

CODE MODIFICATION PROPOSAL No xxxx
Introduction of Enduring Offtake Arrangements [incorporating an Off-Peak
Interruptible Service]
Version x.x

*****WORK IN PROGRESS!*****
(note UNC defined terms have not been checked)

Date: 14/11/2007

Proposed Implementation Date: 01/04/2008

Urgency: Non Urgent

1 The Modification Proposal

a) Nature and Purpose of this Proposal

Review Group 0166 was established to develop alternative proposals in the light of the Competition Commission decision to uphold the appeal against GEMA's decision to implement Modification Proposal 0116V.

It is intended that this proposal can be considered along side the 0116 series of proposals that are to be reconsidered by Ofgem. As well as considering the user commitment, firm capacity allocation and buy-back mechanisms equivalent to those set out in Modification Proposal [] this proposal incorporates an Off-Peak Interruptible Service which is designed to meet the needs of users that require an 'up-front' interruptible service offering. For convenience the details of the Off-Peak Interruptible Service are set out first, and the elements that are common to Modification proposal [] second.

For avoidance of doubt any reference to 'current arrangements', 'existing UNC terms' or similar phrases mean the UNC not including the text relevant to Modification Proposal 0116V.

Off-Peak Interruptible Service

Shippers shall be entitled to opt for Off-Peak Interruptible status at all NTS Supply Points, and NTS Connected System Exit Points. The application process shall be as currently set out in the UNC for NTS Exit Points Points]. All existing users that would otherwise be allocated firm NTS Exit Capacity under at initialisation of the new enduring offtake regime would have the option to opt for Off-Peak Interruptible status, in full or part, by giving no less than [30 days] notice to NGG.

NGG shall be entitled to interrupt users subject to Off-Peak Interruptible status on an equivalent basis to current interruptible service set out in

Section [] of the UNC, although the limit on the number of Days (typically 45) a particular NTS Exit Point can be interrupted on in any Gas Year shall be removed.

NGG currently publishes forecast gas demand on the Daily Summary Report. In addition the percentage of the 1 in 20 peak day demand¹ for the next gas day (D+1) shall be specified on this report.

Should gas be offtaken at an Off-Peak Interruptible offtake point on any Gas Day where NGG has by [15:00 D-1] forecast that demand is likely to exceed [80%] of the 1 in 20 peak day demand, failure to interrupt charges equivalent to 2 time the annual firm exit capacity charge shall apply. This shall be in accordance with the definition of such charges currently set out section [] of the UNC.. For the avoidance of doubt failure to interrupt charges shall only apply where the firm component at the relevant offtake point has been exceeded and the any [interruptible allowance] for essential service supplies shall continue to be offered.

In addition whenever failure to interrupt applies (either due to failure to 'self-interrupt' or not responding to an appropriate interruption notice of NGG in accordance with section [] of the code), the registered shipper or any successor registered shipper shall be required to apply for NTS Exit Capacity for the relevant NTS Exit Point in the July application window [specified below] at a level no less than the prevailing Supply Point Offtake Quantity (SOQ). Such a process would be designed to place such a user on the same footing as any other user applying for annual firm capacity.

In effect as soon as the annual firm exit capacity becomes available the offtake point will be required to book and hold that capacity subject to the capacity reduction and user commitment principles set out below. The relevant offtake point shall retain its Off-Peak Interruptible status, in full or part until such time as sufficient annual firm capacity is available. Applications for daily firm capacity would be permitted at any time.

As with the current interruptible service the standard NTS TO Exit Capacity Charge and NTS SO Exit Capacity Charge would not apply to Off-Peak Interruptible offtake points. However, this proposal sets out a new charging element known as the Daily Supplemental TO Exit Capacity Charge to apply for each of these individual offtake points. This charge would initially be set to zero but could be set to a positive or negative number to take into the probability of interruption at a given exit point.

[Insert text for user commitment, firm capacity allocation and buy-back mechanisms]

¹ The 1 in 20 peak day demand calculated for a particular Gas Year in NGG most recently published Ten Year Statement.

Purpose of the proposal

At the handing down hearing on 10 July 2007 the Competition Commission stated,

“We have found the decision less satisfactory in relation to interruptible capacity. We have had concerns about the efficiency of this reform in relation to the use of the network on days when there is spare capacity on the NTS.”

In addition in the Decision document itself, paragraphs 6.78, 6.79 and 6.85 respectively the Competition Commission explain their thinking further,

“In our view, whether firm and interruptible users are relevantly similar or relevantly different depends on whether the provision of the two types of service imposes the same or different costs on NG. On the face of it, firm services and interruptible services are different services, and one would expect NGG to incur different capacity costs in providing those different services.”

“However, this straightforward analysis may not apply to the NTS at the current time. One reason is that there is currently an excess of capacity on the NTS, so that it cannot be simply be said that firm users and interruptible users impose different costs on NGG. Rather, at points on the NTS where there is currently an excess of capacity it may be said that NGG incurs no capacity cost in providing firm capacity and makes no saving of capacity cost if a user is interruptible.”

“We accept in principle GEMA’s argument that 116V can be expected to deliver efficiency gains through competition for interruptible services and though more efficient investment decisions by NGG as a result. However, the overall efficiency of the interruptible arrangements under 116V will also depend, at least in part, on the considerations identified by Mr Shuttleworth²– namely, that interruptible services all network usage to be increased in days where there is spare capacity. Given that proposal 116V withdraws the current long-term interruptible product, it may increase charges to certain users who place low value on interruptible capacity and so may lead to a reduction in network usage.”

In this context the challenge would seem to be to design an interruptible service that is demonstrably different form a firm service. Such a service

² Paper reference

³ NGG had previously issued a number of pricing consultation documents which appeared to suggest that the reserve price for daily firm capacity should be set at a level of 1/365th of the annual level, however no decision had been made on this matter.

should:

- be one in which users do not make use of peak capacity,
- not require investment on the system or provide scope for future reductions in planned investment
- facilitate the use of spare capacity and the possibility of a reduction in unit transportation charges for all users.

Spare capacity in this context can be defined as existing capacity that can be made available to interruptible users without detrimental impact to the continuity of supply to firm users.

Unfortunately the withdrawal of the ‘standing-offer’ interruptible service and the lack of transparent service definition for 116V would have meant particular classes of users would have had little option but to go firm despite the fact they use, or have the ability to use, the system on an off-peak basis and thereby place different costs on the system. In addition as the reserve price for the 116V daily firm service was unknown³ and the interruptible service was effectively no more than a use-it-or-lose-it service the sale of spare capacity did not appear to be a consideration.

Particular classes of offtake such as storage and bi-directional interconnectors will almost certainly be delivering into the system rather than offtaking from the system on peak days. Indeed this pattern of flow may in fact be releasing (‘creating’) temporal capacity. Charging such users NTS Exit Capacity charges under such circumstances would seem to be discriminatory given the different impact on the system.

Other users that use the NTS as a back-up or an alternative supply can choose to avoid using the NTS during off-peak periods, that later doing so only if the NTS transportation charges are competitive. Some generators and other large customers maybe also prepared to switch to an alternative fuels during peak periods and will be willing to provide such constraint management interruption as they already likely to have systems in place to support commercial demand-side contracts with their supplier.

The proposal also seeks to reconcile the different legal interpretations of Transmission Access regulation EC No 1775/2005. On the one hand “*The price of interruptible capacity shall reflect the probability of interruption*” and this means parties must consider whether the current or indeed any of the ‘116 series’ of proposals are compliant with this Article 4.1(b). On the other hand Article 4.1(c) states transmission system operators must “*offer to network users both long and short-term services*”, i.e. series with a duration of one year or more. Thus the withdrawal of the ‘standing-offer’ interruptible under 116V can be considered to be contrary to European Law.

It is not possible under a UNC Modification Proposal to propose changes to transmission charges although proposals can clearly envisage or facilitate such developments. The Daily Supplemental TO Exit Capacity Charge is

such a change and it is intended to address Article 4.1(b) by taking into account the likelihood of interruptibility at a particular exit point. Indeed as the value of such a charge can be negative or positive it can potentially be used facilitate sharper cost reflectivity (i.e. better reflection of the costs particular users place on the system). Given that conservatively some 81%² of exit transmission costs are fixed and that exit commodity charges cover around one third of exit transmission costs, existing interruptible users already make a substantial contribution to fixed costs. It may therefore be appropriate for NGG to consider whether prices for any new Off-Peak Interruptible service should be set at a level that provides a different contribution towards fixed costs.

NGG can bring forward any consequential changes to transmission charges as it sees fit. Nevertheless as there is currently little difference in the probability of interruption on the transmission across GB, setting the Daily Supplemental TO Exit Capacity Charge at a uniform value (initially zero) may well be appropriate. Over time the amount and distribution of spare capacity across the network may well change with, the trade and transfer of exit capacity or changes in patterns of flows across the network. This means differential charges for exit capacity may well be more appropriate for Off-Peak Interruptible Capacity in future

Finally reform of the exit capacity and interruptions regime was originally intended to provide greater 'choice and value' to customers. Unfortunately the proposal to withdraw the 'standing-offer' interruptible service and its suggested replacement with a universal-firm/buy-back regime means customer choice in terms of access is eroded and in many cases no longer exists. Conventional customer-focused organisations tend to design services that meet the different needs of different customers. This proposal seeks to retain a customer driven service which is compatible with efficient use and development of the NTS. For example pro-active customer self interruption should help NGG better manage constraints that might otherwise emerge on the network.

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

Not applicable.

- 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.**
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- 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**
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- 3 **The implications of implementing this Modification Proposal on security of supply, operation of the Total System and industry fragmentation**
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- 4 **The implications for Transporters and each Transporter of implementing this Modification Proposal, including:**
 - a) **The implications for operation of the System:**
 - b) **The development and capital cost and operating cost implications:**
 - 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:**
 - 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**
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- 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)**
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- 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**

- 7 The implications for Users of implementing the Modification Proposal, including:**
 - a) The administrative and operational implications (including impact upon manual processes and procedures)**
 - b) The development and capital cost and operating cost implications**
 - 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**
- 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)**
- 9 Consequences on the legislative and regulatory obligations and contractual relationships of the Transporters**
- 10 Analysis of any advantages or disadvantages of implementation of the Modification Proposal not otherwise identified in paragraphs 2 to 9 above**

Advantages

Disadvantages
- 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)**
- 12 Detail of all other representations received and considered by the Proposer**
- 13 Any other matter the Proposer considers needs to be addressed**

14 Recommendations on the time scale for the implementation of the whole or any part of this Modification Proposal

15 Comments on Suggested Text

16 Suggested Text

Code Concerned, sections and paragraphs

Uniform Network Code

Transportation Principal Document

Section(s)

Proposer's Representative

Name (Organisation)

Proposer

Name (Organisation)