

CODE MODIFICATION PROPOSAL No xxxx
Introduction of Enduring Firm Exit Capacity Arrangements
Version 0.4

Date: 15/11/2007

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

Timescales

The Gas and Electricity Markets Authority “The Authority” indicated that NTS Offtake Reform should be introduced in two phases:

“Interim Arrangements” that recognise a new DN/NTS interface resulting from National Grid Transco’s sales of gas distribution networks.

“Enduring Arrangements” that would be consistent with the Authority’s Final Impact Assessment (“National Grid NTS – Potential sale of gas distribution network business” 255/04a) with respect to NTS Exit Capacity Reform. This assessment envisaged arrangements to be implemented in 2005 but with capacity rights that would be effective from Gas Year 2008/9.

Following the Authority’s approval of Modification Proposal 046 “Extensions of the Sunset Clauses for Registration of Capacity at NTS Exit Points” the Enduring Arrangements were deferred so that implementation would take place in 2007 for capacity rights to be effective from Gas Year 2010/11. This extension in the Interim Arrangements “Transitional Arrangements” allow capacity rights to be registered up to 30 September 2010 but not beyond that date.

The Authority’s decision on Modification Proposal 0116V set an implementation date of 1 April 2008, which would have, in turn, necessitated a further twelve months extension to the sunset clauses to allow capacity rights to be registered up to 30 September 2011. This would also be a characteristic of the enduring arrangements within this Proposal, if it were implemented on 1 April 2008.

[It is therefore proposed that the sunset clauses for registration of capacity at NTE Exit Points be extended to allow capacity to be registered in accordance with the Transitional Arrangements up to 30 September [2011/2012]]

The proposed timescale for these Enduring Arrangements will therefore be for NTS Firm Capacity rights that become effective on 1 October 2011 and thereafter.

ARCA

A Non Code Party with an interest in that NTS Exit Point may also enter into an “**Advanced Reservation of Capacity Agreement**” (ARCA) with National Grid NTS. Whilst it is not proposed that the ARCA be made part of the UNC a Shipper User, may by agreement with that Non Code Party, be registered with the capacity reserved in that ARCA. By doing so it takes on all rights and obligations under the UNC that it would have held, if that Shipper User had made an application for that capacity.

It is proposed that the Transitional Arrangements for NTS Exit Capacity and NTS Offtake Capacity, be amended to be as follows:

User Commitment

By making an application for new or incremental NTS Exit Capacity or NTS Offtake (Flat) Capacity, in accordance with the processes set-out below, the User is making a commitment to retain or pay for such capacity for the duration of the “**User Commitment Term**” (UCT). This UCT has been set at 48 months and will commence on the first Day for which the capacity is registered.

Prevailing Rights

A Shipper User’s registered NTS Exit Capacity for Gas Year 2011/12 will be set to the sum of the maximum firm and interruptible capacity that it had registered on any Day in the Gas Year [2005/6]. Where this exceeds the obligated capacity for this Gas Year, the registrations of all Shipper Users at that NTS Exit Point will be pro-rated accordingly.

Where an ARCA existed, prior to the implementation date of this Proposal, and that capacity reservation had been transferred to a Shipper User and become its registered capacity, that User’s prevailing registered NTS Exit Capacity shall be set to the capacity reserved in the ARCA. This prevailing registration shall be effective from the later of the date for which the capacity was registered and 1 October 2011.

A DN User’s registered NTS Offtake (Flat) Capacity for Gas Year 2011/12 will be as stated in the September [2006] Offtake Capacity Statement.

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.

New NTS Exit Points and NTS Offtakes

In respect of a new NTS Exit Point, a Shipper 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 for the UCT. In this event, this commitment may be transferred from the Non Code Party to a Shipper User for the remaining period of the UCT.

A DN User may apply at any time for a new NTS Offtake. The DN User will make this application on the basis of entering into a commitment to reserve NTS Offtake (Flat) Capacity for the UCT.

National Grid NTS will inform those Users of their allocations as soon as possible, but in any event within two months of the application.

For bi-directional points, the User may make a simultaneous application for NTS Entry and NTS Capacity. In this case allocation shall be in accordance with the timescales set for the application for NTS Entry Capacity.

Incremental Exit or Offtake (Flat) Capacity

A Shipper User may apply at any time for additional NTS Exit Capacity at an existing NTS Exit Point and a DN User may apply at any time for additional NTS Offtake (Flat) Capacity at an existing NTS Offtake.

Where there is surplus capacity, for the full UCT, at an existing NTS Exit Point or NTS Offtake (ie the obligated capacity exceeds the total registered), that User shall be registered as holding that part of the surplus NTS Exit or NTS Offtake (Flat) Capacity it has applied for. If the surplus capacity is available for less than the UCT, that User shall be registered as holding that capacity for the duration of its availability.

Where there is insufficient surplus capacity to meet the application and where the incremental capacity would be equal to or exceed the lesser of:

- [25]% of the prevailing obligated capacity; and
- [1]mcmd

at 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, but in excess of the surplus capacity at that NTS Exit Point or NTS Offtake, Users may make an application in July of each year.

National Grid NTS will inform, those Users of their allocations as soon as possible but in any event within two months of application, or by 30 September in the case of an application made the previous July. This is to allow National Grid NTS sufficient time to complete credit checks and the incremental release processes under the ExCR Methodology Statement.

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. Subject to the provisions within the ExCR Methodology Statement, it shall also have a firm requirement to make the capacity available within 36 months of the date on which it allocates the capacity.

If the User making the application decides not to proceed and the construction phase of the project has not commenced, the UCT shall be set to zero.

By the first anniversary of the acceptance of a capacity application, the User 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.

Whilst not part of the UNC, it is expected that equivalent commitments will apply to Non Code Parties entering into ARCAs.

Capacity Reduction

Subject to the UCT requirement, set-out above and the provisions within the ExCR Methodology Statement, 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

Where there is an aggregate overrun at an NTS Exit Point or NTS Offtake, (ie in the case of an NTS Exit Point, the sum of all User's UDQOs exceed the aggregate of all Users NTS Exit Capacity) 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, the second month is between December and March inclusive, and the overrun quantity is less than or equal to the first months overrun quantity, a multiplier of 0.5 will apply to the second month.

For each User, this overrun quantity shall be the excess of that User's UDQO above its registered capacity but where there are two or more Users at an NTS Exit Point the overrun quantity shall be pro-rated so that the sum of each User's overrun quantities equals the aggregate overrun.

A single User may be appointed as an "Overrun User" and be liable for all overrun charges incurred on that Day at that NTS Exit Point.

Capacity Transfers and Assignments

Subject to all existing credit restrictions, a User will continue to have the right to Transfer or assign NTS Exit Capacity to another User at the same NTS Exit Point. In doing so it is accepting the obligations of any remaining months of the User Commitment Term associated with the Transferor.

The following shall also apply:

Capacity Transfers

- Can only be carried out within day up to 04.00
- Will be for the period agreed by the Users and notified to National Grid NTS.
- All liabilities will remain with the Transferor
- National Grid NTS may reject (within 60 minutes) any transfer greater than the Transferor's holding.
- For the purpose of overrun calculation, the registered capacity of both Transferor and Transferee shall include all capacity transferred.

Capacity Assignments

- Shall be notified to National Grid NTS at least 5 days prior to assignment

- National Grid NTS may reject assignments where the Assignee does not have the required credit worthiness.
- National Grid NTS is deemed to have accepted the assignment if it has not rejected within four days of notification
- All liabilities pass to the Assignee

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.

Continuing and Extended Provisions

No change is proposed in the following UNC provisions:

- Pressure Commitments
- Low demand days
- Ramp Rates / Notice periods still required
- National Grid Liability for failure to make gas available for offtake.

It is proposed that the current credit rules applying for System Entry Capacity be extended to NTS Exit Capacity.

The Capacity and Commodity Charges payable shall be set-out in National Grid's "Statement of Transmission Transportation Charges".

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 Transitional Arrangements.

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

