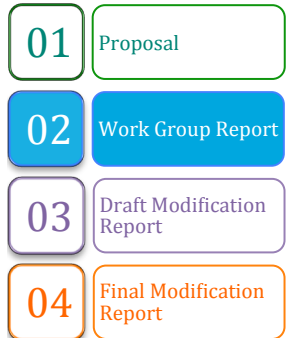


Stage 02: Work Group Report

0351:

Enduring Exit Overruns – Deemed Applications

What stage is this document in the process?



This Modification Proposal addresses an identified issue with the current deemed application arrangements where a User may, as a result of multiple deemed applications at the same NTS Exit Point, be allocated Enduring Annual NTS Exit (Flat) capacity in excess of their highest historic Chargeable NTS Exit (Flat) Overrun quantity at that NTS Exit Point.



The Workgroup recommends
This Proposal is sent to consultation



High Impact:



Medium Impact:
Exit Users & National Grid NTS



Low Impact:

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About this document:

The purpose of this report is make a recommendation to the Panel, to be held on 17 February 2011, on whether Modification 0351 should proceed to the Consultation Phase and to submit any further recommendations in respect of the modification.



3 **Any questions?**

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Joint Office



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1 Summary



Why Change?

Any User who has a Chargeable NTS Exit (Flat) Overrun in excess of 100,000 kWh/day, in any 12 month period ending March 31st, is deemed to have made an application for Enduring Annual NTS Exit (Flat) Capacity equal to the highest Chargeable NTS Exit Flat Overrun quantity by that User at that NTS Exit Point in that 12 month period. It has been identified that the current arrangements for deemed applications may result in a User being allocated, as a result of multiple deemed applications at the same NTS Exit Point, Enduring Annual NTS Exit (Flat) capacity in excess of their highest historic Chargeable NTS Exit (Flat) Overrun quantity at an NTS Exit Point.

Additionally industry concerns have been raised regarding the fixed lead time of Y+4 for deemed applications under the current arrangements and a more flexible lead time solution sought.

Solution

National Grid NTS is proposing a solution that determines the Deemed Application Amount by taking into account the previous highest Chargeable NTS Exit (Flat) Overrun amount (if any) by the same User, at the same NTS Exit Point that resulted in a deemed application being allocated. This would only occur where the highest Chargeable NTS Exit (Flat) Overrun being assessed occurred prior to the effective date of the previous deemed application.

This Proposal also ensures that, where a deemed application would contribute to the release of Enduring Annual NTS Exit (Flat) Capacity in excess of the unsold levels at the relevant NTS Exit Point in the Annual Application Window, the effective date of such release would be in accordance with the principles detailed in the Exit Capacity Release Methodology statement (ExCR) and therefore not necessarily restricted to Y+4.

For clarity, this Proposal does not affect the Chargeable NTS (Flat) Overrun amount, but will, under specific scenarios, change how the Deemed Application Amount is determined where a User has a previous deemed application at the same NTS Exit Point.

Impacts & Costs

[AN ESTIMATE OF THE SCALE OF THESE IMPACTS WOULD BE HELPFUL IN ORDER TO GAUGE POTENTIAL BENEFITS AND THEIR SIGNIFICANCE.] The impact of the Proposal would be as follows:

- Reduce the aggregate quantity of Enduring Annual NTS Exit (Flat) capacity deemed to have been applied for by a User as a direct result of a Chargeable NTS Exit (Flat) Overrun, where that User has had a previous deemed application allocated, and where the effective date of that previous deemed application is in advance of the Gas Day the Chargeable NTS Exit (Flat) Overrun being assessed occurred.

What is a deemed application?

Please refer to section 2 for a detailed explanation.

What is Enduring Annual NTS Exit (Flat) Capacity?

Enduring Annual NTS Exit (Flat) Capacity is defined under UNC TPD B3.1.5 and is Annual NTS Exit (Flat) Capacity that may be applied for and held by a User from an effective date.

What is an NTS Exit Point? An "NTS Exit Point" is a System Point comprising one or more Individual System Points at which gas can flow out of the NTS (and either out of the Total System or into an LDZ) as defined under UNC TPD A3.4.1

What is an Annual Application Window? The "Annual Application Window" in a Gas Year (Y) is the period commencing at 08:00 hours and ending on 17:00 hours on each Business Day in July as defined under UNC TPD B3.1.9



What is a chargeable NTS Exit (Flat) Overrun?

If for any reason, in relation to an NTS Exit Point and a Day the quantity of gas offtaken by a User at the NTS Exit Point on the Day exceeds the User's Fully Adjusted Available NTS Exit (Flat) Capacity (an "**individual flat overrun**") and (the aggregate quantity of gas offtaken by all Users at the NTS Exit Point on the Day exceeds the sum of the Users' Fully Adjusted Available NTS Exit (Flat) Capacity (an "**aggregate flat overrun**") there is a "**Chargeable NTS Exit (Flat) Overrun**", and the User shall pay a charge ("**NTS Exit (Flat) Overrun Charge**") in respect of NTS Exit Capacity at that NTS Exit Point on that Day, as defined under UNC TPD B3.13.1

What is unsold Baseline NTS Exit (Flat) Capacity?

The "**Baseline NTS Exit (Flat) Capacity**" is the amount of NTS Exit (Flat) Capacity which National Grid NTS is required to make available to Users in relation to each Day in that Gas Year (or part thereof) pursuant to National Grid NTS's Transporters Licence, hence the unsold quantity is the Baseline NTS Exit (Flat) Capacity minus the sold Baseline NTS Exit (Flat) Capacity.

- Provide for the timely release of any Enduring Annual NTS Exit (Flat) Capacity in excess of the unsold Baseline NTS Exit (Flat) Capacity as a result of a deemed application.
- Provide more concise, efficient and economic investment signals to National Grid NTS from the release of any incremental Enduring Annual NTS Exit (Flat) capacity as a direct result of a deemed application(s).

Costs:

xoserve have provided a Rough Order of Magnitude (ROM) estimate of the likely costs associated with implementation:

Stand-alone Implementation will cost at least **£91k**, but probably not more than **£151k**

Stand-alone Implementation of all Deemed Exit Overrun rules (Mod195av + Mod0351) will cost at least **£156k**, but probably not more than **£216k**. It is assumed that this would reduce Exit Phase III costs by £0-60k

Implementation

National Grid NTS proposed that, to minimise implementation costs, this modification should be implemented prior to April 2011. However, the Workgroup recognised that this was unlikely to be achieved and recommended implementation immediately following a direction to implement.

The Case for Change

In the absence of the changes detailed in this Modification Proposal, Users may hold (and be financially committed to) NTS Exit (Flat) Capacity they have no intention of utilising. By eliminating the cumulative effect of multiple deemed applications, any Enduring Annual NTS Exit (Flat) Capacity released as a result of a deemed application will be more reflective of the relevant Users highest historic offtake flows. This will help to ensure costs are properly allocated, thereby facilitating effective competition, and may also result in clearer investment signals to National Grid NTS.

Recommendations

The Workgroup recommends that the Modification Panel determines that:

- Modification 0351 should be issued to consultation;
- An implementation cost estimate should be provided for inclusion in the Draft Modification;
- Legal text should be provided for inclusion in the Draft Modification Report.

2 Why Change?

Implementation of Modification Proposal 0195AV established the basis for the reform of NTS Exit Capacity booking arrangements that, in full, are scheduled to come into effect on 1 October 2012.

As part of these arrangements any User who has a Chargeable NTS Exit (Flat) Overrun in excess of 100,000 kWh/day, in any 12 month period ending March 31st ("Relevant Period"), is deemed to have made an application for Enduring Annual NTS Exit (Flat) Capacity at that same NTS Exit Point equal to the highest Chargeable NTS Exit (Flat) Overrun amount (the Deemed Application Amount) which the User incurred in that same Relevant Period at that same NTS Exit Point. The application would be made on the first day of the next following Annual Application Window (Gas Year Y) and shall be for Gas Year Y+4 and subject to User Commitment in accordance with the principles in the Exit Capacity Release Methodology Statement.

For clarity, these arrangements will be applied from the 1st October 2012 onwards; hence the first Relevant Period where any Chargeable NTS Exit (Flat) Overruns result in a deemed application is the 1st October 2012 through to 31st March 2013. The first full 12 month Relevant Period is therefore the 1st April 2013 through to 31st March 2014.

It has been identified that the current arrangements for deemed applications may result in a User being allocated, as a result of multiple deemed applications, Enduring Annual NTS Exit (Flat) capacity in excess of their highest historic Chargeable NTS Exit (Flat) Overrun quantity at an NTS Exit Point. For example, a User who incurs a Chargeable NTS Exit (Flat) Overrun of 200,000 kWh/day in two consecutive Relevant Periods at the same NTS Exit Point, is deemed to place separate and distinct applications for 200,000 kWh/day of Enduring Annual NTS Exit (Flat) Capacity in consecutive Annual Application Windows following each Relevant Period. This results in a cumulative effect whereby the cumulative Deemed Application Amount is 400,000 kWh/day and in excess of that Users highest Chargeable NTS Exit (Flat) Overrun quantity of 200,000 kWh/day.

Additionally concerns have been raised by the industry with respect to the fixed Y+4 lead time of deemed applications under the current arrangements and that any Enduring Annual NTS Exit (Flat) Capacity release resulting from a Deemed Application Amount should not necessarily be constrained by the fixed Y+4 lead time.



What is a Gas Year?

A Gas Year is the period 1st October of Calendar year Y to 30th September Calendar year Y+1

3 Solution



What is an effective date?

For the purposes of this modification proposal, the effective date means the first date where the capacity from a deemed application is first effective.

National Grid NTS is proposing a solution that determines the new Deemed Application Amount by taking into account the previous (if any) Deemed Application by the same User, at the same NTS Exit Point, where the effective date of that previous Deemed Application is greater than the date of the Chargeable NTS (Flat) Overrun that triggered the new Deemed Application. This Proposal does not affect the Chargeable NTS (Flat) Overrun amount, but does affect how the Deemed Application Amount is calculated.

This Proposal also provides greater flexibility in lead time where the deemed application would result in the release of Enduring Annual NTS Exit (Flat) Capacity over and above the unsold Baseline NTS Exit (Flat) Capacity amount.

National Grid NTS proposes, for the same User at the same NTS Exit Point, that where the effective date of the previous deemed application (if any) is greater than the date of the highest Chargeable NTS (Flat) Overrun being assessed, the highest Chargeable NTS Exit (Flat) Overrun amount that resulted in the previous deemed application (if any) is deducted from the highest Chargeable NTS Exit (Flat) Overrun Amount being assessed (that occurred within the most recent Relevant Period).

If, after deduction, the remaining quantity is greater than or equal to 100,000 kWh/day then that remaining quantity is deemed to have been applied for in the next July Annual Application Window.

This would only apply where there has been, for the same User at the same NTS Exit Point, a previous deemed application and where the highest Chargeable NTS Exit (Flat) Overrun amount being assessed occurred prior to the effective date of the previous deemed application (if any) that resulted in an allocation of Enduring NTS Exit (Flat) Capacity. If the highest Chargeable NTS Exit (Flat) Overrun amount being assessed occurred on or after the effective date of the previous deemed application (for the same User at the same NTS Exit Point) then the previous deemed application is ignored for the purposes of calculating the Deemed Application Amount.

At a high level, the proposed logic in determining the quantity (kWh/day) of a Deemed Application for a User is as follows:

Where:

A = highest Chargeable NTS Exit (Flat) Overrun amount for the Relevant Period being assessed.

B = highest Chargeable NTS Exit (Flat) Overrun amount from a previous Relevant Period that triggered the previous deemed application.

1. Is A greater than or equal to 100,000kWh? If YES proceed to step 2. If NO, then no deemed application.
2. Is there a previous deemed application at the same NTS Exit Point by the same User? If YES proceed to step 3. If NO then the deemed application amount equals A.
3. Is the Gas Day that A occurred on, less than the effective date of the Enduring

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application? If YES proceed to step 4. If NO then the deemed application amount equals A.

4. Is A minus B greater than or equal to 100,000kWh? If Y then Deemed Application Amount equals A minus B. If NO the no deemed application.

Additionally, National Grid NTS is also proposing that, where a deemed application would result in the release of Enduring Annual NTS Exit (Flat) Capacity in excess of the unsold Baseline NTS Exit (Flat) Capacity at that NTS Exit Point, the lead time principles for such release will be in accordance with TPD UNC B3.2.1 (for an application in the Annual Application Window for Enduring Annual NTS Exit (Flat) Capacity) and the Exit Capacity Release Methodology Statement. This ensures that where National Grid NTS alter the default earliest lead time date at an NTS Exit Point(s) in the Annual Application window (for example, from Y+4 to Y+3 or from Y+4 to Y+5) and Enduring Annual NTS Exit (Flat) Capacity in excess of the unsold Baseline NTS Exit (Flat) Capacity is released, that the deemed application amount will also be released from the altered lead time.

4 Relevant Objectives

The Proposer believes that 0351 will better facilitate the achievement of **Relevant Objectives a & b**

Proposer's view of the benefits of 0351 against the Code Relevant Objectives	
Description of Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	See explanation below
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.	See explanation below
c) Efficient discharge of the licensee's obligations.	None
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.	None
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.	None
f) Promotion of efficiency in the implementation and administration of the Code	None

The Applicable sections of the Transporters Licenses

- Standard Special Condition A11 a).

National Grid NTS believe that this Proposal ensures that any Enduring Annual NTS Exit (Flat) Capacity released, as a result of deemed applications, will be more reflective of the historic User Daily Exit Quantity (where User Daily Exit Quantity encompasses the User Daily Quantity Output at NTS Direct Connects and the end of day gas flow at an NTS/LDZ Offtake by a DNO User) in the enduring period. This could reduce the risk of the inefficient release of Enduring Annual NTS Exit (Flat) Capacity that the User may have no intention of utilising whilst additionally aiding security of supply by facilitating both clearer investment signals and the efficient and economic release of Annual Enduring NTS Exit (Flat) Capacity.

- Standard Special Condition A11 b).

National Grid NTS feel this Proposal would improve the efficiency and security of the entire network by:

- Reducing the risk of National Grid NTS receiving investment signals from deemed applications that may be inflated when compared to the historic User Daily Exit Quantities. Investment signals are likely to be more in line with historic User Daily Exit Quantities adding clarity to the incremental process and hence would result in more economic and efficient investment given that incremental signals are likely to be more reflective of the Users actual requirements.
- Setting release obligations (in accordance with the Gas Transporter Licence in respect of the NTS) at NTS Exit Points that are better aligned to the actual requirements of Users. This will provide greater clarity to National Grid NTS when making decisions regarding the release of NTS Exit Capacity amounts (including any discretionary release).
- Removing the fixed Y+4 lead time for any incremental Enduring Annual NTS Exit (Flat) Capacity released (as a result of a deemed application), this Proposal better facilitates the timely, economic and efficient release of Enduring Annual NTS Exit (Flat) Capacity by bringing the lead time principles for deemed applications in line with Enduring Annual NTS Exit (Flat) Capacity released as a result of applications from Users in the July Annual Application window.

5 Impacts and Costs



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/>

Costs

Indicative industry costs – User Pays
Classification of the Proposal as User Pays or not and justification for classification
For further discussion at workstream
Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification
Proposed charge(s) for application of Users Pays charges to Shippers
Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from xoserve

Impacts

Impact on Transporters' Systems and Process	
Transporters' System/Process	Potential impact
UK Link	<ul style="list-style-type: none"> Depending on the implementation date, it is expected that the UK-link functionality will be included as part of the Gemini Exit Phase 3 system development
Operational Processes	<ul style="list-style-type: none"> None envisaged
User Pays implications	For further discussion

Impact on Users	
Area of Users' business	Potential impact
Administrative and operational	<ul style="list-style-type: none"> This Modification Proposal potentially allows for the more accurate alignment of a Users NTS Exit (Flat) Capacity holding to their historic offtake quantities.

Impact on Users	
Development, capital and operating costs	<ul style="list-style-type: none"> This Modification Proposal is expected to reduce costs to Users by potentially reducing the quantity of Enduring Annual NTS Exit (Flat) Capacity the User may otherwise have been financially committed to.
Contractual risks	<ul style="list-style-type: none"> National Grid NTS does not envisage any Contractual risks but would welcome responses from users in this area
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> National Grid NTS is not aware of any such implications but would welcome responses from users in this area

Impact on Transporters	
Area of Transporters' business	Potential impact
System operation	<ul style="list-style-type: none"> National Grid NTS does not believe this Proposal, if implemented, would adversely affect the physical operation of the System and would provide for greater certainty of offtake flow.
Development, capital and operating costs	<ul style="list-style-type: none"> National Grid NTS believes that this Proposal, if implemented may have cost implications with regards to the system changes identified.
Recovery of costs	<ul style="list-style-type: none"> For further discussion
Price regulation	<ul style="list-style-type: none"> None
Contractual risks	<ul style="list-style-type: none"> None
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"> None
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
UNC TPD B3	Changes to the deemed application rules.

Impact on UNC Related Documents and Other Referenced Documents	
Related Document	Potential impact
Network Entry Agreement (TPD I1.3)	None
Exit Capacity Release Methodology Statement (ExCR)	Deemed applications need to be catered for within the ExCR, this is expected to be included in a future ExCR consultation.
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
Transportation Pricing Methodology Statement	None

Other Impacts

Item impacted	Potential impact
Security of Supply	National Grid NTS feel this proposal may enhance Security of Supply through more efficient release of NTS Exit (Flat) Capacity.
Operation of the Total System	National Grid NTS feel this proposal better facilitates the operation of the Total System
Industry fragmentation	None
Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties	None

6 Implentation

To ensure inclusion into the Gemini Exit Phase 3 system development (which National grid NTS believes to be the most economic and efficient solution) it will be necessary for a modification implementation date prior to 1st April 2011. However National Grid NTS expects the timetable to be further discussed at the Transmission Workstream

7 The Case for Change

This section allows further development of the case than is included in the earlier summaries

Advantages

- Insert Bullet here

Disadvantages

- Insert Bullet here



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Use this column in a Q and A style for explanations, in order to preserve the flow of the main text.

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8 Recommendation



The Work Group invites the Panel to:

- AGREE that Modification Proposal 0351 be submitted for consultation; and
- AGREE that Code Administrators should issue 0351 Draft Modification Report for consultation with a close-out of dd month 2011 and submit results to the Panel to consider at its meeting on[Panel meeting date].

Insert heading here

[Insert relevant text or delete box]