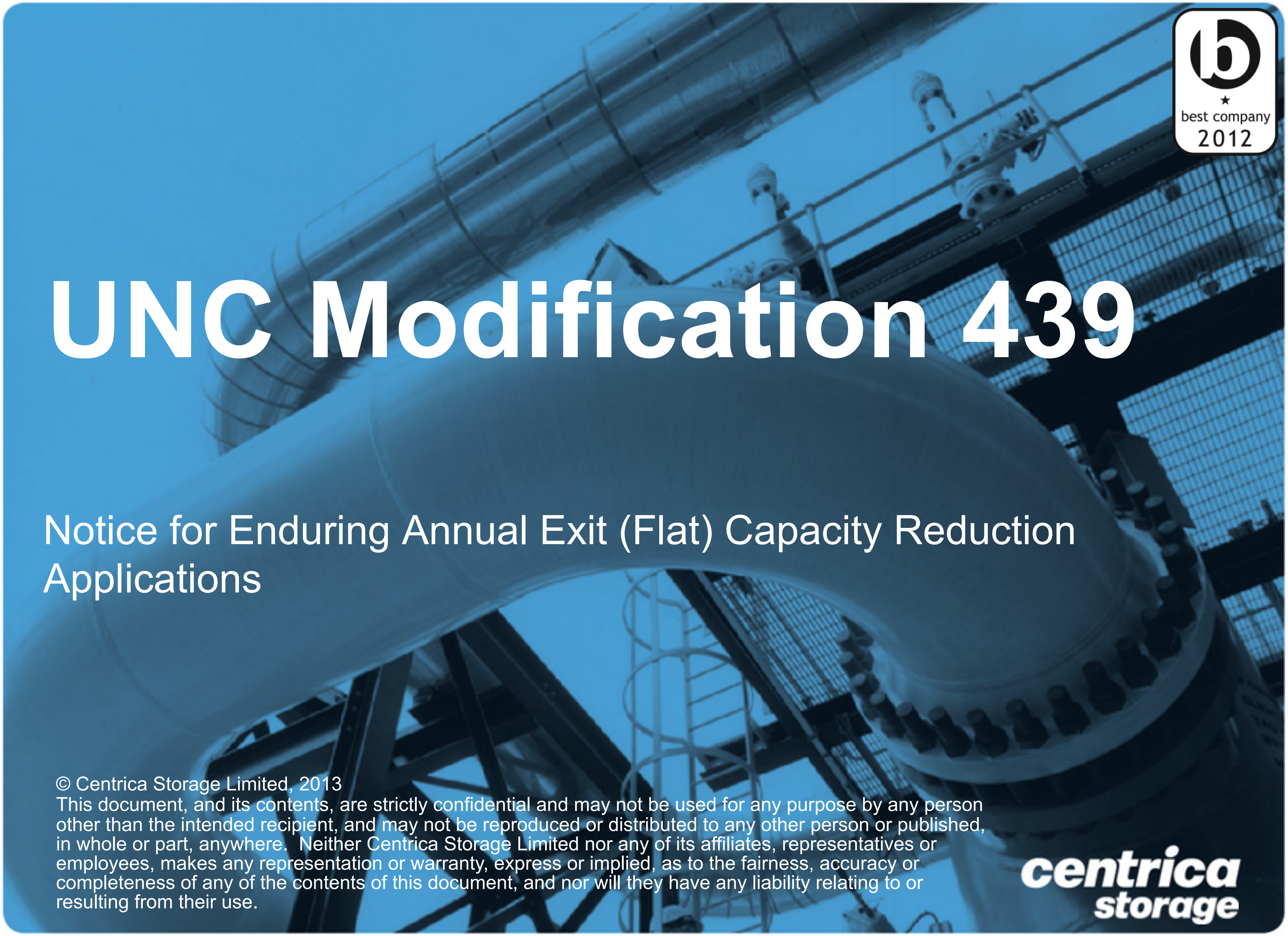

UNC Modification 439

Notice for Enduring Annual Exit (Flat) Capacity Reduction Applications

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What is this modification proposing and why?

- **Builds on the flexibility for reducing exit capacity introduced by modification 417S**
  - Waives the 14 month notice period if for Users who User Commitment amount (UCA) both commences and is forecast to be fully met in gas year Y+1

- **This modification will remove the requirement for the 14 months' notice to apply for reductions in Enduring Annual NTS Exit (Flat) Capacity at July application windows, where the User Commitment has been, or will be, satisfied for all Users**

- **The benefits from this change include:**
  - Improved ability of enduring exit capacity holder to respond to price signals
  - Increased certainty for investors regarding ability to manage exposure to enduring exit capacity charges
  - Ensuring consistency of enduring exit capacity reduction rules applying to all Users (i.e. all users treated the same as those covered by the Mod 417S)

What is the problem with the 14 month rule?

- **Actual NTS Exit (Flat) Capacity charges are currently set by NG NTS on 1 May for the next gas year (commencing in October)**
- **Users holding enduring exit capacity can only apply to reduce exit capacity holdings during the July application window.**
  - The reduction is subject to a 14 month notice period (unless certain conditions are met).
    - The User is subject to the prevailing charge during the notice period
  - Users cannot make applications based on NG NTS's indicative charges
- **Holders of enduring exit capacity can therefore be exposed to significant, unexpected costs when exit capacity charges increase**

What are the current arrangements?

May | | July | | October (y +1) | | October (Y+2)

NG NTS sets actual charges for Y+1

Firms can apply to reduce exit capacity and NG can accept as long as:
- No UCA
- UCA forecast to be met during Y+1

NG accepts / rejects bids

Users commence paying exit capacity charges

Capacity reduction takes effect only for Users whose UCA commences and is met within Y+1 (417S) after full UCA has been met

Reduction takes effect for Users who did not meet 417S requirements

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What is the problem with the 14 month rule? (cont)

- **Due to volatility in exit capacity charges, Users who have purchased enduring NTS exit capacity, may be exposed to significant and unexpected costs as a result of the 14 month notice period.**
  - User's must pay a full 12 months of exit capacity charge for capacity that they intend to surrender if the users has not met their UCA within the first 12 months of the commitment commencing

- **The level of volatility in exit capacity charges determines the extent of the User's financial exposure**
  - Simplified example in the modification proposal (page 5) shows demonstrates:
    - How the 14 month rule can result in additional costs for the user
    - That the impact is not the same for all Users

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What are the impacts of the proposed change?

- **Holders of enduring exit capacity will be able to respond directly to the changes in exit capacity charges**
  - Capacity holdings will better reflect requirements for enduring exit capacity when it is required
- **Users who make a User Commitment can have confidence that they wont be exposed to costs far greater than their UCA**
  - The UCA must have been paid in full before NG NTS will accept a reduction application
- **Should allow users to adjust firm exit (flat) capacity holdings in line with actual need**
- **Above aligns with Relevant Objectives C, D and G**
- **This change does not change NG NTS allowed revenues, however, it does change how cost are distributed across users**
  - NTS charges set in May can not be adjusted to account for any expected capacity reductions
  - Shortfall in exit capacity revenue may be recovered by NG NTS via commodity charges
  - The relevant users would reduce in any respect so the overall extent of distributional impact is limited

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What will the change cost?

- **NGG has confirmed that systems changes will not be required so there is no implementation cost.**
  - However, NG NTS would prefer that the modification be approved by June if the change is to take effect for the July 2013 reduction application window

- **Legal text provided**
  - Changes appear relatively straight forward

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