

**CODE MODIFICATION PROPOSAL No xxxx**  
**Introduction of Enduring Interruptible Exit Capacity Arrangements**  
**Version 0.1**

**Date:** 24/10/2007

**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 Interruptible 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 Interruptible NTS Exit Capacity and Interruptible NTS Offtake Capacity Arrangements, be amended to be as follows:

**Long Term Buy-Back Arrangements**

In [October] of each year, National Grid NTS may issue, to Users, invitations to tender in respect of long-term, ie twelve months or more, buy-back options.

**Methodology Statement**

This invitation, and the subsequent processes followed by National Grid NTS, will be in accordance with a methodology statement established by National Grid NTS, in consultation with Users and approved by the Authority

This methodology statement will set-out the following principles for the invitations:

- (a) The financial terms (including terms for option price and exercise price) on which Interruption offers may be made;
- (b) The basis by which Interruption offers will be ranked for selection ie **“Interruption Cost”** (including considerations of option price, exercise price and maximum Days offered);
- (c) The basis by which tranches of NTS Exit Capacity at the same NTS Exit Point, (including minimum tranche quantity and maximum number of tranches), may be offered separately;

- (d) The basis by which NTS Exit Points will be grouped into zones (“**NTS Interruption Zones**”) for the purpose of Interruption; and
- (e) The basis by which, the maximum number of Days in a year, for which Interruption may be required, will be determined.
- (f) All proformas that will be used in the invitation and offers.

### **The Invitation**

National Grid NTS will give at least [twenty eight (28)] Days notice of an invitation period, which will have a minimum duration of [ten (10) Business Days].

In respect of each NTS Interruption Zone, the invitation will state;

- (a) The commencement and duration of the Interruption requirement;
- (b) The quantity of Interruption required;
- (c) The maximum number of Days of Interruption;
- (d) Minimum tranche size and maximum number of tranches; and
- (e) All other information specified in the methodology statement.

### **Interruption Offers**

During the invitation periods, Users may submit offers in respect of the NTS Exit Points at which they hold NTS Exit Capacity. These offers will be made in accordance with the proforma included in the methodology statement and will include in respect of each NTS Exit Point and tranche:

- (a) Quantity (kWh/D) offered;
- (b) Maximum number of Days offered;
- (c) Option price;
- (d) Exercise price; and
- (e) All other information set-out in the proforma.

### **Acceptance and Notification**

Within [twenty eight (28) Days] of the end of the invitation period National Grid NTS will notify all successful Users and publish the following information for each NTS Interruption Zone:

- (a) Number of offers received;
- (b) Number of offers accepted;

- (c) Quantity of interruption offered;
- (d) Quantity of interruption accepted;
- (e) Highest and lowest Interruption Cost offered (based on the principles in the methodology statement); and
- (f) Highest and lowest Interruption Cost accepted.

### **Short Term Buy-Back Arrangements**

At any time from 15.00 D-1, National Grid NTS may accept offers of firm NTS Exit Capacity, in accordance with the following principles:

- (a) Offers may be posted from 06.00 D-7 to 02.00 D;
- (b) Prior to acceptance by National Grid NTS, and outside any capacity selection period, offers may be amended or withdrawn;
- (c) Each offer will state:
  - (i) The NTS Interruption Zone;
  - (ii) The minimum notice of Interruption;
  - (iii) Whether the offer is fixed or reducing (ie based on an hourly quantity);
  - (iv) The quantity of Interruption offered; and
  - (v) The price in pence/kWh/Day for which the User would surrender the NTS Exit Capacity.

During a selection period, National Grid NTS will notify the relevant Users that they may not amend or withdraw any Interruption offer.

Where an Interruption offer is accepted, National Grid NTS will inform that User within sixty minutes of acceptance and the ability to amend or withdraw will be reinstated in respect of unaccepted Interruption offers that remain valid.

### **Use it Or Lose It**

At 15.00 D-1, National Grid NTS may accept bids for Interruptible NTS Exit Capacity, in accordance with the following principles:

- (a) Bids may be posted from 06.00 D-7 to 13.00 D-1;
- (b) Prior to 13.00 D-1, bids may be amended or withdrawn;
- (c) Each bid will state:

- (i) The NTS Exit Point or NTS Offtake Point;
- (ii) The quantity requested
- (iii) The minimum quantity (if any) that would be accepted; and
- (iv) The bid price.

National Grid NTS will notify all Users whose bids have been accepted by 15.00 D-1.

Providing the bid price is equal to or exceeds any reserve price, National Grid NTS will have discretion in acceptance of bids. This discretion is on the basis that it will not unreasonably withhold Interruptible NTS Exit Capacity from Users and will behave in an economic and efficient manner.

### **Interim Interruption**

Where a User applies for NTS Exit Capacity at NTS Exit Point and National Grid NTS is unable to provide any or all of that capacity by the date requested, the User will be entitled to apply for and hold Interruptible NTS Exit Capacity.

Whilst National Grid NTS is unable to provide the NTS Exit Capacity on an ongoing basis, that User will only be subject to NTS Exit Capacity Charges relating to that NTS Exit Point, to the extent that firm and ongoing NTS Exit Capacity is available at that NTS Exit Point to that User.

### **Failure to Interrupt Charge**

Where National Grid NTS chooses to exercise its rights of Interruption, Failure to Interrupt charges will be applied on a tranche by tranche basis to the Failure to Interrupt quantity, which will be calculated for each Day and NTS Exit Point as follows:

- (a) Quantity offtaken; plus
- (b) The sum of the accepted short-term, buy-back quantities; plus
- (c) The sum of the long-term, buy-back quantities exercised by National Grid NTS; plus
- (d) The sum of Use it or Lose It quantities allocated but subsequently withdrawn by National Grid NTS; plus
- (e) The sum of all NTS Interruptible Capacity allocated under Interim Interruption arrangements where Interruption has been exercised; minus
- (f) NTS Firm and Interruptible Exit Capacity held prior to exercise.

The price that will apply to the Failure to Interrupt quantity will be twice the

greater of the following:

- (a) The Applicable Annual Rate of NTS Exit Capacity at that Exit Point;
- (b) The sum of:
  - (i) The applicable Interruption option price; and
  - (ii) The applicable Interruption exercise price multiplied by the maximum Days of Interruption; and
- (c) The highest short-term buy-back price applying to that Day.

Where Interruption has been requested in respect of more than one tranche, at an Exit Point, the price applying to the first tranche in (b) above will be the highest multiple of option and exercise price. The second highest multiple will apply to the second tranche and so on, with all subsequent tranches, until all Failure to Interrupt quantities have been charged.

In the event of a Failure to Interrupt, National Grid NTS will have the right to take all appropriate steps in order to isolate or disconnect that Exit Point. The User that fails to interrupt will, in that event, be liable for all costs and expenses incurred by National Grid NTS in taking these steps and any costs and expenses incurred due to the isolation or disconnection by other Users at that NTS Exit Point.

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

All rights and obligations detailed above in respect of NTS Exit Points will also apply to Shared NTS Supply Meter Points, NTS Offtakes and NTS CSEPs.

### **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 NTS Interruptible Exit Capacity Arrangements. This Review Group also discussed retention of a more general Interruption service but was unable to reach a consensus on this.

The current arrangements only allow Users to secure NTS Exit Capacity until 30 September 2010, after which there would be no means for them to secure either firm or Interruptible NTS Exit Capacity. Implementation of this Proposal, together with a Proposal on NTS Firm Exit Capacity raised by the Review Group, would provide enduring NTS Interruption arrangements.

This Proposal seeks to focus Interruption in areas where it is clearly desirable ie to avoid unnecessary investment, handle constraints and prevent hoarding of NTS Exit Capacity. Through the application of competitive tendering and Daily Auctions, the value of Interruption to Users and Transporter would be discovered. This contrasts with the current arrangements where NTS Interruptible Capacity is available free of charge

in respect of all NTS Exit Points, whatever the value might be to the User or Transporter.

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 enduring Interruption arrangements under which National Grid NTS would be able to select efficiently between providing physical capacity and entering into buy-back arrangements. Such efficient selection of options would be expected to benefit the operation of the NTS and so facilitate the achievement of this objective.

By use of buy-back, implementation would also assist National Grid NTS in addressing constraints that occur on the Day in an efficient and economic manner.

***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 select efficiently between providing physical capacity and entering into buy-back arrangements either on the NTS or within the DNs. 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 selection between providing physical capacity and entering into buy-back arrangements, would facilitate economic 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 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 remove the uncertainty associated with the current sunset clause in respect of provision of NTS Interruptible Exit Capacity and thus facilitate the achievement of this objective.

Instead of the current arrangements, which do not reflect the value of Interruption arrangements to Users and Transporters, and thus potentially lead to cross subsidies, implementation would allow competitive tendering and auctions to determine the value of Interruption. Better alignment of the Interruption service with its value would be expected to facilitate achievement of this objective.

**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 discovery of the value of Interruption, 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 option selection between investment in the System and use of Interruption, 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 option selection between investment in the System and use of Interruption and would therefore be expected to reduce capital costs. 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**

No such consequence has been identified.

- 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**

Implications for the UK Link System would reflect the degree of automation required by the Transporter to support the long term buy-back tender process and auctions for short-term buy-back and UIOLI NTS Exit Capacity. This has not yet been established in detail. There may also be implications to support invoicing of buy-back, UIOLI and Failure to Interrupt transactions.

- 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 revised Interruption arrangements.

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

The major cost implication for Users would be associated with price discovery through use of tenders and auctions. Users should therefore receive through the NTS Interruption mechanism benefits that are aligned with the value of Interruption to Users and National Grid NTS.

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

Improvements in price discovery will reduce the current contractual risk to Users, not requiring Interruptible NTS Exit Capacity, through the “k” mechanism.

- 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)**



No direct implications have been identified. It would be expected that any costs or benefits arising from implementation would be passed through to other parties. This might include parties associated with current Interruptible Exit Points such as Interconnector Operators, large Industrial Consumers, Power Generators and Storage Operators.

**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**

**Advantages**

- Provides a framework whereby Interruption services can be procured at a level that reflects their value to Transporters and Users.
- Reduces the risk of unfocussed cost recovery through the k mechanism.

**Disadvantage**

- May reduce the current benefit to certain Users in respect of Interruptible NTS Exit Points.

**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 together with the Proposal for enduring firm NTS Exit Capacity arrangements 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