

Review Group Report
Review Proposal Reference Number 0166
Review of necessary reform of NTS Offtake Arrangements
Version 0.2

This Review Group Report is presented for the UNC Modification Panel's consideration. It has also both a Modification Proposal (the "**Main Proposal**") and associated Detailed Business Rules.

The Main Proposal seeks to establish Enduring Exit Capacity Arrangements taking as its starting point the "**Interim Arrangements**", which in the UNC are subject to "**sunset clauses**".

This Proposal incorporates certain elements of Proposal 0116CVV "Reform of the NTS Offtake Arrangements", including the principle of a four year User commitment. It can be considered as being more closely aligned to 0116CVV than the other 0116 Proposals, ie 0116A, 0116V, 0116BV and 0116VD. The three main elements of 0116CVV have been retained. These are:

- Enduring Firm NTS Exit Capacity Arrangements based on a four year commitment.
- Enduring Interruptible Exit Capacity Arrangements, which incorporate, long term NTS Capacity Buyback, Daily NTS Exit Capacity Buyback and Daily use it or lose it.
- Information requirements on availability and usage of within-Day flexibility using the principle of NTS Exit Zones NTS Exit Areas set-out in Proposal 0116V.

In addition, one of the Review Group members has prepared a further Modification Proposal, (the "**Second Proposal**") which would retain the current arrangements, which allow Users to nominate NTS Supply Points as Interruptible in revised form. This has been discussed and developed by this Review Group but unlike the Main Proposal no consensus was reached.

The Review Group believes that further development of the Main Proposal is not required and that it should proceed to the consultation phase. It would, however, recommend that an open session of the Transmission Workstream be held for the purpose of reviewing the Business Rules.

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 some of the detail within the CC decision and sought to draw some 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.

After receiving the Presentation, 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.

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 in advance, which became known as "homework". A number of members sent in their responses before the meeting and these formed the basis of the discussion. 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.

It was concluded that whilst the arrangements identified in all the 0116 Proposals, with the exception of 0116A, were an appropriate starting point. In particular the following proposed services were retained:

- Prevailing capacity for which the four year User commitment principle was retained.
- Annual capacity where availability exceeds prevailing bookings and which can be applied for each year.
- Daily capacity available at Day Ahead and Within Day.

The Main Proposal also incorporates other features of the 0116 arrangements including:

- Application of the same rules to all NTS Exit Points, including NTS Supply Points, CSEPs, Interconnectors, Storage Connection Points and NTS/LDZ Offtakes.
- Allocation at the NTS Exit Point level.
- Initial allocation of Prevailing capacity that reflects current firm and interruptible capacity bookings.
- Capacity Reduction notice periods.
- Application windows for Prevailing and Annual Capacity.
- Auction arrangements for Daily capacity.
- Overrun rules, including appointment of an Overrun User.
- Credit rules that reflect arrangements at ASEPs.
- Separate application arrangements for new NTS Exit Points, including applications outside the annual window.
- Recognition of Advance Reservation of Capacity Agreements (ARCAs) with Non-Code Parties.
- Information publishing requirements following allocation of capacity.
- Transfers and Assignments between Users.

- Termination and Liability provisions.
- Pressure commitments.

The main differences proposed are:

- Allowance for Users at existing NTS Exit Points to apply for Prevailing capacity outside the Annual Window, where the incremental capacity exceeds a stated threshold.
- “No auction” allocation of Annual Capacity with pro-rata allocation in the case of multiple allocations that together exceed the capacity available.
- Overrun arrangements based upon existing rules eg twice the Annual Capacity Rate based on the highest overrun for the month.
- Staged commitment that allows Users to initially book capacity on the basis of funding design and other preliminary work but requiring a demonstration of commitment after twelve months.
- Flexibility on date of Prevailing capacity allocation where National Grid NTS can deliver earlier than the thirty eight months “standard”
- Flexibility on reduction of Prevailing capacity where National Grid NTS can use that capacity.
- Allowance for an agent to allocate between Users initial Prevailing Capacity based on the aggregate of current bookings.

c) Enduring Interruptible Exit Capacity Arrangements

Homework was also circulated in respect of this aspect of the enduring regime. Consensus was reached upon a set of Interruptible services which reflected those proposed in the 0116V, 0116BV, 0116CVV and 0116VD which form part of the Main Proposal. Discussion was held on the Second Proposal, but due to lack of consensus will not be included within this report.

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

- **Use it or Lose it (UIOLI)/Discretionary** 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 through a general tender arrangement.
- **Short-Term Buy-Back** contracts where National Grid NTS buys-back firm NTS Exit Capacity for the Gas Day through a pay as bid auction.

These services are essentially unchanged from the Interruptible services proposed within Modification Proposal 0116CVV. However the Review Group did decide to adopt a “failure to interrupt” charge which would act in a broadly similar way to the Overrun Charge but applying to the Day where a User had failed to respond to interruption requests made by National Grid NTS.

Discussions were held on a further Interruption service where a User has applied for Firm capacity. This would allow capacity to be provided where possible on an Interruptible basis in the intervening period between completion of the connection and provision of NTS Exit Capacity. As National Grid NTS would be able to provide this capacity as part of the Daily UIOLI/Discretionary release it is not part of the Main Proposal.

The Second Proposal sought to give rights for Users at NTS Exit Points to have an Interruptible service providing they could demonstrate that the requirement was truly Interruptible. To safeguard the rights of Users at Firm NTS Exit Points there would be a requirement at these Interruptible Exit Points for Users to self-interrupt where the national demand exceeded a set threshold. If they did not comply with this obligation they would be deemed to have applied for Firm NTS Capacity for four years from the date that capacity was provided. It is expected that a Modification Proposal incorporating these elements will be raised shortly.

d) Information on Use of Flexibility

Whilst homework was also circulated in respect of this, and a few Review Group members responded, it was clear that there was no support to the concepts of flexibility capacity bookings contained within Modification Proposal 0116V.

The Review Group therefore concluded that the following should be published on National Grid's website by 11.00 D+1 in respect of Day D.

- End of Day and up to 22.00 quantities and hence Flexibility usage by Exit Zone, which can be aggregated by the User into Exit Area and National quantities;
- Opening and Predicted national Linepack closing position; and
- Hourly Linepack position, by Linepack Area.

4 Recommendations

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

1. The Main Modification Proposal enter the consultation phase.
2. A further opportunity be given at the January Transmission Workstream for presentation of Main Proposal, and the Second Proposal if requested by that Proposer.

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.