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5<sup>th</sup> December 2006

Dear Julian,

**Re: Modification Proposals 0116V/0116VD/0116A/0116BV/0116CV: “Reform of the NTS Offtake Arrangements”**

Northern Gas Networks wishes to place on record its qualified support for Modification proposal 0116VD raised by Scotia Gas Networks. Whilst recognizing the desire for a ranked order of the other proposals in this area, we believe it is more appropriate to focus on the most appropriate option at this stage with the UNC Modification process. Should preferences ultimately be sought at the point where the UNC Modification panel votes on implementation recommendations, NGN will fully consider all proposals together with any representations to determine a ranking (if any).

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

**Gas Transporter Licence Standard Special Condition A11.1**

**(a) the efficient and economic operation of the pipe-line system to which this licence relates;**

NGN concur with the views of the proposer of 116VD that implementation of this alternative Proposal would facilitate the achievement of this objective by enabling Users “to provide as accurate an indication as possible of their NTS Exit Capacity requirements beyond September 2010, acting on the most upto date information available. This would allow National Grid NTS to undertake better informed investment decisions and thereby better facilitate the efficient and economic operation of the NTS pipeline system”

**(b) so far as is consistent with sub-paragraph (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 transporters;**

The proposed regime will enable National Grid NTS to respond at times of high demand by efficiently trading off pipeline investment against buyback contracts, therefore enabling National Grid NTS to operate the system in a co-ordinated, efficient and economical manner.

**(d) so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition:**

**(i) between relevant shippers;**

Implementation will facilitate achievement of this objective by offering NTS Exit Capacity to all Users on a non discriminatory basis and allowing Users to better reflect the value they place on Firm NTS Exit Capacity.

**(ii) between relevant suppliers; and/or**

Similar implications as for Users.

**(iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers;**

Competition between DNs will be limited, with competition being restricted to a few instances to the procuring of flex capacity in shared zones (across DNs).

**(e) so far as is consistent with sub-paragraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards (within the meaning of paragraph 4 of standard condition 32A (Security of Supply – Domestic Customers) of the standard conditions of Gas Suppliers' licences) are satisfied as respects the availability of gas to their domestic customers; and**

No impact anticipated

**(f) so far as is consistent with sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code.**

No impact anticipated

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

Removing the right of Users to purchase Interruptible NTS Exit Capacity annually is likely to result in more NTS points acquiring annual firm capacity, which could quicken the onset of stage 2 or stage 3 of a Network Gas Supply Emergency.

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

**a) implications for operation of the System:**

Implementation will provide a series of system management tools which will better manage any transportation constraints.

**b) development and capital cost and operating cost implications:**

This (and all other proposals other than 116a) will have increased cost implications relating to these areas which must be captured in Ofgem's Impact Assessment on the potential new arrangements.

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

DNs are submitting costs associated with reform through the price control process (and in the Impact Assessment) which it would expect to recover.

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

Implementation will require changes to both the NTS and DNO's Transportation Charging Methodology Statements.

**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**

The auctioning of Flexibility capacity within zones between different Users, creates a risk of insufficient Flexibility capacity being available. It is important to recognise that any substantive process change introduces significant risk. The wide scope of the Modification Proposal(s) proposed changes, coupled with the relatively short lead time before any implementation is a further contractual risk. The required system build, system testing and training of personnel is a key element of any proposal implemented for summer 2007 and it will be challenging to complete these within the timescale. Consequently, the level of contractual risk associated with any proposal is significant.

DNs level of contractual risk will also be dependant on the outcome of its DN Incentive arrangements which Ofgem will produce based on their review of the anticipated enduring arrangements.

**6. The high level indication of the areas 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**

The existing IS infrastructure and predominately Gemini systems will facilitate much of the registration and auction facilities anticipated within the process. It is NGNs understanding that detailed and comprehensive DNO and User involvement will be a part of the System development and implementation phase.

**7. The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk**

These costs and issues will be captured in Ofgem's Impact Assessment

**8. The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party**

These costs and issues will be captured in Ofgem's Impact Assessment

**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**

DNOs regulatory obligations to satisfy their 1 in 20 requirements will be achieved by a combination of any proposals implemented in the areas of DN Interruption and Reform of NTS Offtake Arrangements. Whilst this 1 in 20 obligation will not alter, the manner in which such capacity is secured is manifestly changed and as such DNOs will need to be certain that they can secure their obligations in this regard via any proposals implemented.

**Analysis of any advantages or disadvantages of implementation of the Modification Proposal**

NGNs qualified support of Proposal 116VD is based on it providing the following advantages beyond the original proposal.

(i) Extension of Flexibility tolerance levels (from 1.5% to 3%) for the utilisation of NTS Exit (Flexibility) Capacity. This 3% level better reflects the dynamics of the DN's operational control (particularly at pressure controlled offtakes, which are outside of the DN's control).

(ii) Inclusion of negative flexibility zones in any net assessment of DN's usage of NTS Exit (Flexibility) capacity. This necessary inclusion provides the required assessment of the full impact on the system and provides some safeguard against inappropriately levied overrun charges.

(iii) Bringing forward dates for requesting changes in pressure commitments (from September to June) will ensure pressure and capacity requests are correctly co-ordinated.

This will ensure DNOs are not held liable for capacity that cannot be fully utilised where corresponding pressure is not provided.

**We have identified the following disadvantages:**

- (i) The primary disadvantage of this (and other proposed mods) is the requirement for more complex systems and processes to manage NTS Exit Capacity arrangements
- (ii) DNs are required to provide security in line with all other Users however given DNO's Licence conditions around financial security, this element of the proposal(s) is unnecessary and creates a layer of administration and costs which is not required.

**The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation**

Changes to DNOs safety cases needs consideration and amended as necessary subject to HSE agreement.

**Programme for works required as a consequence of implementing the Modification Proposal**

The system changes referred to in section 6 is anticipated as being substantial.

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

Implementation must take account of system changes, system testing and industry training to ensure an orderly implementation of any proposals in 2007. The impact must be fully considered by the price review and it may be a challenge to ensure consistency between the timetables for interruption reform, exit reform and GDPCR.

**Implications of implementing this Modification Proposal upon existing Code Standards of Service**

None identified

Yours faithfully

Robert Cameron-Higgs  
Network Code Manager  
Northern Gas Networks