

**CODE MODIFICATION PROPOSAL No xxxx**

Creation of a NTS Entry Capacity Retention Charge within the Uniform Network Code

DRAFT

**Version 1.0**

**Date:** 30/07/2009

**Proposed Implementation Date:** 08/12/2009

**Urgency:** Non Urgent

## **1 The Modification Proposal**

### **a) Nature and Purpose of this 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**

The 2007 Transmission Price Control Review created a new obligation on National Grid NTS to undertake Entry Capacity Substitution (see Licence condition C8D paragraph 10 and C8A paragraph 1). This obligation requires National Grid NTS to use reasonable endeavours to undertake Entry Capacity Substitution when proposing to release capacity incremental to the prevailing level of obligated entry capacity, thus seeking to minimise the amount of investment that is required to satisfy incremental demand.

Hence Entry Capacity Substitution is where National Grid NTS moves unsold non-incremental entry capacity from one ASEP to meet the demand for incremental obligated entry capacity at a different ASEP.

In accordance with the Licence, National Grid NTS is required to implement Entry Capacity Substitution from, and including, the March 2010 QSEC auction and is required to submit its proposed Entry Capacity Substitution Methodology Statement (the "Methodology Statement") to the Authority for approval no later than 7<sup>th</sup> September 2009.

After a series of industry workshops throughout 2008 and 2009 and an informal consultation in May 2009 a proposed Methodology Statement was submitted to the industry for formal consultation on the 24<sup>th</sup> July 2009. This proposed methodology is based on the "Options Approach" developed through the workshops. To avoid confusion with other Option products references to "Options" have been replaced with "Retainer" as this more accurately describes the role of the product.

Assuming the Methodology Statement is approved and Entry Capacity Substitution is implemented in accordance with the proposed methodology, Users\* will be able to exclude unsold non-incremental obligated entry capacity at potential donor ASEPs from being substituted, in response to an incremental signal elsewhere, by the purchase of a Retainer. The rules and processes for Retainers are detailed in the proposed Methodology Statement which includes the requirement for a charge to be paid in respect of a Retainer. Under circumstances defined in the Methodology Statement this charge will be refunded.

The NTS Entry Capacity Retention Charge will be subject to a charging consultation which will determine the magnitude of the charge, the treatment of revenues, and the derivation of the charge. It is expected that the NTS Entry Capacity Retention Charge will be a Transportation Charge as defined by the Uniform Network Code\* (UNC). The charging proposal will be subject to approval by the Authority independent of this Modification Proposal\* and the proposed Methodology Statement.

#### **Nature of the Proposal**

This Modification Proposal is required to define the NTS Entry Capacity Retention Charge as a Transportation Charge within the UNC and so allow National Grid NTS the ability to invoice for (and refund) the revenue associated to this charge. Hence approval of this proposal is integral to the implementation of the substitution methodology.

**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.**

National Grid NTS will discuss this Proposal at the August Transmission Workstream. In order to meet the deadline for implementation of the Entry Capacity Substitution obligation it is necessary for this Proposal to be implemented by the 8<sup>th</sup> December 2009. Therefore it is the view of National Grid NTS that this Proposal should be submitted to the Modification Panel on 20<sup>th</sup> August and then proceed to consultation, allowing industry the full standard consultation time (15 business days). Subsequently it is requested that the Proposal is then submitted at short notice to the 17<sup>th</sup> September 2009 Modification Panel so that the Final Modification Report can be considered by Ofgem in conjunction with the Entry Capacity Substitution Methodology Statement.

## **2 User Pays**

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

No classification required as no costs anticipated.

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

Not applicable

**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**

Not applicable

**3 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**

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

- In respect of Standard Special Condition A11 (c), the efficient discharge of the licensee’s obligations under this licence, this Proposal would help to meet the obligation to introduce Entry Capacity Substitution.
- In respect of Standard Special Condition A11 (f), the promotion of efficiency in the implementation and administration of the network code and or the uniform network code would be improved by the implementation of this Proposal. Otherwise it is unclear how Retainer’s would be administered without the charge being recognised and included in the UNC.
- In respect of Standard Special Condition A11 (a), the efficient and economic operation of the pipeline system, this Proposal would help facilitate the introduction of Entry Capacity Substitution thus enabling the substitution of existing entry capacity at one or more NTS Entry Points to meet demand for incremental entry capacity at other entry points, thereby reducing the need for investment.

**4 The implications of implementing this Modification Proposal on security of supply, operation of the Total System and industry fragmentation**

This Proposal is purely related to the inclusion of the NTS Entry Capacity Retention Charge as a new Transportation Charge within the UNC and as such has no impact on security of supply.

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

**a) The implications for operation of the System:**

None

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

No cost implications have been identified.

**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:**

Not applicable.

- 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 consequences have been identified.

- 6 **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)**

Not applicable.

- 7 **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**

It is proposed that the NTS Entry Capacity Retention Charge will be invoiced (and where applicable refunded) via ad-hoc invoices. Hence there should be no impact on IT systems.

- 8 **The implications for Users of implementing the Modification Proposal, including:**

- a) **The administrative and operational implications (including impact upon manual processes and procedures)**

National Grid NTS believes there are only minor administrative or operational implications created by this proposal. These will relate to the administration of invoices.

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

National Grid NTS believes there are no significant development, capital or 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**

No consequences on the level of contractual risk have been identified.

- 9 **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 consequences on the implementation for other relevant persons have been identified.

- 10 **Consequences on the legislative and regulatory obligations and contractual relationships of the Transporters**

National Grid NTS has not identified any such consequences.

**11 Analysis of any advantages or disadvantages of implementation of the Modification Proposal not otherwise identified in paragraphs 2 to 10 above**

**Advantages**

National Grid NTS believes that the benefits of this proposal are that:

- It adds the NTS Entry Capacity Retention Charge to the UNC which will help facilitate the introduction of Entry Capacity Substitution and the associated benefits that Entry Capacity Substitution presents.
- It ensures that the NTS Entry Capacity Retention Charge is covered by the credit arrangements of the UNC.

**Disadvantages**

- National Grid NTS is not aware of any disadvantages in relation to this Proposal.
- In the event that the proposed Methodology Statement and the charging proposal are not approved then it is anticipated that Ofgem would reject this Proposal.

**12 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)**

Not applicable.

**13 Detail of all other representations received and considered by the Proposer**

Not applicable.

**14 Any other matter the Proposer considers needs to be addressed**

Not applicable.

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

Draft Proposal discussed at Transmission Workstream	August 6th
Proposal submitted to Mod Panel	August 20th
Proposal issued for consultation (subject to Panel approval)	August 20th
Closeout for representations	September 11th
Modification Panel decide upon recommendation	September 17 <sup>th</sup> *
FMR submitted to Ofgem	September 17th
Proposed implementation date	December 8th

\* In order to achieve a timely decision National Grid NTS requests that Panel accept submission of the FMR to the September panel at short notice.

**16 Comments on Suggested Text**

To be advised

**17 Suggested Text**

To be advised.

**Code Concerned, sections and paragraphs**

Uniform Network Code

Transportation Principal Document

**Section(s)** UNC Transition Document, Section B

**Proposer's Representative**

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**Proposer**

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