

Stage 01: Proposal

0376:

Increased Choice when Applying for NTS Exit Capacity

What stage is this document in the process?



To increase the level of choice available to Developers and Shippers when applying for Enduring Annual NTS Exit (flat) Capacity. The proposal seeks to allow for adhoc applications beyond Y+4 up to Y+6, which is allowed for in ARCA applications and applications in the July window. Also to allow for applications in the July window to be from a non-October start date whilst remaining consistent with the 38 month lead-time and User commitment principles.



The Proposer recommends that this proposal is sent for assessment in a UNC Workgroup



High Impact:
NTS Exit Shippers, DN Transporters & National Grid NTS



Medium Impact:



Low Impact:

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About this document:

This document is a proposal, which will be presented by the Proposer to the Panel on 21 April 2011. The Panel will consider the Proposer's recommendation, and agree whether this modification should proceed to consultation or be referred to a Workgroup for assessment.



3 **Any questions?**

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1 Summary

Is this a Self-Governance Modification

It is proposed that this Proposal is treated as a Self-Governance Modification as it is anticipated that this proposal will only impact a small number of exit points and have minimal impact on competition activities between Developers and Shippers.

Why Change?

To increase the level of choice available to Shippers when applying for Enduring Annual NTS Exit (flat) Capacity. Currently, Exit capacity can be applied for during the Annual Application Window in July for an October year+3 start. If this does not meet the Shipper's application date or first capacity date requirements then an ad-hoc process can be used. However, the ad-hoc process is restricted to Y+4 and only has a reasonable endeavours obligation on National Grid (NG) to provide the capacity. These limitations do not provide sufficient time or certainty to the Shipper and is an unacceptable risk when investing in a Power Station or Storage development.

Solution

To provide more choice for Shippers the following changes to the UNC are proposed:

Ad hoc application Process:

- Extend the time for applications from Y+4 to Y+6;
- Place best endeavours rather than reasonable endeavours on NG to make firm capacity available from the requested date when at least 38 months notice has been given; and
- Reduce the minimum threshold application from 10 Gwh/day to 100 Kwh/day.

Annual Application Window:

- Allow applications during the July Annual Application Window for start dates of the 1st of any month between October Y+4 and September Y+5 rather than just 1st October.

Impacts & Costs

System changes might be required but costs are unknown. Shippers and Transporters are expected to benefit from these proposed changes and if costs of implementation are incurred they should be shared.

Implementation

Immediate implementation following approval of the modification is proposed.

The Case for Change

The current UNC does not provide the flexibility or certainty that Shippers require when applying for NTS Exit Capacity. Without improved flexibility greater costs and project uncertainty are incurred by Shippers. The proposal will therefore better facilitate the Relevant Objectives.



Background

Q: What is "The Annual Application Window"

A: In a Gas Year (Y) it is the period commencing at 08:00 hours and ending on 17:00 hours on each Business Day in July.

Q: What is "The Ad-Hoc Process"

A: An application for Enduring Annual Exit (flat) capacity may be made at any time between 1 October and 30 June in Gas Year (Y) where the application is new or exceeds 10 Gwh/day or is greater than 125 % of existing baseline.

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Recommendations

The proposal should be assessed in a workgroup to further define timescales and costs.

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2 Why Change?

Currently, Enduring Annual NTS Exit (flat) Capacity can be applied for during the July Annual Application Window for capacity to be registered as held from Gas year Y+4, Y+5 and Y+6. However, this October start date might not suit the Shipper's development time lines both for the application date or the registered start date of holding capacity. This lack of flexibility in choice for any start date other than October results in inefficient system investment and increased cost to customers because Shippers are constrained to timelines that might not be suitable. For example, a Shipper may prefer to commission a power station during the lower priced summer months when gas and power prices are less volatile than at the start of winter.

Changing the Enduring Annual NTS Exit (flat) Capacity registered holding date to the first of any calendar month will result in more efficient network investment because capacity can be delivered on the date it is required, thus capacity does not have to be paid for when it is not required and this will result in lower cost to customers.

Developers and Shippers can also apply for Enduring Annual NTS Exit (flat) Capacity using an ad-hoc process. However, the ad-hoc process is restricted in time to not later than 1st October Y+4 and only has a reasonable endeavours obligation on National Grid to provide the capacity. These limitations do not provide sufficient time nor certainty to the Shipper and this presents an unnecessary obstacle and risk when investing in a Power Station or Storage development.

Looking to the future, CCGTs will be replaced as they approach the end of their economic asset life. In this case the same site will be used and the plant might be replaced with plant that has increased electrical power output. This may require more gas throughput and exit capacity than the existing booking. The current limits of 10 Gwh/day or 125 % of existing capacity that exist for eligibility of using the ad-hoc application approach are too high and unnecessarily restrict the choices available to support efficient development.

3 Solution

Solution

To provide more choice for Shippers the following changes to the UNC are proposed.

Ad hoc application Process:

- Extend the time for applications from Y+4 to Y+6,
- Place best endeavours rather than reasonable endeavours on NG to make firm capacity available from the requested date when at least 38 months notice has been given,
- Reduce the minimum threshold application from 10 Gwh/day to 100 Kwh/day.

Annual Application Window:

- Allow applications made during the July Annual Application Window for Enduring Annual NTS Exit (flat) Capacity to have a registered holding date of the 1st of any month between October Y+4 and September Y+5 rather than just 1st October.

4 Relevant Objectives

The Proposer believes that implementation will better facilitate the achievement of **Relevant Objectives b, c, and d.**

| Proposer's view of the benefits against the Code Relevant Objectives | |
|--|-------------------|
| Description of Relevant Objective | Identified impact |
| a) Efficient and economic operation of the pipe-line system. | No |
| b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters. | Yes |
| c) Efficient discharge of the licensee's obligations. | Yes |
| d) 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. | Yes |
| e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers. | No |
| f) Promotion of efficiency in the implementation and administration of the Code | No |

Section B 3.2.10 Ad hoc application Process:

- Extend the time for applications from Y+4 to Y+6.
This is expected to give more advance notice to National Grid NTS of shippers', intentions to give User commitment signals. This increased notice should allow National Grid NTS to plan and invest in the network in a more efficient manner, undertaking activities at the most cost effective time. This would therefore facilitate achievement of GT Licence obligations, enabling better facilitation of Relevant Objective (c).
- Place best endeavours rather than reasonable endeavours on NG to make capacity available from the requested date when 38 months notice has been given.
This is expected to increase certainty for the Shipper because they can have more confidence that NG will make capacity available for the date from which they applied to be registered as holding the Enduring Annual NTS Exit (Flat) capacity. This certainty is important when large financial investments are made in CCGTs and the return on the project can be impacted by a delay to commissioning if exit capacity is not available. Reducing risk is key to increasing investment by new and existing market participants. The effect of an increased number of participants will

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be to improve competition, thus enabling better facilitation of Relevant Objective (d).

Annual Application Window

- Allow applications during the Annual Application Window for specified dates other than just 1st October.

This is expected to result in more efficient investment by National Grid NTS and lower costs to customers. If Shippers can specify a none 1st October start date because this suits their development time frame then investment by National Grid NTS can be made on a more timely basis to meet the needs of the customer. This means that NG can invest "Just in Time" and costs can be minimised for customers because they do not have to pay for capacity during periods when they cannot make use of it.

For example, a Shipper wants to commission a CCGT starting in April. Currently, exit capacity would have to be booked the previous July for an October start. The Shipper has to pay exit capacity charges for 6 months even though they cannot use the Capacity.

Thus, the proposed change would enable better facilitation of Relevant Objective (b). For the avoidance of doubt the 38 month lead time and associated User Commitments would remain unaffected by this proposal.

5 Impacts and Costs

Costs

| |
|--|
| Indicative industry costs – User Pays |
| Classification of the proposal as User Pays or not and justification for classification |
| No central systems costs are involved and hence this is not a User Pays modification. |
| Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification |
| Not applicable |
| Proposed charge(s) for application of Users Pays charges to Shippers |
| Not applicable |
| Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from xoserve |
| Not applicable |

Impacts

| Impact on Transporters' Systems and Process | |
|---|--|
| Transporters' System/Process | Potential impact |
| UK Link | <ul style="list-style-type: none"> None |
| Operational Processes | <ul style="list-style-type: none"> Changes may be required to NG NTS planning |
| User Pays implications | <ul style="list-style-type: none"> None. |

| Impact on Users | |
|---|---|
| Area of Users' business | Potential impact |
| Administrative and operational | <ul style="list-style-type: none"> No material impact. |
| Development, capital and operating costs | <ul style="list-style-type: none"> Reduced costs due to capacity being booked on a more efficient basis. |
| Contractual risks | <ul style="list-style-type: none"> Users' risk is reduced by requiring NG NTS to use best rather than reasonable endeavours to make capacity available |
| Legislative, regulatory and contractual obligations and relationships | <ul style="list-style-type: none"> None. |

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Where can I find details of the UNC Standards of Service?

In the Revised FMR for Transco's Network Code Modification **0565 Transco Proposal for Revision of Network Code Standards of Service** at the following location:
<http://www.gasgovernance.com/networkcodearchive/551-575/>

| Impact on Transporters | |
|---|---|
| Area of Transporters' business | Potential impact |
| System operation | <ul style="list-style-type: none"> None. |
| Development, capital and operating costs | <ul style="list-style-type: none"> More efficient development of the network due to capacity being signalled further in advance. |
| Recovery of costs | <ul style="list-style-type: none"> Not applicable |
| Price regulation | <ul style="list-style-type: none"> None. |
| Contractual risks | <ul style="list-style-type: none"> Increased by obligation to use best rather than reasonable endeavours to make capacity available. |
| Legislative, regulatory and contractual obligations and relationships | <ul style="list-style-type: none"> None. |
| Standards of service | <ul style="list-style-type: none"> None |

| Impact on Code Administration | |
|-------------------------------|---|
| Area of Code Administration | Potential impact |
| Modification Rules | <ul style="list-style-type: none"> Change to rules required. |
| UNC Committees | <ul style="list-style-type: none"> None |
| General administration | <ul style="list-style-type: none"> None. |

| Impact on Code | |
|---|---|
| Code section | Potential impact |
| TPD section B section 3. | |
| <ul style="list-style-type: none"> 3.2.1 3.2.3 (b) (ii) (2) 3.2.4 (b) (ii) 3.2.10 (c) 3.2.10 | <ul style="list-style-type: none"> Add: Gas Year or the 1st of any specified month 10 Gwh to 100 Kwh Change from Y+4 to Y+6 Change from Y+4 to Y+6 Change from reasonable to best endeavours when 38 months notice provided |

| Impact on UNC Related Documents and Other Referenced Documents | |
|--|------------------|
| Related Document | Potential impact |

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| Impact on UNC Related Documents and Other Referenced Documents | |
|--|------|
| Network Entry Agreement (TPD I1.3) | None |
| Network Exit Agreement (Including Connected System Exit Points) (TPD J1.5.4) | None |
| Storage Connection Agreement (TPD R1.3.1) | None |
| UK Link Manual (TPD U1.4) | None |
| Network Code Operations Reporting Manual (TPD V12) | None |
| Network Code Validation Rules (TPD V12) | None |
| ECQ Methodology (TPD V12) | None |
| Measurement Error Notification Guidelines (TPD V12) | None |
| Energy Balancing Credit Rules (TPD X2.1) | None |
| Uniform Network Code Standards of Service (Various) | None |

| Impact on Core Industry Documents and other documents | |
|---|------------------|
| Document | Potential impact |
| Safety Case or other document under Gas Safety (Management) Regulations | None |
| Gas Transporter Licence | None |

| Other Impacts | |
|--|--|
| Item impacted | Potential impact |
| Security of Supply | Improved due to better facilitation of competition by better meeting customer needs |
| Operation of the Total System | None |
| Industry fragmentation | None |
| Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties | Increased certainty and better matching of requirements for developers of NTS exit capacity. |

6 Implementation

This modification could be implemented immediately following a decision to do so.

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7 The Case for Change

In addition to that identified the above, the Proposer has identified the following:

Advantages

- Incremental Entry capacity applications benefit from flexible application dates and 1 st of quarter start dates. This mod would better align Entry and Exit processes.

Disadvantages

- Changes to the ExCR might be required.

8 Recommendation

The Proposer invites the Panel to:

- DETERMINE that Modification 0376 progress to Workgroup Assessment.