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Our Ref: AHT/Mod 0090 response

Dear Julian

Representation in response to Modification Proposal 0090: "Revised DN Interruption Arrangements"

Thank you for the opportunity to respond to this Draft Modification Report (DMR).

National Grid NTS offers qualified support for this proposal as we currently have some outstanding questions regarding the impact of this Modification Proposal on the Emergency Arrangements. We offer the following comments, in line with the section headings in the DMR.

2. Extent to which implementation of the proposed modification would better facilitate the relevant objectives

1(b) so far as is consistent with (a), the coordinated, efficient and economical operation of (i) the combined pipe-line system, and/or (ii) the pipe-line system of one or more other relevant gas transporter(s)

National Grid NTS agrees that implementation of the Proposal through the UNC should help avoid industry fragmentation.

We recognise the Work Group's concerns that simultaneous implementation of the NTS Exit regime and DN Interruption might increase risks for the industry as a whole and consider that these should be mitigated through careful coordination of the timings of the respective Modifications to allow sufficient time for industry participants to prepare for regime change.

1(c) so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence

National Grid NTS agrees with the stated concerns in the DMR that failure to attract interest in the interruption tenders offered by one or more of the DNOs may require increased investment which in

turn could lead to an increase in costs to consumers. As detailed below, we have concerns that implementation of this Modification Proposal could also require increased investment in the NTS.

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

National Grid NTS agrees with the Proposer that implementing common arrangements through the UNC would avoid industry fragmentation.

However, with regard to security of supply and operation of the Total System, National Grid NTS agrees with the Work Group view that if implementation of the Modification Proposal were to lead to a reduction in interruptible customer numbers, diversity or gas quantities available at Emergency Stage 1, there could be more rapid progress to Stages 2 and 3 of a Network Gas Supply Emergency. We would go further and state that we consider that implementation of the Modification Proposal would be likely to result in such a reduction of interruptible customer numbers, diversity and gas quantities which would impact on the options available to the Network Emergency Coordinator (NEC) in the event of a Stage 1 Emergency being declared, thereby increasing the potential for a requirement to progress to firm load shedding more quickly than prior to implementation of this Modification Proposal.

National Grid NTS also recognises the view expressed by some User and Work Group members that implementation of this Modification Proposal could increase the probability of proceeding to Emergency Stage 4. We understand that this issue has already been raised with the Health and Safety Executive (HSE) and that discussions are progressing between the relevant Transporters and the HSE on this issue.

We also believe that implementation of the Modification Proposal has the potential to increase the Safety Monitor storage requirement. We perceive that the potential for an increased storage monitor requirement could be realised under two scenarios:

- a) Sites which are currently Interruptible (for Transportation capacity management purposes) which do not choose to tender for, or are not accepted for, Interruption under the proposed arrangements will be deemed to be Firm. It is reasonable to consider that such sites may not choose to maintain the processes, procedures and equipment required to respond quickly to a call to interrupt. Therefore, in the case of such sites being called on to cease taking gas in the future, under any Stage 3 Emergency call for Firm Load Shedding, it could be anticipated that the time lag between the call to cease taking gas and the site complying would be longer than is currently experienced.
- b) Under the existing UNC arrangements, Interruptible Supply Meter Points are required to be Daily Read and must have Daily Read Equipment (DRE) installed to facilitate this process. Under an Emergency scenario, Transporters are therefore able to know and monitor which sites are no longer taking gas. These sites are deemed to be “protected by isolation” and are not required to be included in the Safety Monitor volume. Under the proposed revised Interruption arrangements, sites which change from Interruptible to firm and are also under the threshold for a requirement to be Daily Read (where the Supply Point has an AQ of less than 2m therms) could be expected to request for the DRE to be removed in order to avoid the associated cost of such equipment. Once the equipment is removed, the relevant

Transporter loses the ability to monitor remotely such sites' compliance with isolation requests and these sites would therefore be required to be considered to be "protected by monitor" and the loads would be added to the appropriate Safety Monitor volume, as described in the Safety & Firm Gas Monitor Methodology¹.

4. The implications for Transporters and each Transporter of implementing the Modification Proposal, including

a) implications for operation of the System:

As outlined above in section 3, National Grid NTS considers that implementing the Modification Proposal could have implications for the options open to the NEC in the event of a Stage 1 Emergency, in terms of restricting those options.

b) development and capital cost and operating cost implications:

We consider that implementation of the Modification Proposal could impact on the level of NTS investment required. We believe it is plausible that some DN Operators could publish very low or no requirement for Interruption and that this will result in a rise in the level of Firm demand in that DN Operator's area. This, in turn, could impact on the level of Firm capacity requested from the NTS and cause a requirement for additional NTS investment, thereby increasing National Grid NTS' capital costs.

c) extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:

We would expect to be able to recover the additional capital costs for investment through the Transportation Owner (TO) revenue element of our price control.

d) analysis of the consequences (if any) this proposal would have on price regulation:

As stated above, we would expect to be able to recover additional investment costs through the TO revenue element of the our price control, but we have concerns that any additional costs will not be revealed until after the transmission price control revenue for the next period, commencing 1 April 2007, has been set.

5. The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal

We do not agree with the Proposer's statement that "*The NTS Transporter should not be affected by this Proposal*". We believe that the level of contractual risk we face may be impacted by this Modification Proposal through the aforementioned potential increase to NTS investment costs. As stated in section 4 above, we consider that implementation of this Modification Proposal has the potential to increase our investment costs. We note that the DN Operators now intend to publish their high level requirements for investment in January 2007 for a go-live in October 2010, however this may still prove too late for potential investment costs to be factored into the price control

¹ "Safety & Firm Gas Monitor Methodology", November 2005, published by National Grid Gas plc

revenue discussions for implementation from April 2007. Furthermore, as the requirement for investment will not be revealed until June 2007 at the earliest, we may not have sufficient lead time to realise the NTS investment required to supply the newly deemed Firm loads.

We consider that this represents an increase in the level of our contractual risk as we may not be able to achieve the investment required by a potentially greater DN capacity request under the proposed arrangements and also may not be able to recover the costs of the investment through the price control revenue mechanism.

6. The high level indication of the area of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users

We understand that there may be some changes required to the UK Link System, but do not foresee any changes required to our NTS specific computer systems.

9. Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal

National Grid NTS notes the comment in the DMR regarding the requirement to change the relevant Transporter's Safety Case and submit it for approval prior to implementation of this Modification Proposal. We now understand that Safety Case issues in relation to this Modification Proposal have been raised with the HSE by the NEC and that discussions are progressing between the NEC, relevant Transporters and the HSE on this issue. We await the outcome of these discussions.

10. Analysis of any advantages or disadvantages of implementation of the Modification Proposal

Advantages

National Grid NTS agrees that implementation of the Modification Proposal would enable DNs to determine the volume of Interruption they require and would enable Users flexibility in the Interruption allowance they require.

Disadvantages

National Grid NTS disagrees with the Proposer's view that the Proposal has no disadvantages. We agree with the Work Group highlighting the reduction in Interruptible Capacity available at Stage 1 of a Network Gas Supply Emergency. Furthermore, we consider that the following disadvantages could potentially result from implementation of the Modification Proposal:

- Increase in Safety Monitor storage requirement
- Increase in NTS investment costs, that are not likely to be captured by the current price control review
- Increased likelihood of more rapid progression through the Emergency Stages.

We note the comment that implementation timescales coincide for NTS Exit and DN Interruption reform and the consequential potential for significant implementation risks associated with this Modification Proposal. As previously stated, these risks should be mitigated through careful

coordination of the timings of the respective Modifications to allow sufficient time for industry participants to prepare for regime change.

With regard to the interaction of the NTS Exit and the DN Interruption reform proposals, we consider that the timing of the auction or tender processes in each Modification Proposal should also be carefully timed, such that the results of the DN Interruption tenders are able to inform the NTS Exit (Flat) Capacity auctions. It is therefore important that any changes that impact on the timing of these processes in either of the Modification Proposals is considered in light of their consequential impact on the other Proposal.

Furthermore, should any changes to investment lead times be implemented, as discussed in Ofgem's Draft Licence Modifications document², these will also need to be reflected in the processes for both of the above Modification Proposals.

15. Proposed implementation timetable (including timetable for any necessary information systems changes)

National Grid NTS agrees with the Work Group that it would be beneficial for the consultation timetable to take account of linked consultation periods.

19. Legal Text

We have no comments on the legal text.

Yours sincerely



Alex Thomason
Senior Commercial Analyst

² "Transmission Price Control Review: Draft Licence Modifications", ref 197/06, dated 15 November 2006