the application, or failing that, at the earliest possible date thereafter. It shall also have a firm requirement to make the capacity available within 48 months of the date on which it accepts the application.

### **User Commitment**

By making a booking of NTS Exit Capacity or NTS Offtake (Flat) Capacity, the User is making a commitment to retain or pay for a “**User Commitment Term**” (UCT), NTS Exit Capacity at that NTS Exit Point or NTS Offtake. This UCT has been set at 48 months. Where a Non-User has entered into an ARCA, and not transferred its capacity holding to a User, that commitment would rest with that Non-User.

If the party to the ARCA decides not to proceed and the construction phase of the project has not commenced, the UCT shall be set to zero. However any costs incurred by National Grid NTS on design, procurement and

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<sup>1</sup> As defined in the Gas Transporter Licence

obtaining consents shall be paid by that party.

By the first anniversary of the acceptance of a capacity application, the party that made the application may be required by National Grid NTS to demonstrate that the relevant consents have been obtained and the construction programme is on target. If such demonstration is not obtained, and this is not due to the inability of National Grid NTS to proceed with a connection, National Grid NTS may decide to:

- Suspend the reinforcement project and charge the party for all costs incurred up to that date; or
- Set a new date for completion of the reinforcement project and require the party to demonstrate that the relevant consents have been obtained and the construction programme is on target, by a date consistent with the revised completion date.

Users that have reserved capacity prior to the onset of the enduring regime will have their UCT reduced by the number of months at that capacity level they have booked previously.

In the absence of any notification by the User to the contrary, NTS Exit Capacity and NTS Offtake (Flat) Capacity will continue to apply, including from one Gas Year to the next.

### **Capacity Reduction**

Subject to the UCT duration requirement, set-out above, prior to 15 July each year, a User may give notice to National Grid NTS of its intention to reduce its holding of NTS Exit Capacity or NTS Offtake (Flat) Capacity. This notice period shall be a minimum of the remaining Days of the current Gas Year plus the following Gas Year.

### **Overruns**

The overrun charge will continue to be applied to the largest overrun quantity within a month and apply to each Day of that month at the Applicable Annual Rate multiplied by the relevant multiplier, which shall be as follows:

December to March	2.0
October, November, April, May	0.5
June to September	0.2

Where an overrun occurs on two consecutive months at that NTS Exit Point or NTS Offtake, and the second month is between December and March inclusive, a multiplier of 0.5 will apply to the lesser quantity.

Where an overrun has occurred on the same Day as a buy-back of at any NTS Exit Point or NTS Offtake, the overrun charge will be the greater of

that calculated above and 1.1 times the total buy-back purchased at all NTS Exit Points and NTS Offtakes on that Day.

### **Capacity Transfers and Assignments**

Subject to all existing credit restrictions, a User will continue to have the right to Transfer NTS Exit Capacity to another User or to be the recipient of Capacity reserved by a Non-User under an ARCA. In doing so it is accepting the obligations of any remaining months of the User Commitment Term associated with the Transferor.

### **Shared NTS Supply Meter Points and NTS CSEPs**

With the exception of the following, all rights and obligations detailed above shall apply to Shared NTS Supply Meter Points and NTS CSEPs.

Following an application by all Users at a NTS Shared Supply Meter Point or NTS CSEP, one of the Users may have the status of Overrun User. In this event, Overruns shall be calculated on the aggregate UDQO at that Exit Point and charged to the Overrun User at the rate calculated above.

### **Purpose of Proposal**

This Proposal represents the consensus view of Review Group 0166 “Review of necessary reform of NTS Offtake Arrangements” in respect of an enduring Firm Exit Capacity Arrangements. This Review Group is also discussing potential arrangements for Interruptible Exit Capacity and for flexibility.

The current arrangements only allow Users to secure Exit Capacity until 30 September 2010, after which there would be no means for them to secure this capacity. Implementation of this Proposal would allow the main elements of the current arrangements to continue but incorporating a requirement for Users to commit to a minimum duration of four years.

Whilst Ofgem made a direction to implement Modification Proposal 0116V this decision was quashed by the Competition Commission. The following paragraphs, therefore, assume that the status quo is represented by the Uniform Network Code as it stood prior to this direction.

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

Urgent procedures are not requested.

**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.**

As this Proposal has been discussed and developed at Review Group 0166, it is recommended that it proceed directly to the consultation phase.

**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**

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

Implementation would remove the uncertainty of the current "sunset clause" and provide a degree of assurance of funding associated with a four year commitment from Users.

This would provide a stable investment framework for National Grid NTS to efficiently provide physical capacity in the NTS. Such investment would be expected to benefit the operation of the NTS and so facilitate the achievement of this objective.

*Standard Special Condition A11.1 (b): So far as is consistent with sub-paragraph (a), the coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters;*

Implementation would provide enduring arrangements under which both National Grid and the DNs could make efficient investment decisions. Such investment would be expected to benefit the combined operation of the System and so facilitate the achievement of this 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;*

Implementation, by providing an enduring framework for efficient investment decisions by National Grid NTS and the DNs, would facilitate provision of capacity to meet 1 in 20 requirements. This would facilitate achievement of this objective.

*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;*

Implementation would remove the uncertainty associated with the current sunset clause and thus facilitate the achievement of this objective.

Implementation would also introduce the same Firm Flat Exit Capacity arrangements for shippers, offtaking gas directly from the NTS, with that applying to DNs. This would permit DNs to offer comparable terms to shippers in respect of similar rates of offtake.

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

Introducing these enduring arrangements, with appropriate sharing of risk between shippers and Transporters, is expected to be beneficial for security of supply and operation of the Total System.

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

**a) The implications for operation of the System:**

To the extent that implementation would promote economic and efficient investment in the System, the operation of the System would be expected to benefit.

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

Implementation would be expected to promote economic and efficient investment in the System and thus avoid inefficiently incurred costs. Any implications for operating costs are expected to be minor.

**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:**

No proposal for specific cost recovery is included.

**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**

By introducing a four year commitment on Exit Capacity procurement, implementation would be expected to reduce the current level of contractual risk.

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

No such requirement has been identified.

**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**

As the main impact would be a longer commitment period, it not expected that implementation would have any implications for the UK Link System. There may be minor impacts on related computer systems to reflect the new User Commitment Term.

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

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

Users would be expected to adjust their administrative arrangements to reflect the User Commitment Term.

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

The major cost implication for Users would be associated with the User Commitment Term.

**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**

As the User Commitment Term is longer than the current commitment term it is expected that the contractual risk of Users would increase. This is in accordance with the basis of the User Commitment Model, which seeks to reapportion the current risks between Transporters and shippers.

**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)**

It is expected that some Non-Code Parties would wish to enter into ARCA arrangements which embody the principles of User Commitment. Where existing shippers take on this commitment, there may be consequences for the operators and consumers associated with that NTS Supply Point or CSEP.

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

No such consequences have been identified.

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

**Advantage**

- Provides an enduring set of Exit Arrangements that would enable parties to plan for new, or flow changes in existing, NTS Supply Points or Offtakes with greater confidence.

**Disadvantage**

- Increases the contractual risk for Users or Non-Code Parties entering into an ARCA.

**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)**

Representations are now invited.

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

None

**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**

It is recommended that this Proposal be implemented on 1 April 2008 in place of Modification Proposal 0116V.

**15 Comments on Suggested Text**

Text has not been provided at this stage.

**16 Suggested Text**

**Code Concerned, sections and paragraphs**

Uniform Network Code

Transportation Principal Document

**Section(s)** B – System Use and Capacity

**Proposer's Representative**

Review Group 0166

**Proposer**

Review Group 0166