

CODE MODIFICATION PROPOSAL No 0332
Removal of a Users ability to allow Quarterly NTS Entry Capacity to lapse
Version 2.0

Date: 27/10/2010

Proposed Implementation Date:

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

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.

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.**

The proposer believes that this proposal is sufficiently clear to proceed directly to the Consultation Phase.

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**

N/A

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 this Proposal would, if implemented, better facilitate the following Relevant Objectives as set out in its Gas Transporters Licence:

- 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.
- 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.

- In respect of Standard Condition A11.1 (d): so far as is consistent with subparagraphs (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.

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

No such consequences have been identified.

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

a) The implications for operation of the System:

No such consequences have been identified.

b) The 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) 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

Not applicable.

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

a) The 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.

b) The 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.

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

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 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 such consequences have been identified.

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

No such consequences have been identified.

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

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 as a result of consultation by the Proposer (to the extent that the import of those representations are not reflected elsewhere in this Proposal)

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

14 Any other matter the Proposer considers needs to be addressed

None

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

16 Comments on Suggested Text

17 Suggested Text

Text being developed

Code Concerned, sections and paragraphs

Uniform Network Code

Transportation Principal Document Section B

Section(s)

Proposer's Representative

Chris Shanley (National Grid NTS)

Proposer

National Grid NTS