

Workstream Report
Removal of a Users ability to allow Quarterly NTS Entry Capacity to lapse
Modification Reference Number 0332

Version 1.0

This Workstream Report is presented for the UNC Modification Panel's consideration. The Transmission Workstream considers that the Proposal is sufficiently developed and should now proceed to the Consultation Phase. [The Workstream also recommends that the Panel requests the preparation of legal text for this Modification Proposal.]

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).*

Background

Review Group* 0221 “Review of Entry Capacity and the Appropriate Allocation of Financial Risk” was established in September 2008 to assess whether or not the current credit arrangements, in place for securing long term NTS entry capacity, were sufficiently robust and provide the correct balance of risk between various Shipper Users*.

Modification Proposals 0246/0246A/0246B “Quarterly NTS Entry Capacity User Commitment” were raised in May 2009 to address the issues identified by Review Group 0221. The Authority* rejected these proposals on 3rd June 2010 as they considered that these proposals imposed an excessive burden of costs on shippers and introduced additional administrative complexity.

However, in its decision letter the Authority recognised that there was widespread support for one common aspect of all the proposals, to introduce a measure to address one of the issues identified by Review Group 0221, which was to remove the ability of shippers to defer their security commitments for booked quarterly system entry capacity. The Authority agreed that such a change to the UNC would represent a significant improvement on the current arrangements and better facilitate the relevant objective set out in National Grid’s gas transporter licence condition A11.1 (a): the efficient and economic operation of the pipe-line system. The Authority also highlighted that it had already approved a similar proposal with respect to exit capacity¹ and without fettering its discretion, would welcome a similar proposal with respect to entry capacity.

¹ Modification Proposal 0261 Annual NTS Exit (Flat) Capacity Credit Arrangements was approved by Ofgem on 9th December 2009.

Modification Proposal

National Grid NTS* has raised this Modification Proposal to address the aforementioned aspect of the current UNC credit requirements for Quarterly NTS Entry Capacity* (QSEC), where a User* at a single Entry Point* would effectively be able to keep deferring their long term entry capacity commitments indefinitely without incurring any penalty.

The current security provisions are set out in Section B2.2.15 of the UNC TPD and mean that National Grid NTS looks at the aggregated amount of the User's current Relevant Code Indebtedness* and the following twelve months liability for capacity charges associated with quarterly NTS entry capacity, as acquired in the auctions for Quarterly NTS Entry Capacity (QSEC).

If the above aggregated amount exceeds 85% of the User's Code Credit Limit, then National Grid NTS will notify the User. The User can subsequently either increase its Code Credit Limit by providing additional security or be in the position where the User's registered quarterly NTS entry capacity for each of the relevant calendar quarters will lapse and the User will cease to be treated as holding the registered quarterly NTS entry capacity.

We propose to amend UNC TPD Section B 2.2.16 as follows:

- to no longer allow a User to defer their registered quarterly NTS entry capacity, when they have not provided the security required under UNC TPD Section B2.2.15;
- to clarify that the relevant User will continue to be treated as holding the relevant NTS entry capacity and will be subsequently invoiced for that capacity in the timeframe commensurate with the capacity concerned. Any failure by the User to pay the subsequent invoices will be treated in the same way as any other transportation related debt; and
- such that National Grid NTS will reject any further entry capacity applications, trades and transfers at any ASEP submitted by the User until the above security has been provided by the User.

It is anticipated that this change will enhance current incentives for Users to provide / maintain the required security as per UNC TPD Section B2.2.15.

2 User Pays

a) Classification of the Proposal as User Pays or not and justification for classification

No classification required as no additional costs anticipated.

b) Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification

None, no costs anticipated.

c) Proposed charge(s) for application of Users Pays charges to Shippers

None.

d) Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from xoserve

No charges applicable for inclusion in ACS.

3 Extent to which implementation of the proposed modification would better facilitate the relevant objectives

[National Grid NTS] considers this Proposal would, if implemented, better facilitate the following Relevant Objectives as set out in its Gas Transporters Licence.

Standard Special Condition A11.1 (a): *the coordinated, efficient and economic operation of the pipe-line system to which this licence relates;*

In respect of Standard Special Condition A11.1(a), the efficient and economic operation of the pipeline, this Proposal will discourage speculative auction bidding as the bidder would be aware of the tighter credit arrangements and sanctions that could be applied, thus reducing the risk of inefficient system investment and provides an incentive for Users to honour their NTS Entry Capacity auction commitments. This in turn will give National Grid NTS and the shipper community greater assurance over the appropriateness of any associated system investments and/or allowed revenue returns as the bidder will be required to pay for entry capacity allocated regardless as to whether they can utilise it.

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

In respect of Standard Condition A11.1(c) the efficient discharge of the licensee's obligations under this licence, by providing an incentive on Users to book Quarterly NTS Entry Capacity only when required. This is again expected to reduce the risk of "speculative" NTS Entry Capacity auction bidding and any subsequent investment in unwarranted physical NTS Entry Capacity.

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;*

In respect of Standard Condition A11.1 (d): so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition. Implementation would reduce the risk of increased Entry Capacity Commodity charges to the shipper community, from a User signalling and being allocated Enduring Annual NTS Entry Capacity that they subsequently allow to lapses, through that User not providing sufficient security.

Standard Special Condition A11.1 (e): *so far as is consistent with sub-paragraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards (within the meaning of paragraph 4 of standard condition 32A (Security of Supply – Domestic Customers) of the standard conditions of Gas Suppliers’ licences) 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 sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code.*

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

4 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.

5 The implications for Transporters and each Transporter of implementing the Modification Proposal, including:

a) implications for operation of the System:

There are no implications for operation of the System.

b) development and capital cost and operating cost implications:

By removing the User’s ability to defer its Registered Annual Entry Capacity, implementation should reduce speculative bids and ensure that any requests for the Capacity that results in investment in the NTS is efficient and economic. Investment signals used by National Grid NTS to trigger system development would therefore be

reinforced.

- 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:**

No consequences have been identified.

- 6 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**

No such consequence is anticipated.

- 7 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**

No changes to systems would be required as a result of implementation of this Proposal.

- 8 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)

For those Users participating in the QSEC auctions, the requirement to pay will be regardless of whether or not they are in a position to utilise the capacity they have booked, should the User have insufficient credit in place then ultimately the termination provisions within UNC TPD Section V will apply.

Development and capital cost and operating cost implications

Some costs associated with obtaining Security are anticipated. Also, the current ability for Users to defer the costs of the allocated capacity, where their physical requirement is delayed would be removed.

Consequence for the level of contractual risk of Users

By reinforcing the obligations on Users to pay for capacity booked, the current risk to other Users should be reduced by reducing the risk of under-recovery; as any under recovery is recovered through increased commodity charges.

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

No implications have been identified.

10 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 consequences have been identified.

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

Advantages

- Discourages speculative Quarterly NTS Entry Capacity auction bidding, thus reducing the risk of inefficient system investment and minimising the need to recover revenue from other Users bidding for capacity at the same ASEP.
- Provides an incentive for Users to provide the security to cover existing and future QSEC auction commitments.

Disadvantages

- Single ASEP Users would no longer have the benefit of allowing Registered Quarterly NTS Entry Capacity to lapse in the event that security is not put in place.

12 Summary of representations received (to the extent that the import of those representations are not reflected elsewhere in the Workstream Report)

No written representations have been received.

13 The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation

No such requirement has been identified.

14 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

No such requirement has been identified.

15 Programme for works required as a consequence of implementing the Modification Proposal

No programme of works would be required as a consequence of implementing the Modification Proposal.

16 Proposed implementation timetable (including timetable for any necessary information systems changes)

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

17 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.

18 Workstream recommendation regarding implementation of this Modification Proposal

The Transmission Workstream considers that the Proposal is sufficiently developed and should now proceed to the Consultation Phase. [The Workstream also recommends that the Panel requests the preparation of legal text for this Modification Proposal.]