

## Stage 04: Final Modification Report

# 0454:

## Introduction of a Long Term Non Firm Capacity Product

At what stage is this document in the process?

- 01 Modification
- 02 Workgroup Report
- 03 Draft Modification Report
- 04 Final Modification Report

This modification seeks to introduce non-firm NTS capacity products that can be offered to a User in the case that they require access to the NTS ahead of firm Capacity being available.



The Panel recommended implementation



High Impact: Customers seeking earlier NTS access than is currently permitted



Medium Impact: -



Low Impact: Shipper Users, DN Users and National Grid NTS

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06 March 2014

Version 3.0

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## About this document:

This Final Modification Report will be presented to the Panel on 16 January 2014.

The Authority will consider the Panel's recommendation and decide whether or not this change should be made.

Following a Panel request for further Workgroup Assessment, this report will be considered by Panel on 20 March 2014.



**Any questions?**

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# 1 Summary

## Is this a Self-Governance Modification?

The Modification Panel determined that this is not a self-governance modification.

## Why Change?

Firm capacity delivery dates may be beyond when a customer requires access to the NTS. National Grid NTS has had feedback asking for a capacity product to be introduced that would allow customers, where an incremental capacity signal has been received, to access the NTS earlier than the UNC presently allows.

## Solution

The proposed solution is to introduce a Long Term Non Firm capacity product that is exclusively available to a User who has provided an incremental capacity signal (see section 3) which has subsequently been allocated (or as the case may be reserved<sup>1</sup>). This change would allow a User to hold capacity ahead of the effective date of the Quarterly NTS Entry Capacity/Enduring Annual NTS Exit (Flat) Capacity allocated to or reserved by that same User. Any Long Term Non Firm capacity released would be in the form of Firm NTS Entry/Exit Capacity with an associated Buy Back Option Agreement for all days on which the Long Term Non Firm Capacity is held.

For the avoidance of doubt and for the purposes of this modification, Long Term Non Firm NTS Entry/Exit Capacity is envisaged as a non firm product for which existing firm capacity and buyback option products are being used to facilitate.

## Relevant Objectives

Implementation would better facilitate the relevant objectives by allowing earlier access to the NTS than would otherwise be permitted.

## Implementation

- No implementation timescales are proposed.
- Testing of existing systems functionality is required to give confidence that the modification can be supported with no system changes, with estimated testing costs of £10k to £50k.
- This is a User Pays Modification, with costs apportioned equally between National Grid NTS and Users (including DN and Shipper Users).

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<sup>1</sup> National Grid NTS recognises that under the current regime the reservation of NTS Exit Capacity is not possible for Users and the reservation of NTS Entry Capacity is not possible for any party; however this Modification does not exclude the possibility that such arrangements may be introduced in the future.

## 2 Why Change?

Developments involving NTS connections may require incremental NTS capacity. Some of these developments may be ready to commence operation before National Grid NTS can complete the network investment programme that is necessary to deliver the firm capacity associated with the development. Recent changes in the Planning Act have extended the expected planning timescales for NTS reinforcements, thereby increasing the possibility that the NTS may be unable to support firm capacity commitments when first required by a customer. Stakeholders have asked National Grid NTS to consider developing a capacity product that could be utilised where an incremental capacity signal has been received and allocated to the customer but the firm capacity delivery date is beyond the customer's first potential gas flow date (including where the incremental capacity signal is to be met via substitution from another NTS Entry/Exit Point).

## 3 Solution

The proposed solution is to introduce a Long Term Non Firm capacity product for both NTS Entry and Exit Capacity. Long Term Non Firm Capacity would be made available via the release of Firm NTS Entry/Exit (Flat) Capacity with an associated Option Agreement. This change would allow a customer earlier access to Non Firm NTS Entry/Exit Capacity products prior to the effective date of the Quarterly NTS Entry Capacity/Enduring Annual NTS Exit (Flat) Capacity allocated to (or as the case may be, reserved by) the customer following the receipt of an incremental capacity signal from that customer.

It is further proposed that any such release of Long Term Non Firm Entry or Exit Capacity shall be subject to the provisions of UNC Section TPD V3. For the avoidance of doubt, any NTS Entry or Exit Capacity allocated through this process shall be considered in respect of Overruns. Allocated capacity shall be included in the User's Fully Adjusted Available NTS Entry Capacity/Fully Adjusted Available NTS Exit (Flat) Capacity to determine the Overrun Quantity. For the purposes of the Overrun charge calculation, the price paid for Firm NTS Entry Capacity released in response to the Long Term Non Firm Capacity request will be considered to be a bid price. For the purposes of the NTS Exit (Flat) Overrun charge calculation the Long Term Non Firm Exit Capacity request will be considered to be a capacity application.

For the purposes of this modification an incremental capacity signal is:

- in respect of Entry Capacity a bid for Quarterly NTS Entry Capacity that satisfies the Net Present Value test as described in National Grid's Entry Capacity Release Methodology Statement and/or
- in respect of Exit Capacity an application for Enduring Annual NTS Exit (Flat) Capacity which if allocated or reserved would take the Enduring Annual NTS Exit (Flat) Capacity registered or reserved to all Users in aggregate above the Baseline NTS Exit (Flat) Capacity.

A User may only request Long Term Non Firm Capacity where the following conditions have been satisfied:

- An incremental capacity signal has been provided either
  - by a User via an auction/application window that has triggered the allocation of Firm NTS Entry/Exit Capacity or
  - via the reservation of capacity by a User, or Reservation Party on behalf of a nominated User requesting Long Term Non Firm Capacity, that is over and above the Available NTS Entry Capacity/Remaining Available NTS Exit (Flat) Capacity.

- For NTS Entry Capacity: The amount of Available NTS Entry Capacity that is available for all Gas Days within the relevant Month at the relevant NTS Entry Point is less than 100,000kWh/day.
- For NTS Exit Capacity: The amount of Remaining Available NTS Exit (Flat) Capacity that is available for all Gas Days within the relevant Gas Year at the relevant NTS Exit Point is less than 100,000kWh/day.

In the case that the capacity constituting the Incremental Firm Capacity signal has been reserved by a Reservation Party, they would need to nominate a User or Users to be registered as holding, some, or all, of the reserved capacity. In this case the nominated User will be eligible to apply for Long Term Non Firm capacity.

*Amendments to other documents:*

Please note that implementation of this Proposal will require National Grid NTS to amend the following:

- ‘The Statement of Gas Transmission Transportation Charges’.
- ‘UNC TPD Section Y – Charging Methodologies’
- ‘Entry Capacity Release Methodology Statement’
- ‘Exit Capacity Release Methodology Statement’

For clarity, if amendments to any documents (i.e. other than the UNC) are required, this will need to be considered when the effective implementation date of this solution is set.

The following general rules expand and define the solution.

1. Initial notification of capacity requirements

- a. The User or Reservation Party signals their requirement for additional Quarterly NTS Entry Capacity/Enduring Annual NTS Exit (Flat) Capacity in respect of a new or existing NTS Entry or Exit Point via one of the following mechanisms:
  - i. a bid or request being placed and subsequently allocated in an Entry Capacity Auction or Exit Capacity Application Window respectively, or
  - ii. reservation of NTS Entry/Exit capacity.

2. Long Term Non Firm Request Process

If the User, or in the case of capacity reserved by a Reservation Party a nominated User, requires access to the NTS prior to the Firm NTS Entry/Exit Capacity delivery date, they will be eligible to submit request(s) for Long Term Non Firm Capacity for the relevant NTS Entry/Exit Point. The following rules and criteria will apply for such requests:

- a. The Long Term Non Firm Capacity request must include the following information:
  - i. The identity of the User
  - ii. The relevant NTS Entry/Exit Point
  - iii. The calendar month for which the Long Term Non Firm Capacity is requested
  - iv. The quantity of Long Term Non Firm Capacity requested (not less than 100,000 kWh/day) for each month within the relevant Gas Year
- b. Capacity Quantity: The requested amount of Long Term Non Firm Capacity must be no larger than the amount of NTS Entry/Exit Capacity which constituted the incremental capacity signal which was allocated to the User prior to the request for Long Term Non Firm Capacity.

- c. Capacity Duration

- i. Long Term Non Firm Capacity would cover some or all of the period up to the estimated Incremental Firm Entry/Exit Capacity delivery date.
- ii. Quantities will be agreed on a monthly basis for a period up to the end of Gas Year Y+1 where a request is made during Gas Year Y. If the Long Term Non Firm Capacity is required for further Gas Years the quantity may be requested, agreed and allocated at earliest within the Gas Year prior to the start of the relevant Gas Year.
- iii. Capacity cannot be requested for a period beyond Gas Year Y+1.
- iv. A User may submit a single request for each calendar month within the relevant period at the same time through the submission of a single pro-forma. Only one pro-forma may be submitted for a single Gas Year.
- v. Where Long Term Non Firm Capacity has been released following the reservation of NTS Entry/Exit Capacity or allocation of Enduring NTS Exit (Flat) Capacity via an Ad-hoc request in the October to June Exit Capacity Application Window and the relevant agreement has subsequently been terminated, meaning that there is no longer a firm incremental capacity signal in place; the (Exit) Option Agreement will be exercised for all Long Term Non Firm Capacity released for the remainder of the period and no further release of Long Term Non Firm Capacity will be considered.

d. Timeline

- i. Requests for Long Term Non Firm Capacity must be sent to National Grid NTS by no later than the 10<sup>th</sup> Business Day of month M where Long Term Non Firm capacity is required for Month M+2 at the earliest. No request(s) can be made for Long Term Non Firm Capacity within Gas Year Y+1 unless the relevant Notice of Gas Transmission Transportation Charges, stating either the AMSEC auction Reserve Prices or the Exit Capacity Actual prices, as appropriate, has been published. Such requests will be rejected. In this case the User could resubmit their request(s) once the relevant Notice of Gas Transmission Transportation Charges has been published for that Gas Year.
- ii. National Grid NTS will respond to the User within 2 Business Days to acknowledge the request and state whether the request meets the relevant criteria.
- iii. If the request passes the relevant criteria, National Grid NTS will then have 1 month to determine and confirm to the User if Long Term Non Firm Capacity can be released for the relevant period.
- iv. If it is decided that Long Term Non Firm Capacity can be released, National Grid NTS will then set up the Application window and associated Option Offer window, place the appropriate request(s) on behalf of the User, allocate, and provide confirmation to the user within 5 Business Days.

3. Long Term Non Firm Capacity Release Mechanism

Any Long Term Non Firm capacity released would be in the form of Firm NTS Entry/Exit Capacity with an associated Buy Back Option Agreement for all days on which the Long Term Non Firm Capacity is held.

a. Customer Participation:

Following confirmation that a request is successful, National Grid NTS will set up an Auction/Application window and an Option Agreement offer window. On the day of the Auction/Application Window and the associated Option Agreement window, National Grid NTS will enter the details of the firm capacity request and the associated buyback onto the system on behalf of the User.

b. *Charges to be paid:*

- i. For the avoidance of doubt Users will pay Capacity Charges for the capacity allocated through this process i.e. the quantity of NTS Entry or Exit Firm Capacity allocated, multiplied by the capacity price, multiplied by the relevant period for which capacity has been allocated.
- ii. In the event that the relevant Option Agreement is exercised, National Grid NTS will pay a strike/an option exercise price to the User and the User will surrender Firm NTS Entry/Exit (Flat) Capacity for that Gas Day.

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### **Firm NTS Entry Capacity with associated Option Agreement**

- For the purposes of the Long Term Non Firm Capacity product, the Firm NTS Entry Capacity is such additional amount of NTS Entry Capacity above the NTS SO Baseline Entry Capacity as National Grid NTS may decide to release for that Gas Year in response to a Long Term Non Firm Entry Capacity request.
- The additional Firm NTS Entry Capacity will be released to a pre determined User.
- Additional Firm NTS Entry Capacity will be made available, utilising existing system processes, in monthly intervals for up to one Gas Year.
- If Long Term Non Firm capacity is applied for during Month M of Gas Year Y the earliest period which capacity may be applied for is Month M+2.
- The latest period for which Long Term Non Firm capacity may be applied for is the earlier of the final month of Gas Year Y+1 and the month preceding the Firm Capacity effective start date.

An Option Agreement would be entered into at the same time as the allocation of additional Firm NTS Entry Capacity (together constituting the Long Term Non Firm Capacity allocation).

- The Option Agreement must be entered into for all days on which capacity is to be released, for the same quantity as the capacity to be released.
- The additional Firm NTS Entry Capacity and Option Agreement will be exclusive to the pre determined User who has signalled a requirement for Incremental Quarterly NTS Entry Capacity, as such there will be no need for a Tender invitation Notice to be issued prior to the Agreement being entered into.

#### Pricing

- Any additional Firm NTS Entry Capacity released will be subject to capacity charges, however the customer will recover their Long Term Non Firm NTS Entry Capacity costs where the Option is exercised. It is proposed that any such release of Long Term Non Firm Entry Capacity shall:
  - In the case of additional Firm NTS Entry Capacity be subject to a fixed price. For clarification this fixed price will be the prevailing AMSEC auction Reserve Price for the relevant period and NTS Entry Point at which the NTS Entry Capacity is released, as specified in the relevant Notice of Gas Transmission Transportation Charges.
  - in the case of the Option Agreement be subject only to a strike price which shall be equal to the price paid for the additional Firm NTS Entry Capacity.

#### *Informing the User of allocations:*

National Grid NTS will as soon as reasonably practicable and in any case no later than 2 (two) Business Days prior to the first day for which requests for Long Term Non Firm Capacity have been made, inform the User that its request has been allocated, the amount of additional Firm NTS Entry Capacity which it is registered as holding for the NTS Entry Point and the relevant period (for clarification the relevant period will be the period for which the capacity has been allocated).

*Publication of Information:*

By no later than one Business Day following the notification to the User of its allocations, National Grid NTS will provide the following information to all Users in accordance with UNC Section B paragraph 2.14.2 in respect of the relevant NTS Entry Point:

- The Long Term Non Firm Capacity Period
- Total Requested Volume of Long Term Non Firm Capacity
- Total Successful Volume of Long Term Non Firm Capacity
- Long Term Non Firm Capacity Price
- Option Agreement Strike Price

**NTS Exit (Flat) Capacity with associated Exit Option Agreement**

- For the purposes of the Long Term Non Firm Capacity product, the Firm NTS Exit (Flat) Capacity is such additional amount of Annual NTS Exit (Flat) Capacity above the Baseline NTS Exit (Flat) Capacity as National Grid NTS may decide to release for that Gas Year in response to a Long Term Non Firm Exit Capacity request.
- Additional Firm NTS Exit (Flat) Capacity will be released to pre determined Users.
- The additional Firm NTS Exit (Flat) Capacity will be made available, via Application Window processes, in monthly intervals for up to one Gas Year if the User requests capacity during Gas Year Y for months within Gas Year Y but for an annual period if requested for Gas Year Y+1.
- If Long Term Non Firm capacity is applied for during Month M of Gas Year Y the earliest period which capacity may be applied for is Month M+2.
- The latest period for which Long Term Non Firm capacity may be applied for will be the earlier of the final month of Gas Year Y+1 and the month preceding the Firm Capacity effective start date.

An Exit Option Agreement would be agreed at the same time as the allocation of additional Firm NTS Exit (Flat) Capacity (together constituting the Long Term Non Firm Capacity allocation).

- The Exit Option Agreement must be entered into for all days on which capacity is to be released, for the same quantity as the capacity to be released.
- The additional Firm NTS Exit (Flat) Capacity and Exit Option Agreement will be exclusive to the pre determined User who has signalled the incremental Enduring NTS Exit (Flat) Capacity, as such there will be no need for a tender to be carried out by National Grid NTS for offers by Users prior to the Agreement being entered into.

**Pricing:**

- Any additional Firm NTS Exit (Flat) Capacity released will be subject to capacity charges, however the customer will recover their Long Term Non Firm NTS Exit (Flat) Capacity costs where the Option is exercised. It is proposed that any such release of Long Term Non Firm Exit Capacity shall:
  - in the case of additional Firm NTS Exit (Flat) Capacity be subject to a fixed price. For clarification this fixed price will be the prevailing actual price for the relevant period and NTS Exit Point at which the NTS Exit Capacity is released, as specified in the relevant Notice of Gas Transmission Transportation Charges.
  - in the case of the Exit Option Agreement be subject only to an option exercise price which shall be equal to the price paid for the additional Firm NTS Exit (Flat) Capacity.

*Informing the User of Allocations:*

National Grid NTS will as soon as reasonably practicable and in any case no later than 2 (two) Business Days prior to the first day for which requests for Long Term Non Firm Capacity have been made, inform the User that its request has been allocated, the amount of additional Firm NTS Exit Capacity which it is registered as holding for the NTS Exit Point and the relevant period (for clarification the relevant period will be the period for which the capacity has been allocated).

*Publication of Information:*

By no later than one Business Day following the notification to the User of its allocations, National Grid NTS will provide information to all Users in accordance with Table B-1 of UNC Section B Annex B1 in respect of the relevant NTS Exit Point:

- The Long Term Non Firm Capacity Period
- Total Requested Volume of Long Term Non Firm Capacity
- Total Successful Volume of Long Term Non Firm Capacity
- Long Term Non Firm Capacity Price

Option Exercise Price

User Pays
<b>Classification of the modification as User Pays, or not, and the justification for such classification</b>
This modification has been raised as User Pays. Xoserve have confirmed that existing Gemini system functionality should satisfy the requirements of this modification. However, there will be costs associated with testing existing functionality to give confidence that it is fit for purpose. These costs are expected to be between £10k and £50k.
<b>Identification of Users of the service, the proposed split of the recovery between Gas Transporters and Users for User Pays costs and the justification for such view</b>
This modification benefits both National Grid NTS and Users and hence this modification apportions the costs as: <ul style="list-style-type: none"><li>• 50% Shipper &amp; DN Users</li><li>• 50% National Grid NTS</li></ul>
<b>Proposed charge(s) for application of User Pays charges to Shippers</b>
The costs apportioned to Shipper & DN Users, as described above, would be split equally between Shipper and DN Users that hold NTS Entry Capacity and/or NTS Exit (Flat) Capacity on 01 December 2013.
<b>Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve</b>
Xoserve testing costs are expected to be in the range of £10k to £50k. Actual costs to be confirmed following completion of systems testing.

## 4 Relevant Objectives

Impact of the modification on the <b>Relevant Objectives</b> :	
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.	Positive
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.	Negative

**Achievement of relevant objective (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.”**

Implementation of this modification would allow customers to choose to connect to the NTS earlier than is currently permitted under the UNC. Increasing the range of choices available to Users would enable their requirements to be better met, and would remove a potential barrier to operating as required in a competitive market. By removing a barrier to Users operating as desired, market requirements would be better met and hence implementation could be expected to facilitate the securing of effective competition between Shippers.

Implementation would facilitate earlier access to both entry and exit capacity. In the case of entry capacity, being able to bring gas to the market earlier than otherwise would be expected to increase liquidity in the period for which extra gas was available, and additional choice would be available to Shippers regarding which sources of gas to procure to meet their needs. Through normal competitive processes, the gas entering the system would be expected to be optimised in the best interests of consumers. As such, the increase in supply to the market means that implementation would be consistent with facilitating the securing of effective competition between Shippers.

In the case of an exit capacity being available earlier than otherwise, implementation of the modification would offer the possibility of an increased total load being connected to the NTS. This increase in the scale of the market would allow fixed costs to be spread over a wider base, and would provide additional demand which Shippers could compete to supply. Implementation would therefore be consistent with facilitating the securing of effective competition between Shippers.

**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.**

Implementation may be inconsistent with Relevant Objective g. There is a EU requirement to price interruptible connections on the basis of the probability of interruption and this modification could be regarded as inconsistent with this. However, National Grid NTS have emphasised that alternative pricing could not be implemented at the present time due to IS system constraints. In any event, the Workgroup noted that the proposed approach is identical to existing firm products that can be subject to buyback arrangements and so could be regarded as appropriately priced, i.e. being priced on the same basis as other firm capacity products which are potentially subject to curtailment. The modification introduces a requirement for a buyback option to exist, and fixes the price of that option, but is essentially a firm rather than interruptible product.

The legal text to implement this modification includes a change to the NTS Transportation Charging Methodology, as contained in Section Y of the UNC. As such, the impact on the relevant objectives for modification of the charging methodology also needs to be considered.

In its representation National Grid NTS commented that, whilst it recognises the concerns raised with regards to relative objective (g), it was National Grid NTS' understanding that the relevant EU requirement, for the price for interruptible capacity to adequately reflect the risk of interruptions, will apply at EU Interconnection Points only, whereas the Long Term Non Firm Capacity process has been designed to be used at all ASEPs and all NTS Exit points. If this principle is subsequently to be applied to points other than EU Interconnection Points then this is something National Grid NTS would be happy to look at again.

Impact of the modification on the Relevant Charging Methodology Objectives:	
Relevant Objective	Identified impact
a) Save in so far as paragraphs (aa) or (d) apply, that compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its transportation business;	None
aa) That, in so far as prices in respect of transportation arrangements are established by auction, either: (i) no reserve price is applied, or (ii) that reserve price is set at a level - (I) best calculated to promote efficiency and avoid undue preference in the supply of transportation services; and (II) best calculated to promote competition between gas suppliers and between gas shippers;	None
b) That, so far as is consistent with sub-paragraph (a), the charging methodology properly takes account of developments in the transportation business;	Positive
c) That, so far as is consistent with sub-paragraphs (a) and (b), compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers; and	None

d) That the charging methodology reflects any alternative arrangements put in place in accordance with a determination made by the Secretary of State under paragraph 2A(a) of Standard Special Condition A27 (Disposal of Assets).	None
e) 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.	None

**Achievement of relevant objective b) That, so far as is consistent with sub-paragraph (a), the charging methodology properly takes account of developments in the transportation business;**

Consequential changes to the transportation charging methodology are required to support the introduction of Long Term Non Firm Capacity products and, as such, the proposed changes facilitate achievement of relevant objective b by properly taking account of this development in the transportation business.

## 5 Implementation

- No implementation timescales are proposed.
- Xoserve has confirmed that existing Gemini system functionality should satisfy the requirements of this modification. However, there may be costs associated with testing of existing functionality to give confidence that it is fit for purpose. These costs are expected to be between £10k and £50k.

Since this modification seeks to utilise existing processes, National Grid NTS believed that it can be implemented soon after an Authority decision is received. However, National Grid NTS will require a minimum lead time of 2 business days in order to set up and apply the processes required.

## 6 Legal Text

### Text

The following text has been prepared by National Grid NTS and reviewed by the Workgroup.

#### **Transportation Principal Document**

#### **Section B**

*Amend paragraph 2.1.2 to read as follows:*

- 2.1.2 Users may apply for and be registered as holding NTS Entry Capacity:
- as Quarterly NTS Entry Capacity pursuant to an auction in accordance with paragraph 2.2;
  - as Monthly NTS Entry Capacity **pursuant to paragraph 2.1.15 or** pursuant to an auction in accordance with paragraphs 2.2 and 2.3;
  - as Daily NTS Entry Capacity pursuant to a bid under paragraph 2.4; and
  - as Daily Interruptible NTS Entry Capacity pursuant to a bid under paragraph 2.5; and
  - as Quarterly, Monthly, Daily or Daily Interruptible NTS Entry Capacity (as the case may be) pursuant to an invitation in accordance with paragraph 2.1.14.

*Insert new paragraph 2.1.15:*

## 2.1.15 Long Term Non Firm NTS Entry Capacity

- (a) Pursuant to the provisions of this paragraph 2.1.15, National Grid NTS may accept an application from a User for Monthly NTS Entry Capacity upon that User entering into an associated Option Agreement (which together shall constitute “**Long Term Non Firm NTS Entry Capacity**”).
- (b) A User shall only be permitted to apply for Long Term Non Firm NTS Entry Capacity if:
- (i) the User has provided a capacity signal at the relevant Aggregate System Entry Point for a future delivery date by:
    - (1) submitting a bid or bids for Quarterly NTS Entry Capacity that satisfies the relevant test for the release of incremental entry capacity as set out in National Grid NTS’s Entry Capacity Release Methodology Statement; and
    - (2) subsequently being allocated NTS Entry Capacity; and
  - (ii) the amount of Available NTS Entry Capacity at the relevant Aggregate System Entry Point for all Days of the month for which the User applies for Long Term Non Firm NTS Entry Capacity is less than 100,000kWh/day; and
  - (iii) the relevant prices in accordance with Section Y2.3.1 for such Monthly NTS Entry Capacity have been published by National Grid NTS.
- (c) In order to apply for Long Term Non Firm NTS Entry Capacity the User must complete an application form (using the form prescribed by National Grid NTS from time to time). Subject to paragraph 2.1.15(e)(ii), a User may only make one application for Long Term Non Firm NTS Entry Capacity relating to each Gas Year and each relevant Aggregate System Entry Point (but for the avoidance of doubt a User shall be entitled to make more than one application in respect of each relevant Aggregate System Entry Point provided that such applications relate to different Gas Years in accordance with the terms of this paragraph 2.1.15).
- (d) An application for Long Term Non Firm NTS Entry Capacity must be received by National Grid NTS by no later than the 10<sup>th</sup> Business Day of month M where Long Term Non Firm NTS Entry Capacity is required for month M+2 and shall specify:
- (i) the identity of the User;
  - (ii) the relevant Aggregate System Entry Point;
  - (iii) the calendar months applied for which shall be no longer than the end of Gas Year Y+1 or the month preceding the month in which the User will hold Quarterly NTS Entry Capacity signalled pursuant to paragraph 2.1.15(b)(i), whichever is the earlier;
  - (iv) the amount of Long Term Non Firm NTS Entry Capacity applied for by the User which shall be:
    - (1) no less than the minimum eligible amount; and
    - (2) no greater than the amount of NTS Entry Capacity that constituted the capacity signal pursuant to paragraph 2.1.15(b)for each month that the Long Term Non Firm NTS Entry Capacity is to be registered.
- (e) Following receipt of an application for Long Term Non Firm NTS Entry Capacity submitted to National Grid NTS, National Grid NTS shall notify the User within two (2) Business Days whether the application complies with the provisions of paragraphs 2.1.15(b), (c) and (d). In the event that paragraphs 2.1.15(b), (c) and (d):

(i) are satisfied:

(1) National Grid NTS shall within one (1) month following National Grid NTS's notification to the User pursuant to this paragraph 2.1.15(e) determine and confirm to the User whether the requested amount of Long Term Non Firm NTS Entry Capacity can be made available for the period requested by the User;

(2) within 5 Business Days following National Grid NTS's confirmation pursuant to paragraph 2.1.15(e)(i)(1):

(aa) National Grid NTS shall, subject to the provisions of Section V3, allocate such Long Term Non Firm NTS Entry Capacity to the User; and

(bb) the User shall enter into an Option Agreement pursuant to which the User grants an option to National Grid NTS upon the exercise of which National Grid NTS may accept the surrender of Long Term Non Firm NTS Entry Capacity in whole or in part for any Day that the Long Term Non Firm NTS Entry Capacity is held by the User;

(3) the User permits National Grid NTS to enter onto National Grid NTS's relevant systems the details of the allocated Monthly NTS Entry Capacity and the Option Agreement on behalf of the User.

(ii) are not satisfied:

(1) National Grid NTS shall advise the User that the application is non-compliant and shall specify the reasons therefor; and

(2) the User may amend the application so that it complies with paragraphs 2.1.15(b), (c) and (d) and resubmit the application to National Grid NTS.

(f) Each User shall pay Capacity Charges for any Long Term Non Firm NTS Entry Capacity allocated to it, and such Capacity Charge shall be determined as the quantity of Monthly NTS Entry Capacity allocated multiplied by a fixed price multiplied by the relevant period for which such Long Term Non Firm NTS Entry Capacity has been allocated. For the purposes of this paragraph 2.1.15(f) the fixed price shall be equal to the prevailing reserve price for the allocation of Annual Monthly NTS Entry Capacity published by National Grid NTS for the relevant period at the relevant Aggregate System Entry Point at which the Long Term Non Firm NTS Entry Capacity is allocated.

(g) In the event that National Grid NTS exercises the Option Agreement granted pursuant to 2.1.15(e)(i)(2), National Grid NTS shall:

(i) pay to the User an option exercise price of an amount equal to the price paid by the User for the quantity of Long Term Non Firm NTS Entry Capacity that is surrendered for that Day. The amount paid by National Grid NTS to the User in respect of an exercised option would be considered a Capacity Surrender Charge for the purposes of Code; and

(ii) publish on the Business Day following the Day for which such options were exercised the amount of Monthly NTS Entry Capacity for which the options were exercised along with the relevant option exercise price.

(h) For the avoidance of doubt, any Long Term Non Firm NTS Entry Capacity allocated to a User pursuant to this paragraph 2.1.15 shall be included in the User's Fully Adjusted Available NTS Entry Capacity.

- (i) The price paid by a User for Long Term Non Firm NTS Entry Capacity shall be considered as the bid price for the determination of System Entry Overrun Charge rates at the relevant Aggregate System Entry Point.
- (j) National Grid NTS will no later than:
- (i) two (2) Business Days prior to the first day of the period to which the application for Long Term Non Firm NTS Entry Capacity relates, inform the User that its application for Long Term Non Firm NTS Entry Capacity has been allocated, the amount of Long Term Non Firm NTS Entry Capacity which it is registered as holding for the relevant Aggregate System Entry Point and the period for which the Long Term Non Firm NTS Entry Capacity has been allocated; and
  - (ii) one (1) Business Day following a notification to the User(s) pursuant to paragraph 2.1.15(j)(i), inform all Users of:
    - (1) the relevant period for which the Long Term Non Firm NTS Entry Capacity has been allocated;
    - (2) the aggregate amount of Long Term Non Firm NTS Entry Capacity requested;
    - (3) the aggregate amount of Long Term Non Firm NTS Entry Capacity allocated;
    - (4) the relevant Capacity Charge(s) in respect of the allocated Long Term Non Firm NTS Entry Capacity; and
    - (5) the option exercise price.

*Amend paragraph 2.7.1 to read as follows:*

2.7.1 Following the submission of monthly capacity bids, daily capacity bids and daily interruptible capacity bids, NTS Entry Capacity will be allocated for a relevant short term period in accordance with this paragraph 2.7. For the avoidance of doubt, this paragraph 2.7 shall not apply to applications for Long Term Non Firm NTS Entry Capacity made pursuant to paragraph 2.1.15.

*Amend paragraph 2.8.8(b) to read as follows:*

- 2.8.8 For the purposes of paragraph 2.8.9 below, the following words shall have the following meanings:
- (a) **"Forward Agreement"** means a Capacity Management Agreement (entered into following the issue of a Tender Invitation Notice) pursuant to which a User surrenders Firm NTS Entry Capacity to National Grid NTS over a forward period of days (but, for the avoidance of doubt, shall not include an agreement made pursuant to the provisions of paragraph 2.10);
  - (b) **"Option Agreement"** means a Capacity Management Agreement (entered into either following the issue of a Tender Invitation Notice or following an application for Long Term Non Firm NTS Entry Capacity pursuant to paragraph 2.1.15) pursuant to which a User grants an option to National Grid NTS upon the exercise of which National Grid NTS may accept the surrender of Firm NTS Entry Capacity (but, for the avoidance of doubt, shall not include an agreement made pursuant to the provisions of paragraph 2.10);
  - (c) **"Relevant Forward Combination"** means a specific combination of Aggregate System Entry Point and forward delivery period as set out in a valid tender offer submitted to National Grid NTS pursuant to a Tender Invitation Notice;
  - (d) **"Relevant Option Combination"** means a specific combination of Aggregate System Entry Point and option exercise period as set out in a valid tender offer submitted to National Grid NTS pursuant to a

Tender Invitation Notice; and

- (e) **"Tender Invitation Notice"** means a notice issued by National Grid NTS inviting Users to submit a tender offer for a Forward Agreement or an Option Agreement (as the case may be).

*Amend paragraph 2.11.3 to read as follows:*

2.11.3 The Applicable Daily Rate shall be:

- (a) in respect of Quarterly NTS Entry Capacity applied for pursuant to an annual invitation under paragraph 2.2, the applicable reserve or cleared price (for the calendar quarter) as determined following the relevant annual invitation date in accordance with paragraph 2.6;
- (b) in respect of Monthly NTS Entry Capacity applied for pursuant to an invitation under paragraphs 2.2 and 2.3, the bid price tendered by the User in respect of the Monthly NTS Entry Capacity allocated for the relevant calendar month pursuant to paragraph 2.7.2;
- (c) in respect of Daily NTS Entry Capacity, the bid price tendered by the User in respect of the Daily NTS Entry Capacity allocated for the Day pursuant to paragraph 2.7.2; ~~and~~
- (d) in respect of Daily Interruptible NTS Entry Capacity, the bid price tendered by the User in respect of the Daily Interruptible NTS Entry Capacity allocated for the Day pursuant to paragraph 2.27; ~~and~~
- (e) in respect of Monthly NTS Entry Capacity applied for pursuant to paragraph 2.1.15, the prevailing reserve price last published pursuant to paragraph 2.2.1(a) for the relevant Aggregate System Entry Point and calendar month.

*Amend paragraph 2.12.3 to read as follows:*

2.12.3 The System Entry Overrun Charge shall be calculated as the amount of the overrun quantity multiplied by whichever is the greatest of:

- (a)  $(8 * A)$ , where 'A' is the highest bid price in relation to a capacity bid in respect of which NTS Entry Capacity was allocated following an invitation under paragraphs 2.2, 2.3 and 2.4; and
- (b)  $(1.1 * B)$ , where 'B' is the relevant average accepted offer price;
- (c)  $(1.1 * C)$ , where 'C' is the relevant average accepted forward price;
- (d)  $(1.1 * D)$ , where 'D' is the relevant average accepted exercise price; and
- (e)  $(1.1 * E)$ , where 'E' is the highest unit price accepted by National Grid NTS

where (a), (b), (c), (d) and (e) are calculated by reference to information available to National Grid NTS at 02:00 hours on the relevant Day. For the purposes of this paragraph 2.12.3 an application for Long Term Non Firm NTS Entry Capacity made pursuant to paragraph 2.1.15 will be treated as a capacity bid and the price paid for the Long Term Non Firm NTS Entry Capacity will be treated as a bid price.

*Amend paragraph 3.1.5 to read as follows:*

3.1.5 In relation to an NTS Exit Point:

- (a) **"Annual"** NTS Exit (Flat) Capacity is NTS Exit (Flat) Capacity which may be applied for and registered as held (in a given amount) by a User for each Day in a Gas Year;
- (b) **"Daily"** NTS Exit (Flat) Capacity is NTS Exit (Flat) Capacity which may be applied for and registered as held (in a given amount) by a User for a particular Day only;

- (c) **"Enduring"** Annual NTS Exit (Flat) Capacity is Annual NTS Exit (Flat) Capacity which may be applied for and registered as held (in a given amount) by a User with effect from the Day for which it is allocated pursuant to paragraph 3.2, on the basis that the User will continue to hold such amount of capacity subject only to:
  - (i) a reduction in accordance with paragraph 3.2;
  - (ii) the User ceasing to hold the capacity in accordance with 3.3.7(a);
  - (iii) any System Capacity Assignment;
- (d) Daily NTS Exit (Flat) Capacity is **"Off-peak"** where it is subject to curtailment in accordance with paragraph 3.10, and otherwise is **"Firm"**; and except where expressly stated to be Off-peak, references to Daily NTS Exit (Flat) Capacity are to Firm Daily NTS Exit (Flat) Capacity; and
- (e) **"Monthly"** NTS Exit (Flat) Capacity is NTS Exit (Flat) Capacity which may be applied for and registered as held (in a given amount) by a User for each Day in a particular calendar month.

*Amend paragraph 3.1.6 to read as follows:*

3.1.6 For the purposes of the Code:

- (a) the **"classes"** of NTS Exit Capacity are Enduring Annual NTS Exit (Flat) Capacity, Annual NTS Exit (Flat) Capacity, Monthly NTS Exit (Flat) Capacity, Firm Daily NTS Exit (Flat) Capacity, Off-peak Daily NTS Exit (Flat) Capacity and NTS Exit (Flexibility) Capacity;
- (b) in respect of an NTS Exit Point and in relation to a Gas Year:
  - (i) 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 Transporter's Licence and as set out in National Grid NTS's Exit Capacity release obligation summary report;
  - (ii) at any time the **"Remaining Available NTS Exit (Flat) Capacity"** in relation to that Gas Year or (as the case may be) a Day in that Gas Year is the amount (if any) by which the Baseline NTS Exit (Flat) Capacity for that Gas Year exceeds the aggregate amount of NTS Exit (Flat) Capacity registered, at that time, as held by Users in relation to that Gas Year or Day;
- (c) for the purposes of any capacity invitation, the **"reserve price"** in relation to any class of NTS Exit Capacity, capacity period and NTS Exit Point is the price ascertained pursuant to National Grid NTS's Transporters Licence as set out in National Grid NTS's Transportation Statement;
- (d) a **"New"** NTS Exit Point is an NTS Exit Point in respect of which Users have not previously been able to submit an application or bid for Annual NTS Exit (Flat) Capacity in accordance with the provisions of paragraphs 3.2.3(a) and 3.4.

*Insert new paragraph 3.1.11:*

3.1.11 Long Term Non Firm NTS Exit (Flat) Capacity

- (a) Pursuant to the provisions of this paragraph 3.1.11, National Grid NTS may accept an application from a User for Monthly NTS Exit (Flat) Capacity upon that User entering into an associated Exit Option Agreement (which together shall constitute **"Long Term Non Firm NTS Exit (Flat) Capacity"**).

- (b) A User shall only be permitted to apply for Long Term Non Firm NTS Exit (Flat) Capacity if:
- (i) a capacity signal has been provided at the relevant NTS Exit Point for a future date either by:
    - (1) the User applying for and being allocated Enduring Annual NTS Exit (Flat) Capacity; or
    - (2) a Reservation Party reserving Enduring Annual NTS Exit (Flat) Capacity and subsequently nominating the User to be registered as holding some or all of the Reserved Capacity,  
with the result that the Enduring Annual NTS Exit (Flat) Capacity registered or reserved to all Users in aggregate at the relevant NTS Exit Point exceeds the Baseline NTS Exit (Flat) Capacity; and
  - (ii) the amount of Remaining Available NTS Exit (Flat) Capacity for all Days within the Gas Year at the relevant NTS Exit Point is less than 100,000kWh/day; and
  - (iii) the relevant prices in accordance with Section Y2.1 for such Monthly NTS Exit (Flat) Capacity have been published by National Grid NTS.
- (c) In order to apply for Long Term Non Firm NTS Exit (Flat) Capacity the User must complete an application form (using the form prescribed by National Grid NTS from time to time). Subject to paragraph 3.1.11(e)(ii), a User may only make one application for Long Term Non Firm NTS Exit (Flat) Capacity relating to each Gas Year and each relevant NTS Exit Point (but for the avoidance of doubt a User shall be entitled to make more than one application in respect of each relevant NTS Exit Point provided that such applications relate to different Gas Years in accordance with the terms of this paragraph 3.1.11).
- (d) An application for Long Term Non Firm NTS Exit (Flat) Capacity must be received by National Grid NTS by no later than the 10<sup>th</sup> Business Day of month M where Long Term Non Firm NTS Exit (Firm) Capacity is required for month M+2 and shall specify:
- (i) the identity of the User;
  - (ii) the relevant NTS Exit Point;
  - (iii) the calendar months applied for which shall be no longer than the end of Gas Year Y+1 or the month preceding the month in which the User will hold Enduring Annual NTS Exit (Flat) Capacity signalled pursuant to paragraph 3.1.11(b)(i), whichever is the earlier;
  - (iv) the amount of Long Term Non Firm NTS Exit (Flat) Capacity applied for by the User which shall be:
    - (1) no less than 100,000kWh/day; and
    - (2) no greater than the amount of Enduring Annual NTS Exit (Flat) Capacity that constituted the incremental capacity signal pursuant to paragraph 3.1.11(b)  
for each month that the Long Term Non Firm NTS Exit (Flat) Capacity is to be registered.
- (e) Following receipt of an application for Long Term Non Firm NTS Exit (Flat) Capacity submitted to National Grid NTS, National Grid NTS shall notify the User within two (2) Business Days whether the application complies with the provisions of paragraphs 3.1.11(b), (c) and (d). In the event that paragraphs 3.1.11(b), (c) and (d):
- (i) are satisfied:
    - (1) National Grid NTS shall within one (1) month

following National Grid NTS's notification to the User pursuant to this paragraph 3.1.11(e) determine and confirm to the User the amount of Long Term Non Firm NTS Exit (Flat) Capacity that can be made available for the period requested by the User; and

(2) within 5 Business Days following National Grid NTS's confirmation pursuant to paragraph 3.1.11(e)(i)(1):

(aa) National Grid NTS shall, subject to the provisions of Section V3, allocate such Long Term Non Firm NTS Exit (Flat) Capacity to the User; and

(bb) the User shall enter into an Exit Option Agreement pursuant to which the User grants an option to National Grid NTS upon the exercise of which National Grid NTS may accept the surrender of Long Term Non Firm NTS Exit (Flat) Capacity in whole or in part for any Day that the Long Term Non Firm NTS Exit (Flat) Capacity is held by the User;

(3) the User permits National Grid NTS to enter onto National Grid NTS's relevant systems the details of the allocated Monthly NTS Exit (Flat) Capacity and the Exit Option Agreement on behalf of the User.

(ii) are not satisfied:

(1) National Grid NTS shall advise the User that the application is non-compliant and shall specify the reasons therefor; and

(2) the User may amend the application so that it complies with paragraphs 3.1.11(b), (c) and (d) and resubmit the application to National Grid NTS.

(f) Each User shall pay Capacity Charges for any Long Term Non Firm NTS Exit (Flat) Capacity allocated to it, and such Capacity Charge shall be determined as the quantity of Monthly NTS Exit (Flat) Capacity allocated multiplied by a fixed price multiplied by the relevant period for which such Long Term Non Firm NTS Exit (Flat) Capacity has been allocated. For the purposes of this paragraph 3.1.11(f) the fixed price shall be equal to the prevailing price in accordance with Section Y2.1 published by National Grid NTS for the relevant period at the relevant NTS Exit Point at which the Long Term Non Firm NTS Exit (Flat) Capacity is allocated.

(g) In the event that National Grid NTS exercises the Exit Option Agreement granted pursuant to 3.1.11(e)(i)(2), National Grid NTS shall:

(i) pay to the User an option exercise price of an amount equal to the price paid for the quantity of Long Term Non Firm NTS Exit (Flat) Capacity that is surrendered for that Day. The amount paid by National Grid NTS to the User in respect of an exercised option would be considered a NTS Exit (Flat) Capacity Surrender Charge for the purposes of the Code; and

(ii) publish on the Business Day following the Day for which such options were exercised the amount of Monthly NTS Exit (Flat) Capacity for which the options were exercised along with the relevant option exercise price.

(h) For the avoidance of doubt, any Long Term Non Firm NTS Exit (Flat) Capacity allocated to a User pursuant to this paragraph 3.1.11 shall be included in the User's Fully Adjusted Available NTS Exit (Flat) Capacity.

(i) The price paid by a User for Long Term Non Firm NTS Exit (Flat) Capacity shall be considered to be a capacity application for the

determination of NTS Exit (Flat) Overrun Charge rates at the relevant NTS Exit Point.

- (j) National Grid NTS will no later than:
- (i) two (2) Business Days prior to the first day of the period to which the application for Long Term Non Firm NTS Exit (Flat) Capacity relates, inform the User that its application for Long Term Non Firm NTS Exit (Flat) Capacity has been allocated, the amount of Long Term Non Firm NTS Exit (Flat) Capacity which it is registered as holding for the relevant NTS Exit Point and the period for which the Long Term Non Firm NTS Exit (Flat) Capacity has been allocated; and
  - (ii) one (1) Business Day following the notification to the User pursuant to paragraph 3.1.11(j)(i), inform all Users of:
    - (1) the relevant period for which the Long Term Non Firm NTS Exit (Flat) Capacity has been allocated;
    - (2) the aggregate amount of Long Term Non Firm NTS Exit (Flat) Capacity requested by the User;
    - (3) the aggregate amount of Long Term Non Firm NTS Exit (Flat) Capacity allocated to the User;
    - (4) the relevant Capacity Charge(s) in respect of the allocated Long Term Non Firm NTS Exit (Flat) Capacity; and
    - (5) the option exercise price.

*Amend paragraph 3.9.3 to read as follows:*

3.9.3 In accordance with the System Management Principles:

- (a) an Exit Constraint Management Agreement may comprise:
  - (i) an Exit Forward Agreement, pursuant to which a User will surrender a particular amount of NTS Exit (Flat) Capacity in relation to a period of one or more Days;
  - (ii) an Exit Option Agreement, pursuant to which National Grid NTS may require a User to surrender a particular amount (or up to that amount) of NTS Exit (Flat) Capacity in relation to any Day in a period of one or more Days;
- (b) Exit Constraint Management Agreements may be entered into either following a tender carried out by National Grid NTS for offers by Users to enter into such agreements or following an application for Long Term Non Firm NTS Exit (Flat) Capacity pursuant to paragraph 3.1.11.

*Amend paragraph 3.12.3 to read as follows:*

3.12.3 The Applicable Daily Rate shall be:

- (a) in respect of:
  - (i) Enduring Annual NTS Exit (Flat) Capacity; ~~and~~
  - (ii) Annual NTS Exit (Flat) Capacity allocated to the User in respect of a Gas Year pursuant to paragraph 3.4; ~~and~~
  - (iii) Monthly NTS Exit (Flat) Capacity;the rate determined in accordance with National Grid NTS's Transportation Statement;
- (b) in respect of each amount of:
  - (i) Daily NTS Exit (Flat) Capacity allocated to the User in respect

of a Day pursuant to paragraph 3.5;

- (ii) Daily Off-peak NTS Exit (Flat) Capacity allocated to the User in respect of a Day pursuant to paragraph 3.6;

the bid price tendered by the User pursuant to the respective annual capacity bid or daily capacity bid pursuant to which such NTS Exit (Flat) Capacity was allocated.

*Amend paragraph 3.13.3 to read as follows:*

3.13.3 The NTS Exit (Flat) Overrun Charge payable by a relevant User shall be calculated as the User's individual flat overrun multiplied by whichever is the greatest of:

- (a)  $(8 * A)$ , where 'A' is:
  - (i) the highest bid price paid to National Grid NTS in relation to any capacity bid accepted in respect of the Day; or
  - (ii) the Applicable Daily Rate in relation to a capacity application in respect of the Gas Year in which the Day falls, or an application for Long Term Non Firm NTS Exit (Flat) Capacity pursuant to paragraph 3.1.11, at the NTS Exit Point;
- (b)  $(1.1 * B)$ , where 'B' is the highest offer price, forward price or option exercise price paid by National Grid NTS in respect of any Exit Constraint Management Action taken in respect of the Day at the NTS Exit Point; and
- (c)  $(8 * C)$ , where 'C' is the highest reserve price under any invitation for the Day or the Gas Year in which the Day falls for NTS Exit (Flat) Capacity at the NTS Exit Point.

*Amend paragraph 5.5.1 to read as follows:*

5.5.1 A User's Available System Capacity (determined in accordance with paragraph 5.3.2) may become negative where:

- (a) the User is a Transferor User in respect of a System Capacity Transfer under which the Transferred System Capacity exceeds the Transferor User's Available System Capacity (on a Fully Adjusted basis) at the Transfer System Point; or
- (b) the Transferor User submits:
  - (i) a daily capacity offer (pursuant to paragraph 2.9) for an amount of NTS Entry Capacity which exceeds its Available Firm NTS Entry Capacity;
  - (ii) a daily capacity offer (pursuant to paragraph 3.11) for an amount of NTS Exit (Flat) Capacity which exceeds its Available Firm NTS Exit (Flat) Capacity; or
- (c) the User is a Transferee User in respect of a System Capacity Transfer, and (subject to any election under paragraph 5.4.2):
  - (i) the Transferee User has pursuant to a further System Capacity Transfer transferred System Capacity at the same Transfer System Point to another User; and
  - (ii) the first System Capacity Transfer lapses pursuant to paragraph 5.4.1-; or
- (d) the User is a Transferor User in respect of a System Capacity Transfer which results in the Transferor User's Available System Capacity (on a Fully Adjusted basis) at the Transfer System Point being less than the Transferor User's existing allocation of:

- (i) Long Term Non Firm NTS Entry Capacity obtained pursuant to paragraph 2.1.15, and the Option Agreement associated with the Long Term Non Firm NTS Entry Capacity is subsequently exercised during the Transfer Period; or
- (ii) Long Term Non Firm NTS Exit (Flat) Capacity obtained pursuant to paragraph 3.1.11, and the Exit Option Agreement

associated with the Long Term Non Firm NTS Exit (Flat) Capacity is subsequently exercised during the Transfer Period.

## Section Y

*Amend chapter 2.1 to read as follows:*

### **2.1 System Exit Firm Capacity and Long Term Non Firm NTS Exit (Flat) Capacity**

The terms on which Enduring Annual, Annual, ~~and~~ Daily firm NTS Exit (Flat) Capacity and Long Term Non Firm NTS Exit (Flat) Capacity is sold are set out in the UNC Transportation Principal Document Section B. Charges reflect the estimated long run marginal cost (LRMC) of reinforcing the system to transport additional gas between entry and exit points. The calculations are described in more detail below.

Exit capacity sold as Long Term Non Firm NTS Exit (Flat) Capacity, subject to the terms set out in UNC TPD Section B, will be priced at the prevailing price for Daily Firm NTS Exit (Flat) Capacity for the relevant period for which the capacity is purchased. Further details can be found in the Statement of Gas Transportation Charges.

*Amend chapter 2.3.1 to read as follows:*

#### **2.3.1 Reserve Prices in System Entry Capacity Auctions**

System entry capacity is allocated by means of auctions as described in the UNC and outlined in Section 2.3 above. This approach includes various reserve prices below which bids will not be accepted.

QSEC reserve prices for obligated entry capacity are calculated each year through using the NTS Transportation Model as described in 2.5 below. QSEC step prices for release of additional (incremental) capacity are calculated with reference to the applicable reserve price and in accordance with the methodology for the determination of incremental step prices as set out in National Grid's Incremental Entry Capacity Release (IECR) methodology statement.

MSEC reserve prices are equal to the obligated capacity price for capacity offered in the auction of QSEC capacity.

Reserve prices are calculated by applying the following discounts to the MSEC obligated capacity prices:

- Day Ahead Daily System Entry Capacity (DADSEC); 33.3%
- Within Day Daily System Entry Capacity (WDDSEC); 100%
- Daily Interruptible System Entry Capacity (DISEC); 100%

Discretionary Release System Entry Capacity (DRSEC) released via auction is subject to the prevailing MSEC reserve price.

Entry capacity allocated as Long Term Non Firm NTS Entry Capacity, subject to the terms set out in UNC TPD Section B, will be priced at the prevailing MSEC reserve price for the relevant period for which the capacity is purchased. Further details can be found in the Statement of Gas Transportation Charges.

## 7 Consultation Responses

Representations were received from the following parties:

Company/Organisation Name	Support Implementation or not?
Gazprom	Support
National Grid Distribution	Qualified Support
National Grid NTS	Support
RWE Supply & Trading GmbH	Qualified Support

Of the four representations received two supported implementation and two offered qualified support.

### Summary Comments

Although National Grid Distribution recognised the associated costs of this modification are not significant they do not agree with the User Pays allocation of 50% to Users (including DN Users) and 50% to NTS.

National Grid NTS noted the User Pays allocation highlighting they may face additional operational and process costs, however these additional costs are not anticipated to be material.

Whilst National Grid NTS recognise the concerns raised with regards to relevant objective (g), it is National Grid NTS' understanding that the relevant EU requirement, for the price for interruptible capacity to adequately reflect the risk of interruptions, will apply at EU Interconnection Points only, whereas the Long Term Non Firm Capacity process has been designed to be used at all ASEPs and all NTS Exit points.

RWE Supply & Trading offered qualified support for this modification because this product may only be released where capacity has been allocated (or reserved) following receipt of an incremental signal for enduring capacity. On this basis and as firm charges are payable, they believe that these charges should contribute to the User Commitment. As drafted, the LTNF product revenues are excluded from the calculation of when User Commitment is discharged. As National Grid NTS has identified that implementation of 0454 will necessitate changes to a number of other documents the issue of User Commitment should be included in this wider change process.

### Workgroup Consideration of Additional Issues Identified by Panel

The Workgroup was requested to consider the following points by Panel:

1. Provision of sufficient evidence or criteria to justify the release of discretionary capacity to certain users on an exclusive basis in the light of NGG's obligation not to discriminate between users.
2. The criteria used to determine what (as in its source) and how much discretionary capacity will be available for use as LTNF (and not made available for other users, if that is the case).
3. The criteria for determining when the LTNF buyback option will be exercised, and in particular the order in which it will be exercised compared to other products that are subject to curtailment.

National Grid NTS clarified the existing business rules in relation to these questions:

1. The LTNF service is available to all users, should they meet the criteria and wish to use it. This is therefore not believed to be discriminatory.
2. LTNF is essentially an interruptible product and will not impact upon existing obligations to release existing capacity. The quantity will not exceed the relevant incremental signal.

3. A constraint will be identified and managed consistent with existing UNC rules; daily interruptible/off-peak capacity will be curtailed first. LTNF buyback option will then be considered alongside any other offers for Firm Capacity.

The Workgroup considered the Legal text provided by National Grid NTS and were satisfied it was not impacted by these clarifications and no further issues were raised regarding its content.

The Workgroup consider that the additional information provided in relation to these issues is supplemental and would not impact upon previous consultation responses. The Panel is recommended not to issue this amended report for further consultation before forwarding it to the Authority as directed.

## 8 Panel Discussions

The Panel Chair summarised Modification 0454 as seeking to introduce a Long Term Non Firm capacity product for both NTS Entry and Exit Capacity, whereby Long Term Non Firm Capacity would be made available via the release of Firm NTS Entry/Exit (Flat) Capacity with an associated Option Agreement. This would effectively allow a customer earlier access to Non Firm NTS Entry/Exit Capacity products prior to the effective date of the Quarterly NTS Entry Capacity/Enduring Annual NTS Exit (Flat) Capacity allocated to (or as the case may be, reserved by) the customer following the receipt of an incremental capacity signal from that customer.

Members considered the representations noting that, of the four representations made, two supported implementation and two offered qualified support. They also noted concerns raised in respect of the proposed User Pays (50:50 Shippers/DNs:NTS) split along with some reservations relating to the User Commitment aspects.

In considering the relevant objectives, Members agreed that the proposed changes would facilitate earlier access to both entry and exit capacity, therefore better facilitating achievement of objective (d) securing of effective competition. Members also agreed that the consequential Charging Methodology update was appropriate, therefore furthering Charging Methodology objective (b) that, so far as is consistent with subparagraph (a), the charging methodology properly takes account of developments in the transportation business.

Members then voted unanimously to recommend implementation of Modification 0454.

## 9 Recommendation

### Panel Recommendation

Having considered the Modification Report, the Panel recommends:

- that proposed Modification 0454 should be made.

0454  
Modification Report

06 March 2014

Version 3.0

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