

UNC Modification	At what stage is this document in the process?
<h1>UNC 0616S:</h1> <h2>Capacity Conversion Mechanism for Interconnection Points</h2>	<div style="display: flex; flex-direction: column; align-items: flex-end;"> <div style="border: 1px solid green; background-color: #00a651; color: white; padding: 5px; margin-bottom: 5px;">01 Modification</div> <div style="border: 1px solid #00a651; padding: 5px; margin-bottom: 5px;">02 Workgroup Report</div> <div style="border: 1px solid #00a651; padding: 5px; margin-bottom: 5px;">03 Draft Modification Report</div> <div style="border: 1px solid #00a651; padding: 5px;">04 Final Modification Report</div> </div>
<p>Purpose of Modification:</p> <p>To provide a process for ‘converting’ unbundled capacity into bundled capacity in compliance with the amended EU CAM code.</p>	
	<p>The Proposer recommends that this modification should be:</p> <ul style="list-style-type: none"> subject to self-governance assessed by the Workgroup <p>This modification will be presented by the Proposer to the Panel on 20 April 2017. The Panel will consider the Proposer’s recommendation and determine the appropriate route.</p>
	<p>High Impact:</p> <p>None</p>
	<p>Medium Impact:</p> <p>National Grid Gas Transmission; Shipper Users</p>
	<p>Low Impact:</p> <p>None</p>

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Timetable		
The Proposer recommends the following timetable:		
Initial consideration by Workgroup	04 May 2017	
Workgroup Report presented to Panel	21 September 20 July 2017	
Draft Modification Report issued for consultation	21 September 20 July 2017	
Consultation Close-out for representations	12 October 10 August 2017	
Final Modification Report available for Panel	13 October 11 August 2017	
Modification Panel decision	19 October 17 August 2017	

 Any questions?

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1 Summary

What

[Shipper](#) Users who hold unbundled capacity on one side of an IP may wish to acquire matching unbundled capacity on the other side of the IP. Because priority is given to offering capacity as bundled, then the [Shipper](#) User may find that they have no option but to buy a new bundled product to acquire capacity on both sides of the IP. This means that the [Shipper](#) User will have purchased capacity twice on one side of the IP. There is currently no capacity conversion mechanism within the UNC.

Why

The amendment to the EU network code on Capacity Allocation Mechanisms (CAM) was published into the EU Official Journal on the 17th March 2017 as regulation 2017/459. CAM requires a capacity conversion mechanism to be offered to Users at interconnection points (IP), and this modification shall introduce that process into the Uniform Network Code. Not doing so would create non-compliance with CAM.

How

It is proposed that a capacity conversion mechanism, describing the preconditions and validations to be performed, be added into Section B of the European Interconnection Document (EID) within the UNC. The proposal will achieve compliance with the CAM code.

2 Governance

Justification for Self-Governance

[The Modification Panel determined that this modification should follow](#) ~~It is proposed to follow the~~ self-governance procedure.

This is on the basis that it is proposed to implement the new mechanism in a relatively simple ex-post manner, and the new mechanism does not significantly alter the general arrangements for transporting gas at IPs when they are considered in the round. There is therefore no material impact on competition in the shipping, transportation or supply of gas conveyed through pipes or any commercial activities connected with the shipping, transportation or supply of gas conveyed through pipes.

Requested Next Steps

This modification should:

- ~~• be considered a non-material change and subject to self-governance~~
- be assessed by a Workgroup

3 Why Change?

The amendment to the EU network code on capacity allocation mechanisms was published into the EU Official Journal on the 17th March 2017 as regulation 2017/459. This shall hereafter be simply referred to as CAM. CAM requires a capacity conversion mechanism to be offered to network [Shipper](#) Users at interconnection points (IP), and this modification shall introduce that process into the Uniform Network Code. The CAM code requires the mechanism to be effective from 1st Jan 2018.

The mechanism will affect capacity entitlements at IPs and the associated liabilities, and so should be implemented through the UNC so there are clear transparent rules.

This proposal shall enable compliance with the CAM code.

4 Code Specific Matters

Reference Documents

The CAM code can be found here:

[http://www.entsog.eu/public/uploads/files/publications/CAM%20Network%20Code/2017/COMMISSION%20REGULATION%20\(EU\)%202017-459%20-%20CAM%20NC.pdf](http://www.entsog.eu/public/uploads/files/publications/CAM%20Network%20Code/2017/COMMISSION%20REGULATION%20(EU)%202017-459%20-%20CAM%20NC.pdf)

Knowledge/Skills

An understanding of the CAM code and the GB capacity regime would be beneficial, notably UNC Section B of both the Transportation Principal Document and the European Interconnector Document.

5 Solution

The following rules should be added into Section B of the EID.

1. Following a bundled auction of yearly, quarterly or monthly IP capacity then Shipper Users may request to convert unbundled capacity.
2. The request must be received by National Grid NTS no later than 17:00, 3 business days after the close of auction. Late requests will be rejected. The request will contain at least the following information:
 - a. PRISMA reference number(s) for the bundled auction(s);
 - b. the Interconnection Point;
 - c. The direction of flow;
 - d. The unbundled capacity amount to be converted;
 - e. The capacity duration, and period, for the conversion;
 - f. Shipper ID.
 - g. Contact details for the shipper.

A Shipper User may withdraw a request at any time up to the conversion deadline.

3. National Grid NTS will complete both technical and commercial validation.
4. Technical validation.
 - a. If any of the information received is incomplete then National Grid NTS will reject the request and will ask the sender to resubmit within the standard 3 day window.
5. Commercial validation.
 - a. National Grid NTS will perform a capacity check to ensure that the shipper user holds sufficient net firm unbundled capacity entitlements compared to the conversion quantity submitted for the period and direction requested.
 - b. The conversion quantity must be less than or equal to the quantity of bundled capacity purchased in the relevant bundled auction(s).
 - c. The conversion duration must be for yearly, quarterly or monthly products.
 - d. National Grid NTS will inform a Shipper User on the outcome of the request no later than 2 business days (48 hours) after receiving it.
 - e. The confirmation from National Grid NTS shall contain at least the following information:
 - i. PRISMA reference number for the bundled auction;
 - ii. the Interconnection Point;
 - iii. the direction of flow;
 - iv. the unbundled capacity amount to be converted;
 - v. the capacity duration, and period, for the conversion;
 - vi. shipper ID.
 - vii. whether the request has been successful. If not successful then National Grid NTS will provide the reasons why.
 - f. For the avoidance of doubt, there is no conditionality on the results of the bundled auction with the success, or otherwise, of the conversion. Capacity allocated in the bundled auction shall be Registered against the Shipper User regardless of whether capacity is later converted, and the User's bundled entitlements will increase accordingly.
6. Following a successful application:
 - a. For Information: The conversion process does not affect existing Registered capacity holdings for unbundled capacity, and the Shipper User shall remain liable to pay the original unbundled capacity holding.
 - b. For the conversion quantity, the Shipper User shall receive a credit amount for the reserve price component of the clearing price paid, for the relevant bundled auction.
 - c. For the conversion quantity, the Shipper User shall remain liable to pay the auction premium component of the clearing price for the relevant bundled auction, and no credit amount is generated with regards to the premium.
 - d. The unbundled capacity entitlements of the successful Shipper User shall be reduced by the approved conversion quantity.

- e. For the avoidance of doubt, the Shipper User shall be liable to pay both the reserve price and premium for any amount that was allocated in the bundled auction and is not part of the conversion quantity.
7. The approved conversion quantity will be made available in any subsequent auctions as part of National Grid's Allocable Capacity. Note: the conversion quantity needs to be available for as long as the whole duration of the capacity product offered in an auction, in order to be considered available.
8. The order in which National Grid NTS shall allocate capacity following an auction shall be:
 - a. Capacity made available through the conversion mechanism.
 - b. Unsold technical capacity.
 - c. Capacity made available through Surrender, (LT UIOLI) Withdrawal or Additional (non-obligated) capacity.
9. The credit identified under 6b) shall be generated out of revenue received following the bundled auction. Revenue shall be taken from revenue streams in the reverse order in which they are allocated¹. This follows a 'last in, first out, principle and respects the existing merit order.

Where converted capacity is reoffered and subsequently sold in a future IP auction, the treatment of the associated revenue shall reflect where the revenue was foregone at the time of the conversion process e.g. if baseline capacity had revenue foregone then the conversion revenue will be treated as TO revenue; if Surrendered capacity had revenue foregone then the conversion revenue will be treated as a neutrality feed, etc. This approach will replenish any revenue that was foregone in the bundled auction preceding the conversion.
10. Some further opportunities for added clarity within EID Section B have also been identified, and included in the Legal Text under the section 'other changes to EID B'. This includes paragraphs 3.1.1 and 6.3.2.
11. The below example has been added at the request of the Workgroup.

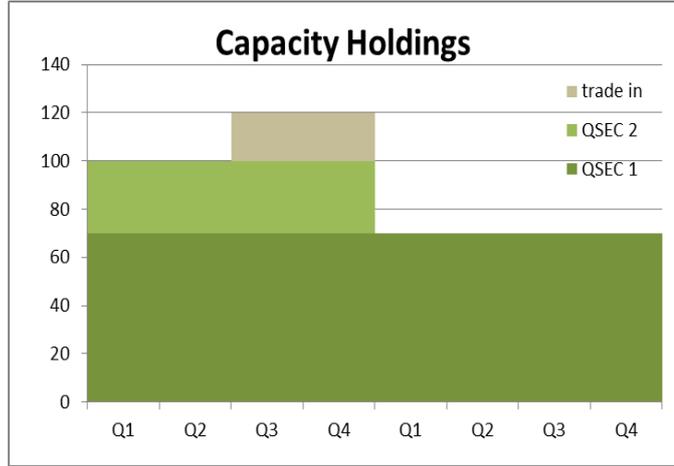
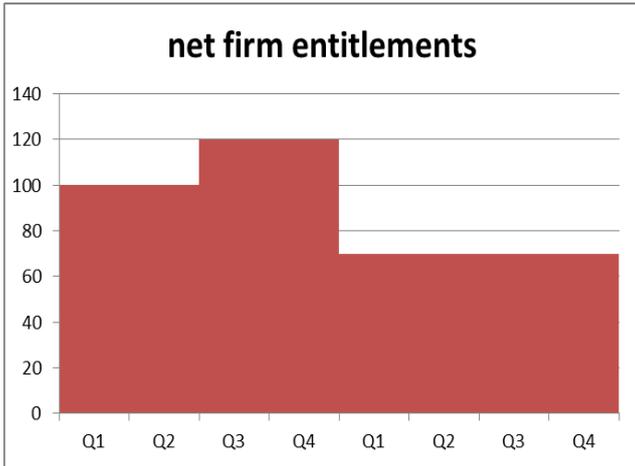
Example

This example shall examine a shipper's capacity before and after the conversion process, with particular focus on Q2 with respect to financial obligations created.

Phase 1: Before bundled auction

A shipper holds available unbundled capacity entitlements as follows. The breakdown of the capacity holdings is also shown (on the right).

¹ The merit order for allocating capacity at interconnection points is as listed in EID B3.1.1 (as confirmed by EID B3.5.1)



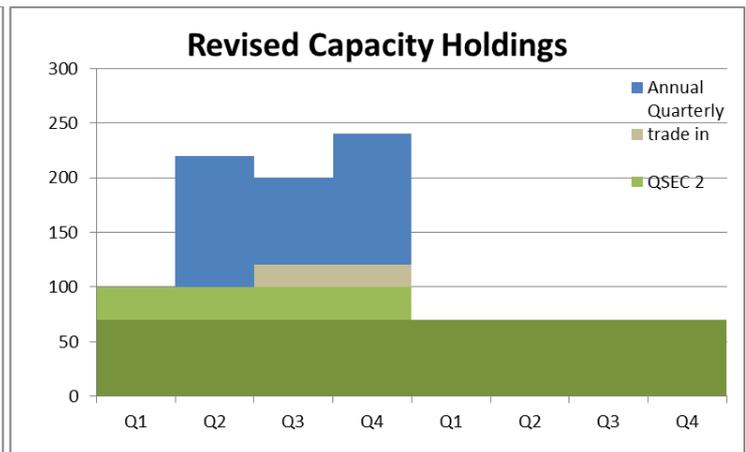
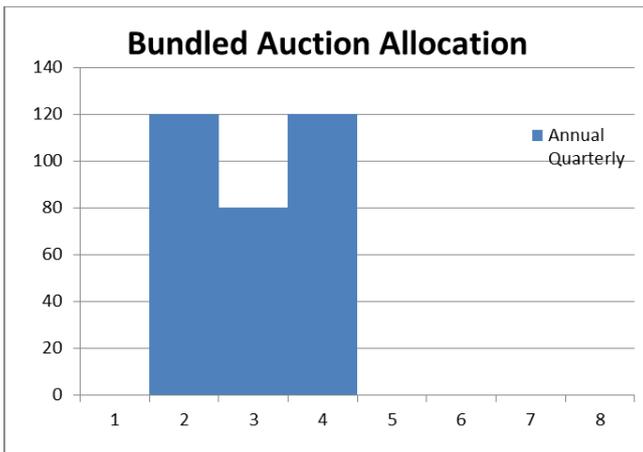
The shipper's net firm unbundled entitlements can be considered as its convertible capacity.

The Shipper liabilities for each gas day in Q2 are as follows:

Process (e.g. auction)	Amount (£)
<u>QSEC 1</u>	<u>70 units at (R1+P1)</u>
<u>QSEC 2</u>	<u>30 units at (R2+P2)</u>

Phase 2: After Bundled auction; before conversion

The shipper purchases the following capacity in the Annual Quarterly auction. The revised breakdown of total capacity holdings is also shown (on the right).



The shipper liabilities for each gas day in Q2 are now as follows:

Process (e.g. auction)	Amount (£)
QSEC 1	70 units at (R1+P1)
QSEC 2	30 units at (R2+P2)
Annual Quarterly	120 units at (R3+P3)

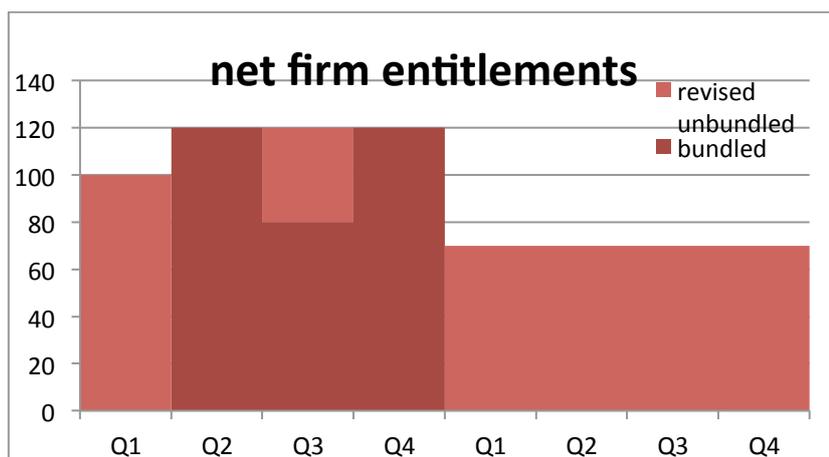
Phase 3: conversion request

After the auction, an ex-post conversion service takes place (3 bus. day window). The shipper submits the following capacity amounts for conversion. (Flat amounts across each quarter are submitted here, but different amounts for each month could be submitted if the shipper wishes.)

Period	Max permitted	Amount Requested
Q1 months 1,2,3	0	0
Q2 months 4,5,6	100	100
Q3 months 7,8,9	80	80
Q4 months 10,11,12	120	120

Phase 4: after conversion

The shipper's revised capacity entitlements are now as follows.



The table below compares the net firm entitlements before and after the process.

Period	Before Process	Bundled Purchase	Convert	After Process	Description of activities

<u>Q1</u>	<u>100</u>	<u>0</u>	<u>0</u>	<u>100</u>	<u>No activity</u>
<u>Q2</u>	<u>100</u>	<u>120</u>	<u>-100</u>	<u>120</u>	<u>Additional 120 units bought, only 100 converted</u>
<u>Q3</u>	<u>120</u>	<u>80</u>	<u>-80</u>	<u>120</u>	<u>Additional 80 units bought, but 80 converted so no net change</u>
<u>Q4</u>	<u>120</u>	<u>120</u>	<u>-120</u>	<u>120</u>	<u>Additional 120 units bought, but 120 converted so no net change</u>

Shipper liabilities for Q2 after the process.

<u>Process (e.g. auction)</u>	<u>Amount (£)</u>
<u>QSEC 1</u>	<u>70 units at (R1+P1)</u>
<u>QSEC 2</u>	<u>30 units at (R2+P2)</u>
<u>Annual Quarterly</u>	<u>120 units at (R3+P3)</u>
<u>Conversion Credit</u>	<u>100 units at R3</u>

The following rules should be added into Section B of the EID:

- ~~1. Following a bundled auction of yearly, quarterly or monthly IP capacity then shipper users may request to convert unbundled capacity.~~
- ~~2. The request must be received by National Grid NTS, using the pro forma published on National Grid's website, between [x] and [y] days after the auction. [National Grid NTS will propose exact timing to the development workgroup]~~
- ~~3. The following pre-condition must be met before National Grid NTS will consider any capacity conversion requests. Either:

 - ~~a. There is no equivalent unbundled capacity product offered by the adjacent TSO at the IP; or~~
 - ~~b. The equivalent unbundled capacity product offered by the adjacent TSO at the IP is oversubscribed and the conversion request quantity is less than the oversubscription quantity.~~~~
- ~~4. National Grid NTS will complete both technical and commercial validation.~~
- ~~5. Technical validation.

 - ~~a. If the form received is incomplete or incorrectly filled in then National Grid NTS may reject the form and will ask the sender to resubmit.~~~~
- ~~6. Commercial validation.~~

- ~~a. National Grid NTS will perform a capacity check to ensure that the shipper user holds sufficient legacy² registered capacity holdings compared to the conversion quantity submitted.~~
 - ~~b. National Grid NTS will inform a shipper user whether the request has been successful. If not successful then National Grid NTS will provide the reasons why.~~
- ~~7. Following a successful application:~~
- ~~a. The shipper user shall remain liable to pay the original unbundled capacity holding.~~
 - ~~b. The shipper user shall [not] be liable to pay the reserve price component of the clearing price for the relevant bundled auction [however a credit amount equal in value to the reserve price shall be paid to the shipper]. *[Both options achieve the same net outcome; National Grid will propose one option or the other once further system impact and feedback has been received]*~~
 - ~~c. The shipper user shall be liable to pay the auction premium component of the clearing price for the relevant bundled auction.~~
 - ~~d. The unbundled capacity entitlements of the successful shipper user shall be reduced by the approved conversion quantity.~~
- ~~8. Unbundled capacity that was previously sold, but has been converted to bundled capacity through this mechanism will be made available in any subsequent auctions.~~
- ~~9. The order in which National Grid NTS shall allocate capacity following an auction shall be:~~
- ~~a. unsold technical capacity.~~
 - ~~b. Previously sold unbundled capacity that is now converted.~~
 - ~~c. Capacity made available through CMP mechanisms.~~
- ~~10. *[As part of the workgroups National Grid NTS will bring forward proposals as to how it remains financially neutral to the process]*~~

6 Impacts & Other Considerations

Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

No impact identified.

Consumer Impacts

The net effect of this proposal should be to redress the situation where shipper users have to purchase system capacity twice at interconnection points. This may result in lower costs for shipper users which in turn may result in a lower cost to consumers.

Cross Code Impacts

No impact identified.

² Legacy in this modification means capacity purchased before the original EU CAM code came into effect i.e. before 1st Nov 2015.

EU Code Impacts

This UNC modification proposal demonstrates how GB will comply with the capacity conversion mechanism required under the CAM code.

Central Systems Impacts

~~These will be investigated as part of the workgroup assessment.~~ Any change to systems resulting from identified through this modification ~~will be anticipated to~~ be dealt with, and funded, through National Grid Transmission's EU phase 4 project. A change proposal has been raised to this effect, and been submitted to the Change Management Committee. This change proposal, XRN4262, can be viewed on the Joint Office website: <https://www.gasgovernance.co.uk/Change-Proposals>.

7 Relevant Objectives

Impact of the modification on the Relevant Objectives:

Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	None
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.	None
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
g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	Positive

Relevant objective g) *Compliance with the Regulation etc* will be furthered because the mechanism proposed by this modification achieves compliance with ~~is a requirement of~~ the EU CAM code.

8 Implementation

As self-governance procedures are proposed, implementation could be sixteen business days after a Modification Panel decision to implement, subject to no Appeal being raised. However, ~~No implementation timescales are proposed, however it should be noted that~~ the CAM code requires the mechanism to be effective from the 1st ~~04~~ January 2018 and it is anticipated that this modification would be implemented on this date.

9 Legal Text

Text Commentary

Legal text commentary ~~will be provided as part of the modification development.~~ has been provided as a separate document.

Text

Legal text ~~will be provided as part of the modification development.~~ has been provided as a separate document.

10 Recommendations

Proposer's Recommendation to Panel

Panel is asked to:

- Agree that self-governance procedures should apply
- Refer this proposal to a Workgroup for assessment.