

Modification 0407: Standardisation of Offtake Rate Changes for all National Grid NTS Exit Users

National Grid NTS Presentation to Workgroup Meeting
21st February 2012

Purpose of this presentation

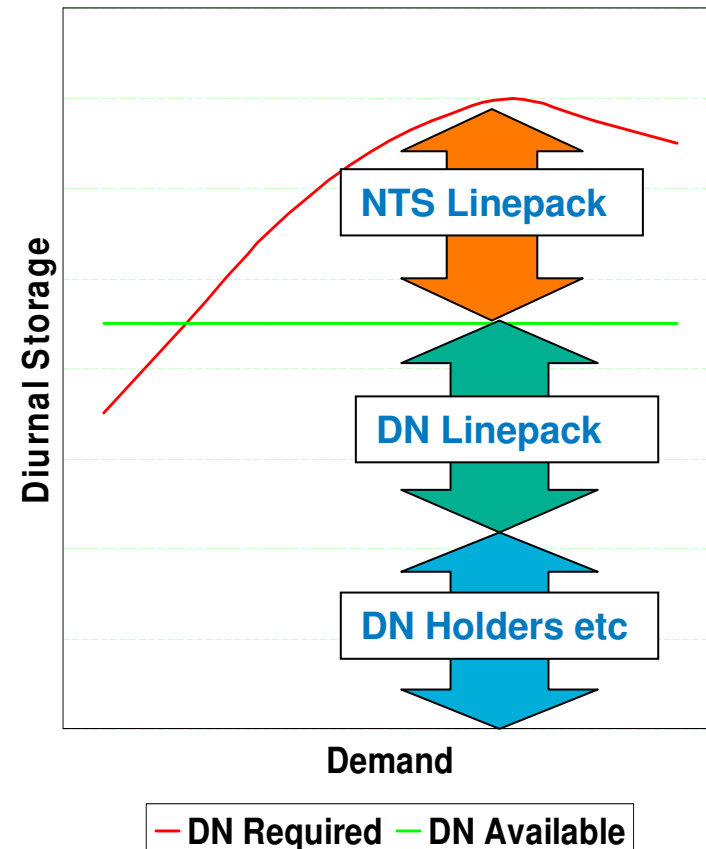
- Answer the NTS action about breaches of the 2 hour 5% rule and their impact
- Assess the potential impacts on system operation
- Assess the discrimination issues raised by Mod 0407

Breaches of the '2 hour 5%' rule

- We expect DNs to always comply with the rule
- We can agree to waive the rule upon a DN's request, provided that this does not cause any operational issues for the NTS (i.e. when the system is not approaching design conditions)
- We do not keep records of DN breaches of the '2 hour 5%' rule but, by definition, there should be no adverse impact
- A key benefit of the '2 hour 5%' rule is to encourage good quality network planning and demand forecasting by DNs in order to prevent system problems occurring
- It facilitates the economic and efficient planning of both networks, hence was part of the Network Sales 'deal'

Potential Impact on NTS Operation

- DNs identify their diurnal storage requirements from a probabilistic model that takes account of
 - Supply point profiling
 - Unforeseen events including demand forecast errors
 - NTS flow change restrictions
- DNs assess their diurnal storage availability (holders, other storage devices and DN linepack) to see if they have sufficient
- Any shortfall is met through an NTS flex booking or a construction/contracting solution



Potential Impact on NTS Operation

- Currently, DN demand increases can be met from DN linepack/storage before they appear as gradual changes in demand on the NTS
- If Mod 0407 is implemented, we would expect to see the effect of demand changes in the DNs more rapidly on the NTS
- If DNs can change flows more rapidly to cater for demand changes and forecast errors, diurnal storage requirements (and hence NTS flex bookings) should reduce
- However, more rapid response from the NTS could result in:
 - Greater linepack depletion, more frequent balancing actions and a higher requirement for operating margins gas booking and usage
 - Greater pressure depletion, increasing the potential for capacity constraints
- In addition, the expectation of stability for LDZ flows in the short term that the '2 hour 5%' rule provides would be removed, thus compromising NTS' ability to accept flow profiles outside the '1 hour 2 hour 4 hour' rule for both DNs and DCs

Potential Impact on NTS Planning

- Operational linepack (excluding DN diurnal support) is provided via the flow/planning margin
 - This represents the first line of defence before taking balancing actions and ultimately OM and covers;
 - Compressor trips
 - Forecast error
 - Supplier alerts
 - Producer variation
 - Operational state changes
 - Transmission Planning uncertainty
 - The flow margin is applied to all network flows and effectively means that we build capacity to meet the forecast flow plus flow margin for all points on the system
 - This results in useable linepack when system flows are as expected, which allows for within day flow variation and imbalances. A review of the NTS flow/design margin in light of Mod 0407 might result in a higher requirement than the current 2% level

Setting this in a wider context...

- The NTS has historically been designed on the basis of stable offtake and predictable supply sources
- Supply patterns are now much more dynamic and we expect increased within-day variability in demand from CCGTs and storage
- Mod 0407 adds to our customers' growing appetite for a more flexible, faster response NTS and therefore needs to be considered in the context of the wider Network Flexibility debate
- Removing rules and hoping the NTS can cope would not be a prudent approach – rather we are currently exploring whether a new approach to network design and operational standards is required

Discrimination Issues

- Where an arrangement is necessary for a dominant company to deliver a service effectively, that arrangement needs to be the least restrictive that can realistically be offered
- The '2 hour 5%' rule is necessary to enable National Grid NTS to effectively plan and balance the system for the benefit of all parties
- We believe that this rule does represent the least restrictive that can realistically be offered across all DN exit points

Discrimination Issues

- DNs do not compete with DCs, therefore the unequal treatment does not distort competition in any relevant market
- There are other differences in the offtake rules that apply to DNs and DCs, some of which favour DNs (eg. OPN tolerances, assured pressures) and we do not regard these as unduly discriminatory for the same reason
- Developers are free to choose which network they connect to and should take any difference into account
- Therefore we believe that the current arrangements can be objectively justified

Summary

- Mod 0407 is simple in its intent but its effects on NTS planning and system operation could be profound
- ‘Difference’ does not necessarily mean ‘undue discrimination’
 - In our view, the application of the ‘2 hour 5%’ rule to DNs and not to DCs can be objectively justified
 - Therefore, Mod 0407 does not need to be implemented to redress any undue discrimination
- However, we recognise that the effect of this ‘due discrimination’ should be minimised, therefore we are happy to explore other potential solutions to this issue