

Stage 02: Workgroup Report

0376/0376A:

Increased Choice when Applying for NTS Exit Capacity

What stage is this document in the process?



0376: To increase the level of choice available to Users 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.

0376A: To increase the level of choice available to Users when applying for Enduring annual NTS Exit (Flat) capacity by enabling an adhoc application to request a Capacity start date beyond Y+4 up to Y+6 and an application within the July Application Window to request a non October start date.



The Workgroup recommends that these self-governance modifications should now proceed to Consultation.



High Impact:

NTS Exit Users, Shipper Users, DN Users and National Grid NTS

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About this document:

The purpose of this report is make a recommendation to the Panel, to be held on 18 August 2011, on whether Modifications 0376 and 0376A are sufficiently developed to proceed to consultation and to submit any further recommendations in respect of the assessment of these self-governance modifications.



3 Any questions?

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1 Summary

Is this a Self-Governance Modification?

The Modification Panel has determined that these are self-governance modifications.

Why Change?

To increase the level of choice available to Users when applying for enduring annual NTS exit (flat) capacity. Currently, enduring annual NTS exit (flat) capacity can be applied for during the annual application window in July for an October year+4, +5 or +6 start date. If this does not meet the User's desired application date or first capacity date requirements, an ad-hoc application process can be used. However, the ad-hoc process is restricted to Y+4, which may not provide sufficient time or certainty to the User. In addition, the minimum threshold for an application is 10GWh/day, which may prevent Users booking the capacity level they require. These represent significant risks when investing in a Power Station or Storage development and may lead to inefficient investment in the NTS to meet overstated capacity requirements.

Solution

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

Ad hoc application Process:

- Extend the time for applications from Y+4 to Y+6;
- Reduce the minimum threshold application from 10 GWh/day to 1 GWh/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+6 rather than just 1st October.

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Users have indicated via UNC Workgroup 0376 they wish to see additional choice introduced to the Ad hoc Application Process and the Annual Application Window process with respect to Enduring annual NTS Exit (Flat) Capacity. This can be achieved through introducing the following changes into the UNC:

Ad hoc Application Process:

- Extend the time for applications from Y+4 to Y+6

Annual Application Window:



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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- Allow applications during the July Annual Application Window for start dates of the 1st of any month between October Y+4 and September Y+6 rather than the 1st October only.

Impacts & Costs

National Grid NTS has requested a Rough Order Magnitude cost from xoserve to assess the system development costs if either modification were implemented.

Implementation

As these are self-governance modifications, implementation can be 16 business days after a Modification Panel decision to implement.

The Case for Change

The UNC does not provide the flexibility or certainty that some Users may require when applying for NTS Exit Capacity. Increasing flexibility would offer the potential for reducing User costs and project uncertainty. In addition, implementation would reduce the risk of overstated bookings and, potentially, inefficient investment by National Grid NTS. Implementation would enable Users to make well founded investment decisions and offers the flexibility for Users to tailor their capacity bookings more closely to their true requirements. Implementation would therefore better facilitate the Relevant Objectives.

Recommendations

The Workgroup considers that these self-governance modifications should be issued for consultation.

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 1 October Gas year Y+4, Y+5 and Y+6. However, this October start date might not suit the User'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 may result in inefficient system investment and increased cost to customers because Users are constrained to timelines that might not be suitable. For example, a User 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 may 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 Users can also apply for Enduring Annual NTS Exit (flat) Capacity using an ad-hoc process. However, the ad-hoc process is restricted that a User cannot signal a Capacity start date that is later than the 1 October Y+4. This limitation does not provide sufficient time where the User wishes to provide National Grid NTS with a longer signal for their Capacity requirement and give National Grid NTS sufficient time to reinforce the network, and hence may not provide sufficient time nor certainty to the User. 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 Gown/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

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

Ad hoc application Process:

- Extend the time for applications from Y+4 to Y+6,
- Reduce the minimum threshold application from 10 GWh/day to 1 GWh/day.

The minimum threshold application has been proposed at 1 GWh/day in light of the data produced by National Grid NTS from action 0503, (<http://www.gasgovernance.co.uk/0376/020611>) which shows only 10 applications in 2010 for incremental capacity in excess of 1 GWh/day. In addition when replacing existing CCGT powerstations with new plant in the coming decade the combination of increased efficiency and increased electrical output will typically result in incremental capacity volumes of just over 1GWh/day.

	MWe	Efficiency	Gas Capacity kWh/day
Existing	795	0.5	38,160,000
Repowered Site	900	0.55	39,272,727
Incremental capacity			1,112,727

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+6 rather than just 1st October.

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To provide more choice for Users when applying for Enduring annual NTS Exit (Flat) Capacity, the following changes to the UNC are proposed.

Ad hoc Application Process:

- Extend the time for applications from Y+4 to Y+6

Annual Application Window:

- Allow applications made during the July Annual Application Window for Enduring Annual NTS Exit (Flat) Capacity to be registered with effect from the 1st of any month in Gas Year Y+4, Y+5 and Y+6 rather than just the 1st October within each Gas Year.

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4 Relevant Objectives

Implementation will better facilitate the achievement of Relevant Objectives a, b, and c.

Benefits against the Code Relevant Objectives	
Description of Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	Yes
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.	No
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

Standard Special Condition A11 a). Efficient and economic operation of the pipe-line system.

- Implementation of this modification would facilitate the provision of more accurate capacity requirements by Users. This would aid National Grid NTS to effectively plan the development of the Transmission system on a more economic and efficient basis.

Standard Special Condition A11 b). Co-ordinated, efficient and economic operation of (i) the combined pipeline system, and/or (ii) the pipeline system of one or more other relevant gas transporters

Enabling applications during the Annual Application Window for specified dates other than the 1st October is expected to result in more efficient investment by National Grid NTS and lower costs to customers. If Users can specify a non 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

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needs of the customer. This means that National Grid NTS 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 User wants to commission a CCGT starting in April. Currently a User would need to apply for Enduring Annual NTS Exit (Flat) Capacity to be registered with effect from the 1 October six months earlier than the date that is required. The User then has to pay exit capacity charges for those months even though they cannot use the Capacity. Thus, the proposed change would enable better facilitation of Relevant Objective (b).

Standard Special Condition A11 c). Efficient discharge of the licensee's obligations

- By extending ad hoc applications from Y+4 to Y+6, Users may give more advance notice to National Grid NTS of their capacity requirements. 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 and in the most efficient manner. This would therefore facilitate achievement of GT Licence obligations, enabling better facilitation of Relevant Objective (c).

5 Impacts and Costs

Consideration of Wider Industry Impacts

No adverse impact on wider industry developments is anticipated.

Costs

Indicative industry costs – User Pays	
Classification of the Proposal as User Pays or not and justification for classification	
System costs are currently being identified by xoserve	
Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification	
<p>0376 -Not applicable.</p> <p>0376A – to be confirmed</p>	
Proposed charge(s) for application of Users Pays charges to Shippers	
<p>0376 -Not applicable.</p> <p>0376A – to be confirmed</p>	
Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from Xoserve	
<p>0376 - Not applicable.</p> <p>0376A – to be confirmed</p>	

Impacts

Impact on Transporters' Systems and Process	
Transporters' System/Process	Potential impact
UK Link	<ul style="list-style-type: none"> 0376 – None 0376A – Potential costs
Operational Processes	<ul style="list-style-type: none"> National Grid may be required to amend its operational and planning processes
User Pays implications	<ul style="list-style-type: none"> 0376 - None 0376A – Potential costs

Impact on Users	
Area of Users' business	Potential impact

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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.co.uk/sites/default/files/0565.zip>

Impact on Users	
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"> Reduced due to Users being able to request variable start months via the annual application process.
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> None.

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"> 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"> 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
For 0376 TPD section B section 3.	

Impact on Code	
<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 1GWh (0376 only) • Change from Y+4 to Y+6 • Change from Y+4 to Y+6

Impact on UNC Related Documents and Other Referenced Documents	
Related Document	Potential impact
ExCR	Changes may need to be reflected in document
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

As self-governance procedures are proposed, implementation could be 16 business days after a Modification Panel decision to implement.

7 The Case for Change

In addition to the issues identified above, this modification would better align Entry and Exit processes.

8 Legal Text

For 0376

Proposer's Suggested Legal Text

TPD Section B; SYSTEM USE AND CAPACITY

Amend paragraph 3.2.1, 3.2.3, 3.2.4, 3.2.8 and 3.2.10 as set out below:

- 3.2.1 In each Gas Year (Y) Users may apply for Enduring Annual NTS Exit (Flat) Capacity to be registered as held with effect from the first Day of any month within Gas Years Y+4, Y+5 or Y+6 or in accordance with the provisions of 3.2.3(b), at each NTS Exit Point, in accordance with the further provisions of this paragraph 3.2 and having regard to the Exit Capacity Release Methodology Statement.
- 3.2.3 An application for Enduring Annual NTS Exit (Flat) Capacity:
- (a) during an Annual Application Window may be for an amount of Enduring Annual NTS Exit (Flat) Capacity equal to:
 - (i) where paragraph 3.2.25 applies in relation to a User and an NTS Exit Point, the sum of the deemed application amount and any additional Enduring Annual NTS Exit (Flat) Capacity (if any) which the User wishes to apply for at the NTS Exit Point; or
 - (ii) where paragraph 3.2.25 does not apply in relation to a User and an NTS Exit Point, the Enduring Annual NTS Exit (Flat) Capacity (if any) which the User wishes to apply for at the NTS Exit Point;
 - (b) may be made by a User at any time between 1 October and 30 June in Gas Year Y where the application is:
 - (i) in respect of a New NTS Exit Point; or
 - (ii) for an amount of Enduring Annual NTS Exit (Flat) Capacity which:
 - (1) if accepted would result in Users holding in aggregate an amount of Enduring Annual NTS Exit (Flat) Capacity in excess of 125% of the Baseline NTS Exit (Flat) Capacity at the NTS Exit Point in respect of the Gas Year for which the application is made; or
 - (2) exceeds 1 GWh/Day;
 - (c) shall specify:
 - (i) the identity of the User;
 - (ii) the NTS Exit Point in respect of which the application is made;
 - (iii) the Gas Year in respect of which the application is made; and
 - (iv) the amount of Enduring Annual NTS Exit (Flat) Capacity applied for (being not less than the minimum eligible amount);
- and where the User makes applications for different Gas Years (or any part thereof) the amount of Enduring Annual NTS Exit (Flat) Capacity applied for in respect of any later Gas Year shall be expressed as the amount in excess of the amount applied for in respect of any earlier Gas Year.

3.2.4 A User:

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- (a) in the case of an application made under paragraph 3.2.3(a):
 - (i) may submit an application for Enduring Annual NTS Exit (Flat) Capacity during the Annual Application Window;
 - (ii) may apply for Enduring Annual NTS Exit (Flat) Capacity to be registered with effect from the first Day of any month within Gas Years Y+4, Y+5 and Y+6;
 - (iii) may have, at any one time, no more than one (1) application for each of Gas Year Y+4, Y+5 and Y+6 for Enduring Annual NTS Exit (Flat) Capacity capable of acceptance by National Grid NTS in respect of an NTS Exit Point; and
 - (iv) may withdraw or modify an application under paragraph 3.2.3(a)(ii) at any time during the Annual Application Window, but may only modify (and not withdraw) an application under paragraph 3.2.3(a)(i) during such period by reducing the amount of Enduring Annual NTS Exit (Flat) Capacity applied for to not less than the deemed application amount;
- (b) in the case of an application made under paragraph 3.2.3(b):
 - (i) may apply for up to four (4) separate tranches of Enduring Annual NTS Exit (Flat) Capacity, specifying in each case the amount applied for in each separate tranche;
 - (ii) shall specify, in respect of each separate tranche applied for, the date with effect from which the User wishes to be registered as holding the Enduring Annual NTS Exit (Flat) Capacity, such date being not earlier than six (6) months from the date the application is made and not later than 1 October in Gas Year Y+6; and
 - (iii) in respect of a New NTS Exit Point, shall submit with its application such other documentation (as published by National Grid NTS from time to time) required by National Grid NTS for the purposes of commencing work on new connections to the NTS.

3.2.8 In respect of an application made under paragraph 3.2.3(a):

- (a) where National Grid NTS has rejected or accepted in part only an application made by a DNO User pursuant to paragraph 3.7.5 for NTS Exit (Flexibility) Capacity or Section J2.5 in relation to an increase in the Assured Offtake Pressure in respect of Gas Year Y+4, Y+5 or Y+6, a DNO User may submit a revised application for Enduring Annual NTS Exit (Flat) Capacity on any of the five (5) Business Days following 15 September in Gas Year Y with effect from the first Day of any month within Gas Years Y+4, Y+5 and Y+6;

3.2.10 where an application is made under paragraph 3.2.3(b) (which is not rejected pursuant to paragraph 3.2.5 National Grid NTS will make an offer (in accordance with the principles in the Exit Capacity Release Methodology Statement) to the User which specifies:

- (a) the amount of Enduring Annual NTS Exit (Flat) Capacity offered, being equal to the amount applied for under paragraph 3.2.4(b)(i);
- (b) the date(s) with effect from which the User applied to be registered as holding the Enduring Annual NTS Exit (Flat) Capacity (or each separate tranche specified in the application);
- (c) the date(s) with effect from which National Grid NTS is able to make Enduring Annual NTS Exit (Flat) Capacity available at the NTS Exit Point, such dates(s) being not earlier than the date(s) with effect from which the User applied to be registered as holding Enduring Annual

NTS Exit (Flat) Capacity and not later than 1 October in the Gas Year Y+6 ; and

(d) where applicable, the Demonstration Date;

and National Grid NTS will use its reasonable endeavours to make available Enduring Annual NTS Exit (Flat) Capacity at the NTS Exit Point with effect from the date(s) from which the User applied to be registered as holding the Enduring Annual NTS Exit (Flat) Capacity.

9 Recommendation

The Workgroup invites the Panel to:

- AGREE that Modifications 0376 and 0376A be submitted for consultation