

Dear JO

Please see below National Grid Transmission's comments and suggested amendments/additions to the draft Mod 407 workgroup report (based on draft report dated 9th May 2012).

Unfortunately the report on the Joint Office website is in adobe acrobat format and therefore we cannot provide these comments as track changes to the document.

Therefore, taking the draft Workgroup Report section by section our comments and amendments/additions are as follows:

1. Summary

We consider that the 'Impacts and Costs' section currently provides a biased view in favour of the proposer's position. Wording needs to be added which details the potential impacts that National Grid Transmission currently envisage for the NTS system and which we have consistently voiced throughout the workgroup process both verbally and in presentations to the group. These impacts are:

- we would expect to see the effect of within day demand changes in the DN networks affect offtake flows from the NTS more rapidly.
- This more rapid flow change will result in:
 - Greater NTS linepack depletion within day,

And may result in:

- more frequent balancing actions and a higher requirement for operating margins gas booking and usage,
- Greater NTS pressure fluctuations, increasing the potential for system capacity constraints.

In addition, the current system design and operational planning expectation of relative stability of flows from the NTS into the LDZs encapsulated in the '2 hour 5%' rule would be removed, thus compromising our ability to accept flow profiles outside the '1 hour 2 hour 4 hour' rule for both DNs and Directly Connected customers until such time as the impact of the removal of this system design and operational planning parameter has been fully assessed and any necessary capital and operational changes had been made.

National Grid Transmission (NTS) is currently progressing a piece of analysis to quantify the affects referred to above. Given the large number of NTS offtakes involved in this analysis and the fundamental nature of the change being assessed we do not envisage being able to complete this analysis with the currently anticipated timeframe of the consultation on this modification proposal.

'Implementation' section - currently says ASAP. Whilst this statement is open-ended to some extent, we would suggest that any implementation date should be cognisant of the work currently being undertaken by NTS to quantify the impacts of the proposal, potential requirement for NTS investment (pending the outcome of the above work), operational changes and the associated lead-times.

'The Case for Change' section. The second sentence which refers to "discrimination" must state who believes this to be the case i.e. that this is the proposer's view (and perhaps others). National Grid Transmission's view on the "discrimination" points raised in the proposal (as previously articulated and presented to the Workgroup) are that the current arrangements in the UNC are not unduly discriminatory for the following reasons:

- Distribution Network Operators (DNs) do not compete directly with Directly Connected (DC) customers, therefore the different treatment set out in the UNC document does not distort competition in any relevant market.
- There are other differences in the offtake rules that apply to DN and DCs, some of which appear to favour DN (eg. OPN tolerances, assured pressures, flex bookings arrangements) and we do not regard these as unduly discriminatory in favour of the DN for the same reason as above. NTS would suggest that if one was to apply the argument used by the proposer in its proposal to these other "differences" between DN and DCs it would appear to suggest that these arrangements are also unduly discriminatory and consistency should be applied.
- Consumers are free to choose which "network" they connect to and should take any difference into account.
- Therefore NTS believe that the current arrangements can be objectively justified and are therefore not undue.

Section 2 - Why Change?

- 2nd paragraph - delete "Some workgroup members consider that..." because this first sentence is, as far as we can determine, a fact.
- Make clear in the final sentence of this paragraph that that is the Proposer's view and not that of National Grid Transmission.

Section 3 - Solution

- Remove the sentence "This will provide..." as in National Grid Transmission's view this section should be a factual description of the proposed solution rather than contain any opinion about the effects of the proposed change. An alternative would be to state that this is the Proposer's view.

Section 4 - Relevant Objectives

- Relevant Objective (a) Economic and Efficient Operation – National Grid Transmission disagree with the current text because no quantitative evidence has been provided on what the relative costs would be for National Grid Transmission of removing the rule and/or to various DN of retaining it. Until we know this, it is not possible to say whether 0407 would enhance (a) or not. To our knowledge only National Grid Transmission are completing the necessary analysis to establish quantified evidence in this area and this will be made available to Ofgem when it has been completed.
- Relevant Objective (b) Coordinated... - same comment as Rel Objective (a) above.
- Relevant Objective (d) - Securing of Effective Competition - second sentence needs to be qualified to being the Proposer's view. National Grid Transmission disagree based on the discrimination arguments detailed previously.

Section 5 - Impacts and Costs

- Impacts on Transporters Systems and Processes. Add to 'Operational Processes' that there would be an impact on the NTS planning and operational processes which currently expect DN to comply with the 2 hour 5% rule.
- Impacts on Users: NTS do not consider the text against '**Development, Capital and Operating Costs**' to be relevant here as it relates to DN when the section itself concerns impacts on Users. We consider that NTS shippers may face increased charges if the current analysis being completed by National Grid Transmission identifies capital and operational changes associated with the implementation of the proposal. National Grid Transmission will be in a better position to quantify these effects once our analysis has been completed.
- **Contractual risks** – National Grid Transmission are currently concerned that removal of the 2hr 5% rule at all DN offtakes will lead to increase offtake volatility and uncertainty at these

exit points. Such a change would impact National Grid Transmission's ability to predict NTS system conditions in the immediate hours ahead. This in turn will adversely impact the assessment of the provision of un-contractualised offtake flexibility at other NTS connections.

- **'Legislative, regulatory and contractual obligations and relationships'** - current text in the draft report is confusing.

Impacts on Transporters

- National Grid Transmission considers that removal of the 2hr 5% rule as proposed will lead to more rapid linepack depletion from the NTS, reduced predictability of very near term offtake flows from the NTS and a reduced incentive for the DNs to accurately forecast their offtakes from the NTS. This increase in offtake volatility and decrease in predictability is likely to adversely impact the efficient operation of the NTS system.
- **'Recovery of costs'** - National Grid Transmission would seek to recover any consequential NTS investment and or increased operational costs, by agreement with Ofgem, through changes to related transportation charges.
- **'Contractual risks'** - could increase for National Grid Transmission with regard to delivering on pressure obligations and meeting DN requirements for more flexible offtake of gas.
- **'Legislative, regulatory and contractual obligations and relationships'** – National Grid Transmission would suggest that the current wording here is deleted and replaced with the 'recovery of costs' and 'contractual risks' stated immediately above.

Impact on Code Administration - None

Impact on Code - Removal of OAD section I 2.3.3 and I2.3.4

Impact on UNC Related Documents

- 'Network Entry Agreement' - amend to state no impact currently identified.
- 'Network Exit Agreement' - amend to state no impact for NTS NExAs offtakes currently identified.

Impact on Core Industry Documents

- **'Safety Case'** – It is important to state clearly that at present in regard to the Transmission System Operator Safety Case this is currently unknown. National Grid Transmission will need to consider whether there is an impact on its Safety Case following the conclusion of its current impact analysis.

Other Impacts

- **'Operation of the Total System'** – National Grid Transmission would suggest that the second sentence is deleted as this suggested "net benefit" hasn't yet been quantified or established. We would also suggest that the following wording is inserted "the current 'lag' between DN demand changes and the NTS offtake flow rate change would be shortened by this proposal, thus DN demand forecast changes would be seen more rapidly on the NTS and probably before any associated change in entry flows has been arranged and delivered. This would lead to an increase in unpredictable fluctuations in NTS linepack and pressure levels, which in turn would reduce the efficient operation of the Transmission system.
- **'Terminal Operators, consumers etc..'** - embedded CCGTs would have greater access to flexible gas than those connected directly to the NTS. This proposal may lead to NTS directly connected consumers having their current un-contracted flexibility reduced as short term NTS/DN offtake predictability is reduced.

Section 6 - Implementation

National Grid Transmission suggests that this section's text is either deleted and replaced with the following, or that the following text is added as a view expressed by National Grid Transmission:

"It is recommended that no decision to implement or reject this Modification is taken until the appropriate impact assessments (for the NTS of removing the 2 hour 5% rule and for DNs of retaining the rule) have been conducted by all the Gas Transporters affected by this proposal and that such analysis is provided to Ofgem to aid them in their decision.

National Grid Transmission currently expects to be able to report on its analysis in Q3 2012. If NTS capital investment or any change to operational arrangements is required in order to enable National Grid Transmission to accommodate implementation of this Modification then any implementation date should be cognisant of the associated lead time for that investment or operational change to be completed."