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Dear Julian,

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

Wales & West Utilities offers qualified support for the implementation of Modification Proposal 0116VD.

WWU also considers that in the absence of a unanimous decision supporting the implementation of 0116V, 0116BV, 0116CV or 0116VD, Mod 0116A should be implemented as this would provide continuity to the current regime whilst other options are reconsidered.

Our comments, relating to 0116VD, are as follows:

**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;*

The intent of the proposal is to allow National Grid NTS to make better informed investment decisions and hence to demonstrate its compliance with this licence condition.

(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;*

Proposal 116VD better allows transporters to coordinate their planning and hence their system operation by separating the requests from pressure and capacity. These two elements need to be dealt with through an iterative process and making the DN applications sequential, rather than combined, will allow for improved decision making.

24 hour gas escape number  
Rhif 24 awr os bydd nwy yn gollwng

**0800 111 999\***

\*calls will be recorded and may be monitored  
caiff galwadau eu recordio a gellir eu monitro

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However the required long term commitment required by the Transmission operator from the Distribution Network operators could build costs into the operation of the combined pipe-line systems. In addition, the allocation method proposed for the flexibility product, which will be operating in a constrained market, could lead to investment within the DN. Therefore the implementation of the proposal may lead to a perceived deterioration in the efficient and economic operation of the combined pipe-line systems.

- (c) *so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;*  
The additional costs, associated with implementation and operation of the proposed mechanisms, are inconsistent with efficient discharge of licence obligations.
- (d) *so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition:*
- (i) *between relevant shippers;*  
Implementation should 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 placed on Firm NTS Exit Capacity and the costs of constraint management.
  - (ii) *between relevant suppliers; and/or*  
As for Shippers
  - (iii) *between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers;*  
WWU agrees that implementation should facilitate achievement of this objective for the reasons of non-discrimination outlined above in respect of Shippers. However competition between DNs would remain limited, were the Proposal to be implemented, with few locations in which DNs would be competing to acquire NTS capacity.
- (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
- (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

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

WWU agrees with the Proposer that implementation would:

- provide National Grid NTS with improved system management tools;
- provide an enduring regime which aims to limit utilisation of within day linepack variations to within expected system capability;
- further improve operation of the system ensuring DN Operators' requirements are taken into account.

WWU are aware of the industry concern regarding Network Gas Supply Emergency scenarios. This is a concern that has also been expressed during consultation on DN Interruption Reform. However acceleration through the stages of an emergency may not be the outcome depending on other system management tools being available to the Network Operator.

By including some arrangements in documents other than the UNC, implementation would lead to an extension of arrangements outside the UNC and hence increase industry fragmentation.

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

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

Implementation would “provide a wider range of system management tools to better manage any transportation constraints.” However one effective, existing tool, for managing transportation constraints has been removed – that is NTS interruption.

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

WWU agrees that implementation will have associated cost implications of systems development and ongoing operational costs. These have been captured as part of Ofgem’s Impact Assessments on the potential new arrangements. This Impact Assessment is currently being updated, however, the output will not be available to Users prior to the completion of the consultation phase of the UNC Modification Process.

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

The Proposer stated that costs “which National Grid NTS incur as a result of implementation of this Proposal that are deemed to be in accordance with Network Sales requirements are not intended to be recovered from Users.”

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

Changes will be required to the National Grid NTS Gas Transmission Transportation Charging Methodology Statement and DN Operators’ Gas Distribution Transportation Charging Methodology Statements.

**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**

Implementation of the regime change, and therefore by implication this proposal, will move the balance of risk away from the Transmission Transporter to other system Users. The DN operators will be exposed to additional risk through the user commitment requirement, the allocation process for the flexibility product and the changes to the payment flows. The level of contractual risk for each DN Transporter will be dependant on the outcome of its DN Incentive arrangements which are to be brought forward by Ofgem based on a view of the likely enduring arrangements.

**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**

In the event of implementation, WWU understands that National Grid intends using the current IS infrastructure and Gemini system to facilitate the registration of NTS Exit Capacity (except where Offtake Profile Notices are used to apply for Daily NTS Exit (Flexibility) Capacity). The Gemini system is used to manage the current Entry Capacity auction process and similar functionality is expected to be made available to allow a User to:

- make bids and offers in respect of NTS Exit Capacity;
- view its Capacity holdings and aggregate Capacity information;

WWU acknowledges that National Grid intends industry engagement to be undertaken during the IS development and implementation phase.

Specifically WWU will require access to, and appropriate training on, the Gemini system to allow us to participate in auctions, etc.

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

WWU agree that administrative and operation costs on Users have been captured as part of Ofgem's Impact Assessments on the potential new arrangements. This Impact Assessment is currently being updated, however, the output will not be available to Users prior to the completion of the consultation phase of the UNC Modification Process.

Users would need to renegotiate contracts beyond the UNC, align arrangements with downstream operators, change their operations and to rewrite their own systems to accommodate the new regime.

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

Existing and prospective NTS connected consumers and Connected System Operators would be impacted by implementation of this Proposal in those areas described above.

#### **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**

WWU is currently assessing the amendments required to our Safety Case. This represents both a time constraint and a risk. The ability to demonstrate compliance with 1-in-20 planning requirements and emergency arrangements will be necessary. Any changes will to be submitted to, and approved by, the Health & Safety Executive prior to implementation.

In addition, implementation will require establishment of new contractual arrangements between DNs and Users and consequently in the contracts between Users and their customers.

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

##### **We have identified the following advantages:**

- Provides all Users (Shippers and DNO Users) with the ability to:

- obtain the same type of Capacity products in the same Capacity registration processes for Capacity utilisation over the same periods and thereby avoid scope for unfair or unduly discriminatory arrangements;
- signal their long term Capacity requirements, backed by a financial commitment, to support efficient and economic NTS investment planning;
- place their value on NTS Exit Capacity and the costs of constraint management;
- provide certainty to Users by confirming holdings well in advance of gas flow.
- Provides National Grid NTS with a range of system management tools to better manage the NTS in a safe, economic and efficient manner;
- Provides Users with aggregated information in respect of Capacity applications and bookings to better inform User intentions in respect of future use of the NTS;
- Provides a better fit of NTS Exit Capacity arrangements under a divested industry structure that exists following the sale of a number of distribution networks in 2005.
- Better reflects the dynamics of the network and a DN Operators' operational control, particularly at pressure controlled offtakes. This will ensure Users are not inappropriately penalised for something they can not control;
- Accounts for both positive and negative NTS (Exit) Flexibility Capacity, thereby taking account of the full impact on the system;
- Ensures that capacity and pressure requests can be co-ordinated, improving efficiency in arrangements. They will also ensure DN Operators are not held liable for capacity that can not be fully utilised where corresponding pressure is not provided;
- By changing overrun arrangements, National Grid NTS is still incentivised to take all appropriate steps to ensure they continue to deliver gas and remove the double jeopardy, ensuring the overrunning party is not exposed to disproportionate penalties

**We have identified the following disadvantages:**

- More complex systems and processes are required to manage NTS Exit Capacity arrangements.
- May have a knock-on effect on electricity balancing since CCGTs may be discouraged from operating flexibly
- Potentially conflicts with EU Regulations
- Has a disproportionate impact on bi-directional sites
- Potentially damages security of supply
- Discourages competition among Shippers
- Imposes significant complexity and industry costs

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

Implementation is not required to enable each Transporter to facilitate compliance with safety or other legislation. Changes to the Transporters' Safety Cases would need to be considered and amended as necessary, subject to HSE agreement.

**The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence**

Implementation is not required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence.

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

No programme of works has been provided but it is anticipated that the system changes identified in Section 6 above would be major.

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

WWU recognises the importance of all linked consultation periods being aligned in order to allow considered responses and consideration of the proposed changes 'in the round'. The implementation timetable will need to take this and potential system changes into account.

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

None identified

**Further Comments**

WWU reiterates the concern expressed during the development of this proposal that simultaneous implementation of the DN Interruption Reform (Modification Proposal 0090 "Revised DN Interruption Arrangements") and this Proposal will increase risks for the industry as a whole.

Yours faithfully

Liz Spierling  
Commercial Manager  
Wales & West Utilities