

Draft Modification Report
Introduction of an Enduring Annual NTS Exit (Flat) Capacity Invitation Letter
Modification Reference Number 0249
Version 1.0

This Draft Modification Report is made pursuant to Rule 9.1 of the Modification Rules and follows the format required under Rule 9.4.

1 The Modification Proposal

Where capitalised words and phrases are used within this Modification Proposal, those words and phrases shall usually have the meaning given within the Uniform Network Code (unless they are otherwise defined in this Modification Proposal). Key UNC defined terms used in this Modification Proposal are highlighted by an asterisk () when first used. This Modification Proposal*, as with all Modification Proposals, should be read in conjunction with the prevailing Uniform Network Code* (UNC).*

There has been extensive industry discussion in relation to reform of the NTS* Offtake* arrangements, with 7 UNC Modification Proposals ultimately being considered by Ofgem (0116V, 0116CVV, 0116BV, 0116VD, 0116A, 0195 and 0195AV). This debate culminated in Ofgem's decision on 19th January 2009 to implement Modification Proposal 0195AV with an implementation date of 1st April 2009.

As a result of the subsequent implementation of Modification Proposal 0241, the first opportunity that Users* will have to apply for Enduring Annual NTS Exit (Flat) Capacity* under the enduring arrangements will be in the Annual Application Window* to be held for the first time in July 2009.

It has come to National Grid NTS's attention that although the legal text contained within UNC TPD Annex B-1 paragraph 2 requires that National Grid NTS publish an annual capacity notification to Users no later than 28 days before the commencement of the Annual Application Window, UNC states that the Annex B-1 provisions do not apply to Enduring Annual NTS Exit (Flat) Capacity (Annex B-1 paragraph 1.1). Therefore the annual capacity notification that National Grid NTS is required to publish only covers the Annual NTS Exit (Flat) Capacity* released for Y+1, Y+2 and Y+3 and there is no provision that requires a capacity notification to be published in relation to the Enduring Annual NTS Exit (Flat) Capacity that would be released in the Annual Application Window for Y+4, Y+5 and Y+6. This results in there being no obligation on National Grid NTS to publish a capacity notification in 2009 as Annual NTS Exit (Flat) Capacity will not start being released until the 2010 Annual Application Window.

National Grid NTS believes that it is important that a UNC obligation exists to provide for a capacity notification to be published in relation to the release of Enduring Annual NTS Exit (Flat) Capacity in the Annual Application Window. The notification would specify all NTS Exit Points* at which Users will be able to place applications and the Remaining Available NTS Exit (Flat) Capacity* (i.e. unsold Capacity*) available at each NTS Exit Point.

Some Users may be concerned that the release of this information could affect their commercial confidentiality, particularly at single User* NTS Exit Points.

However National Grid NTS would like to clarify that this information will be published from June 2010 onwards anyway in relation to the release of Annual NTS Exit (Flat) Capacity in the Annual Application Window and that it is important that a Modification Proposal is raised to ensure that this information is published in 2009 because:

- This creates a level playing field with all Users being able to see the unsold Capacity available at each NTS Exit Point;
- This information could potentially influence User participation in the July 2009 Annual Application Window or applications to reduce holdings of Enduring Annual NTS Exit (Flat) Capacity at the first opportunity to do so in the period 1st – 15th July 2009;
- The invitation letter would clarify the list of NTS Exit Points at which National Grid NTS is able to accept applications in the July 2009 Annual Application Window; and
- It would be beneficial for Users to know the unsold amount at each NTS Exit Point as this will affect commodity charges from 2012 onwards as prices will be set on baseline levels with any under recovery of revenue resulting from any unsold capacity being recovered through the TO commodity charge.

National Grid NTS is therefore proposing that the UNC be modified in order to place an obligation on National Grid NTS to publish a capacity notification in relation to the release of Enduring Annual NTS Exit (Flat) Capacity no later than 28 days prior to 1st July stating the Gas Years to which the notification relates, the NTS Exit Points to which the notification relates and the Remaining Available NTS Exit (Flat) Capacity for each of those Gas Years at each of those NTS Exit Points. .

2 Extent to which implementation of the proposed modification would better facilitate 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 might lead to more efficient signals from Users in relation to their Capacity requirements, as the publication of unsold quantities available at each NTS Exit Point would lead to Users making more informed increase and / or reduction requests in the July 2009 Annual Application Window. This would be expected to facilitate the achievement of this relevant objective.

Standard Special Condition A11.1 (b): so far as is consistent with subparagraph (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 not be expected to better facilitate this relevant objective.

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

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

Standard Special Condition A11.1 (d): so far as is consistent with subparagraphs (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 create a level playing amongst Users by publishing the Remaining Available NTS Exit (Flat) Capacity at all NTS Exit Points to all Users with the result being that all Users have access to the same information. This would be expected to facilitate the achievement of this relevant objective.

Standard Special Condition A11.1 (e): so far as is consistent with subparagraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... 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 subparagraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code;

Implementation would ensure that the release of Enduring Annual NTS Exit (Flat) Capacity was consistent with the release of Capacity through other entry and exit long term mechanisms, where the standard practice is to publish an invitation letter 28 days prior to the release mechanism being opened. This would be expected to facilitate the achievement of this relevant objective, as the UNC obligations in relation to the Enduring Annual NTS Exit (Flat) Capacity release mechanism would be consistent with other release mechanisms contained within the UNC.

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

No implications on security of supply, operation of the Total System or industry fragmentation have been identified.

4 The implications for Transporters and each Transporter of implementing

the Modification Proposal, including:

a) Implications for operation of the System:

No implications on operation of the System have been identified.

b) Development and capital cost and operating cost implications:

No cost implications have been identified.

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

Not applicable.

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

Not applicable.

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

It is believed that the publication of a capacity notification specifying the NTS Exit Points at which applications will be accepted and the unsold amounts is important because of the reasons outlined at the beginning of this Proposal. Without a UNC obligation being introduced by this Proposal, National Grid NTS would not be able to publish this information without increasing its contractual risk due to the commercial confidentiality issues already described. Therefore implementation of this Proposal would allow for the relevant information to be published to the benefit of all Users without affecting the contractual risk of 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

Not applicable.

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)

The administrative implications will be positive as implementation would result in more information being available to Users prior to the Annual Application Window. This would ease the process of participation within this window.

Development and capital cost and operating cost implications

No development, capital or operating cost implications have been identified.

Consequence for the level of contractual risk of Users

No consequences on the level of contractual risk have been identified.

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

Implementation would present a level playing field across all Users as the same information would be provided to all Users in relation to all NTS Exit Points.

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

No such consequences have been identified.

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

Advantages

- It would improve the UNC document by making the obligations on National Grid NTS in relation to invitation letters consistent across all long term capacity release mechanisms.
- Publication of capacity notification and the information contained within would:
 - Create a level playing field with all Users being able to see the unsold Capacity available at each NTS Exit Point;
 - Clarify the list of NTS Exit Points at which National Grid NTS is able to accept applications in the July 2009 Annual Application Window; and
 - Be beneficial for Users in order for them to have some understanding of the impact on TO commodity charges.

Disadvantages

It is regrettable that this Proposal has been raised at such a late stage but this was due to the omission only being identified recently. It is, however, of more benefit to raise this Proposal than not raise a proposal and then have no authority to issue an invitation letter containing the unsold values.

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

Report)

Written Representations are now sought in respect of this Draft Report.

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 for works would be required as a consequence of implementing the Modification Proposal.

15 Proposed implementation timetable (including timetable for any necessary information systems changes and detailing any potentially retrospective impacts)

This Proposal could be implemented with immediate effect following direction from Ofgem.

Whilst this change is relatively minor, it is imperative that an Ofgem decision is received before 1 June 2009 in time for unsold quantities to be included in the invitation letter to be published 28 days before the July Annual Application Window, if the Modification Proposal is approved.

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 Recommendation regarding implementation of this Modification Proposal and the number of votes of the Modification Panel

18 Transporter's Proposal

This Modification Report contains the Transporter's proposal to modify the Code and the Transporter now seeks direction from the Gas and Electricity

Markets Authority in accordance with this report.

19 **Text**

Representations are now sought in respect of this Draft Report and prior to the Transporters finalising the Report.

For and on behalf of the Relevant Gas Transporters:

Tim Davis
Chief Executive, Joint Office of Gas Transporters