

Stage 04: Final Modification Report

At what stage is this document in the process?

0510:

Reform of Gas Allocation Regime at GB Interconnection Points

01

Modification

02

Workgroup Report

03

Draft Modification Report

04

Final Modification Report

This Modification Proposal seeks to facilitate compliance with European legislative changes via implementation of new rules regarding gas allocations at GB Interconnection Points.



Panel consideration is due on 21 May 2015











High Impact: Shippers, National Grid NTS



Medium Impact: -



Low Impact: -

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About this document:		
This Final Modification Report will be presented to the Panel on 21 May 2015. The Authority will consider the Panel’s recommendation and decide whether or not this change should be made.		 enquiries@gasgovernance.co.uk
The Workgroup recommended the following timetable:		 0121 288 2107
Initial consideration by Workgroup	04 September 2014	Proposer: Martin Connor
Amended Modification considered by Workgroup	02 December 2014	 martin.connor@nationalgrid.com
Workgroup Report presented to Panel	19 March 2015	 01926 653847
Draft Modification Report issued for consultation	19 March 2015	Transporter: National Grid NTS
Consultation Close-out for representations	24 April 2015	Systems Provider: Xoserve
Final Modification Report published for Panel	27 April 2015	 commercial.enquiries@xoserve.com
UNC Modification Panel recommendation	21 May 2015	Additional contacts: Phil Hobbins
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1 Summary

Is this a Self-Governance Modification?

Self-Governance procedures are not envisaged because this Modification Proposal is likely to have a material effect on commercial activities connected with the shipping of gas by creating a new gas allocation regime at GB Interconnection Points (IPs).

Is this a Fast Track Self-Governance Modification?

Fast Track Self-Governance procedures are not envisaged because the Proposer does not believe that the Modification Proposal meets the self-governance criteria for the reasons stated above.

Why Change?

This Modification Proposal is one of several Proposals, which seek to implement relevant provisions of a number of new EU Network Codes. These Codes are being introduced in order to enable progress towards a competitive and efficient EU internal market in gas.

The EU Interoperability and Data Exchange Code ('the INT Code') requires Adjacent TSOs to agree several mandatory interconnection agreement terms, one of which is 'rules for the allocation of gas quantities'. The default (obligatory) allocation rule is that allocations equal confirmed nominated quantities (defined in EID as Nominated Quantities - allocate as nominate - should the Adjacent TSOs fail to agree an allocation rule. Allocate as nominate is also obligatory should a request be made for this rule by an Interconnection Point TSO to its Adjacent TSO. National Grid NTS has discussed the proposal with its Adjacent TSOs who each consider such a reform to be appropriate.

Allocate as nominate means that National Grid NTS would allocate gas quantities to each User at the IPs equal to its Nominated Quantities which will be the value determined by the Adjacent TSOs in response to the User's Input Nominations and/or Output Nominations¹. National Grid NTS requires this allocation rule, for which there is currently no provision in the UNC. Therefore, the UNC needs to be amended to facilitate this type of allocation regime at GB IPs.

Solution

National Grid NTS wishes to amend the UNC, and make changes to its systems, in order to facilitate this new allocation method at IPs, which will incorporate the following process steps:

- National Grid NTS communicates Confirmed Nomination Quantities to each IP User ²
- National Grid NTS allocates gas to IP Users equal to their Nominated Quantities
- National Grid NTS and the Adjacent TSO allocate the difference between Measured Quantities and Net Aggregate Nominated Quantities to an Operational Balancing Account (OBA)³.
- In line with Article 9(3) of the INT Code, National Grid NTS may allocate Users in proportion to Measured Quantities if the Steering Tolerance in the OBA has been breached and where National Grid NTS and its Adjacent TSO agree it is necessary to do so in circumstances to be described in the relevant interconnection agreements. Given that different Adjacent TSOs may have differing methodologies for proportional allocation, it is not possible to have a uniform rule in

¹ See UNC TPD C1.1.2(e)

² Following a nomination matching process carried out by National Grid NTS and the adjacent transporter

³ Defined in the INT Code as 'an account between adjacent transmission system operators, to be used to manage steering differences at an interconnection point in order to simplify gas accounting for network users involved at the interconnection point'

the UNC. It is therefore proposed that (if the IA stipulates this) National Grid NTS allocates gas to Users in accordance with the Adjacent TSO's calculation, with a default rule in the UNC in the absence of an Adjacent TSO calculation.

It is also proposed that Scheduling Charges should not be levied in respect of the IPs but, for the avoidance of doubt, would continue to apply in respect of other relevant System Points.

Relevant Objectives

Implementation of this Modification Proposal would better facilitate achievement relevant objective: 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

No specific implementation date is proposed. However, National Grid NTS is currently planning to implement the revised allocation arrangements in respect of IPs by 01 October 2015, in view of the interdependencies between the European Balancing, CAM and INT Codes and the need for National Grid NTS to make system changes in a timely fashion.

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

No impacts on other industry changes are envisaged. This modification is not essential to the go-live of the UK Link Replacement Programme.

2 Why Change?

Regulation (EC) No 715/2009 of the European Parliament and the Council of the European Union came into force in September 2009 and introduced a European Network of Transmission System Operators for Gas (ENTSOG). One of ENTSOG's tasks was to prepare legally binding network codes in the form of European secondary legislation to the Gas Regulation (No 715/2009). The aim of the codes is to enable progress towards a competitive and efficient internal European market in gas by the creation of liquid markets, the efficient use of cross-border transmission capacity, and the integration between Member States' gas markets. The EU gas network codes to be established under the regulation include the Interoperability and Data Exchange Code (the INT Code'), which includes rules for the allocation of gas quantities. This Code has completed its comitology procedure and is expected to complete its transition into EU law by 01 May 2016.

In the current GB regime, Users are required (via UNC) to determine their allocations and then to notify National Grid NTS, whereby the net aggregate allocated quantity must be equal to the end of day physical measurement. Current arrangements in respect of IPs are that User Agents submit allocations to National Grid NTS on behalf of NTS Users for both entry and exit which, in aggregate, equal the measured gas flow⁴.

Within the INT Code, the default allocation rule is for the Adjacent TSOs to allocate gas to Users equal to their Nominated Quantities (commonly referred to as 'allocate as nominate') with the Steering Difference allocated to an Operational Balancing Account (OBA) between them. This means that such arrangements become obligatory if TSOs either side of an IP fail to agree an allocation rule or if one of them requests such a rule. National Grid NTS' Adjacent TSOs each consider such a reform to be appropriate, therefore both UNC and the Interconnection Agreements need to be amended to facilitate these new allocation arrangements at IPs.

EU Code Provisions Addressed by this Proposal

This Proposal seeks to align the UNC with the relevant aspects of the following articles of the INT Code:

Article (paragraph)	Description
2(a)	Definitions – exceptional event
2(f)	Definitions – measured quantity
2(g)	Definitions – operational balancing account
2(i)	Definitions – steering difference
9	Rules for the allocation of gas quantities

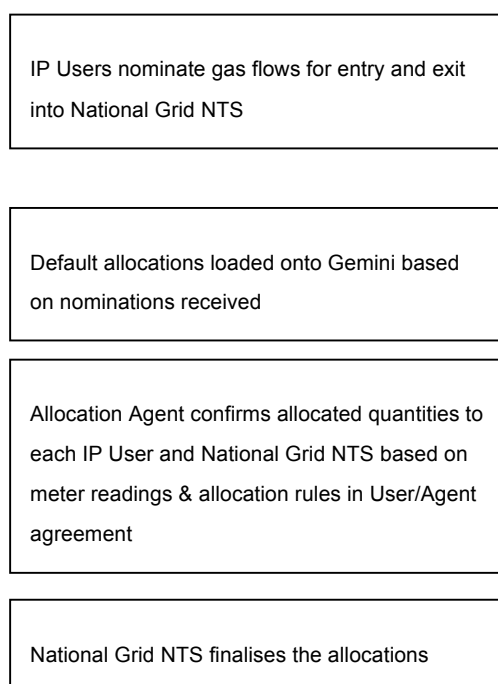
⁴ Arrangements for the discontinuance of the User Agent role in respect of Interconnection Points are proposed to be made separately and do not require change to the UNC

3 Solution

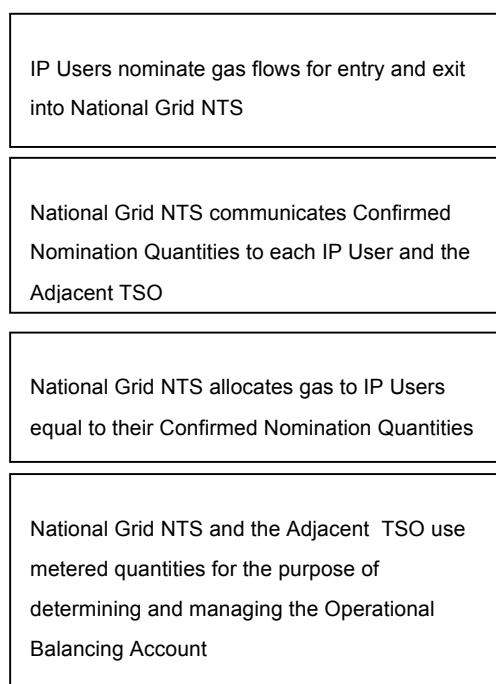
Section E of the Transportation Principal Document includes the current arrangements for gas allocations for all NTS System Entry Points and NTS Connected System Exit Points (each IP comprising both). It is proposed that the UNC is amended to include arrangements between Users and National Grid NTS to facilitate an allocate as nominate regime at the IPs. For the reasons explained above, the proposed allocation regime at IPs, as required by the INT Code, will differ from arrangements in respect of other NTS System Entry Points and NTS Connected System Exit Points. National Grid NTS and its Adjacent TSOs will separately need to incorporate allocation rules into the Interconnection Agreements which will be subject to consultation with Users in due course.

The differences between the current and proposed allocations processes at IPs are shown in the following graphic:

Current Process



Allocate as nominate process



Under allocate as nominate, both National Grid NTS and the Adjacent TSOs will utilise Nominated Quantities from the nominations Matching Process across the IPs to determine Users' UDQIs or, as the case may be, UDQOs and the corresponding Counterparty IS Users allocations. The Steering Difference (the difference between the Measured Quantity and Net Aggregated Nominated Quantities) is proposed to be accounted for within an Operational Balancing Account (OBA). However, in circumstances where the Cumulative Steering Difference (being the net result of all Steering Differences since the inception of the OBA arrangement) cannot be accommodated either by National Grid NTS or an Adjacent TSO, as a default approach, National Grid NTS would allocate gas to Users (and the Adjacent TSO would allocate gas to Counterparty IS Users) by dividing up the Measured Quantity in proportion to the Nominations (or as the case may be, Renominations) submitted in respect of that IP for that Day in the forward Direction and by allocating gas to Users in the reverse Direction equal to such Users' Nominated Quantities. The Steering Difference for that Day would be zero (by virtue of it having been allocated to Users in the forward Direction rather than to the OBA). Thus, the value of the Cumulative Steering Difference applicable at the end of the Preceding Day would also be applicable at the end of any Day on which such proportional allocation occurs (to be defined as a 'Non-OBA Day'). In line with Article 9(3) of the INT Code, National Grid NTS and each Adjacent TSO may only allocate gas in this way if the Steering Tolerance applicable in respect of an OBA has been breached and where National Grid NTS and its Adjacent TSO agree it is necessary to do so pursuant to provisions in the relevant Interconnection Agreements⁵.

However, it is also proposed that UNC recognises that additional complexities could arise in respect of the TSOs determining allocations on a Non-OBA Day. This may be caused in particular by the hourly allocation regimes that apply upstream of the Bacton IPs and by the multi-TSO arrangements that apply downstream of Moffat. In relation to Article 9(1) of the INT Code, it is therefore recognised that the default proportional allocation method described above might result in allocations for Users that would be inconsistent with the allocations calculated by an Adjacent TSO for Counterparty IS Users. Therefore the

⁵ These provisions will be available for Users to comment on in due course before the TSOs execute such revisions to the IAs

IA may provide that the Adjacent TSO's determination should be applied in respect of allocations for Users, on the proviso that the net sum of such allocations is equal to the Measured Quantity. The default allocation method described above would only apply in the absence of such an Adjacent TSO determination.

For information, a diagrammatic representation of circumstances in which National Grid NTS may seek to revert to proportional allocation is shown at Appendix B.

For the purpose of determining whether or not the Cumulative Steering Difference has breached a Steering Tolerance in respect of an IP, National Grid NTS and an Adjacent TSO shall use the Measured Quantity in respect of a Day as first determined and shall not rescind such determination or its consequences for allocation arrangements in the event of any subsequent changes to the Measured Quantity for that Day that may be agreed between the TSOs. However, in the event that the TSOs determine a revised Measured Quantity within the Exit Close-out period then such correction shall be taken into account in the calculation of the Cumulative Steering Difference.

Scheduling Charges will not be applicable in respect of IPs on any Day, whether Users are allocated as nominated (by definition there would be no such charge) or allocated proportionally (because it is not expected that a User would be able to manage such an exposure).

User Pays	
Classification of the modification as User Pays, or not, and the justification for such classification.	No User Pays service would be created or amended by implementation of this Proposal and it is not, therefore, classified as a User Pays Modification.
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.	N/A
Proposed charge(s) for application of User Pays charges to Shippers.	N/A
Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.	N/A

This Modification Proposal is part of a wider suite of UNC changes that are being proposed to achieve compliance with the European Network Codes. National Grid NTS has been allocated some funding through the RIIO-T1 price control process for EU market facilitation. National Grid expects to be able to utilise this funding to meet the costs of this EU-related change and, where this proves insufficient, it anticipates using the mid-point review as the mechanism to address any funding gaps. Therefore no User Pays charges will be raised in relation to this Modification Proposal.

4 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

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

This Proposal will facilitate compliance with European legislative requirements by implementing relevant requirements to align with the new gas allocations rules at IPs that are effectively mandated by the INT Code.

Some participants expressed concern about the ultimate remedy of proportional allocations by TSOs in the event of a continued steering tolerance breach. The Workgroup considered the topic and recognised that this was intended as an exceptional remedy and is consistent with both the Interoperability Code and current practice generally in NW Europe. To date, it was believed that this had not been utilised in practice at the UK/EU interconnectors as markets and TSOs worked together to manage the situation and participants were reassured by this. The Proposer noted that the arrangements for dealing with steering tolerance breaches would be defined in the Interconnection Agreements and that parties would have an opportunity to comment on these at a later date and before implementation of this proposal.

Notwithstanding this, some participants believed there was a residual commercial and/or operational risk introduced by this approach and it was for individual parties to take their own view on the materiality.

5 Implementation

No specific implementation date is proposed. However, National Grid NTS is currently planning to implement the revised allocation arrangements by 01 October 2015. This is in view of the interdependencies between the Balancing, CAM and INT Codes and the need for National Grid NTS to make system changes in a timely fashion.

6 Impacts

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

There are no impacts on other industry change projects.

This modification is not essential to the go-live of the UK Link Replacement Programme.

7 Legal Text

Text Commentary

Text commentary has been provided by National Grid NTS for review by the Workgroup and is published alongside this report.

Text

The Text published alongside this report has been prepared by National Grid NTS at the request of the Panel and no issues were raised by the Workgroup regarding its content.

8 Consultation Responses

Of the 3 representations received 2 supported implementation and 1 offered qualified support.

Representations were received from the following parties:			
Organisation	Response	Relevant Objectives	Key Points
British Gas Trading Ltd	Support	g) - Positive	<ul style="list-style-type: none"> The removal of scheduling charges at Interconnection Points is a concomitant positive step forward. Has some remaining concerns regarding the Proportional Allocation aspect of the modification proposal, especially where an Adjacent TSO could dictate the allocation on the NTS. On balance believes the potential benefits outweigh the possible risks.
GDF Suez	Qualified Support	No comment made	<ul style="list-style-type: none"> In supporting the reform, certain reservations remain relating to the transparency around the way in which the steering tolerance is calculated/controlled. Would like to see more information around the OBA (management of breaches to the steering tolerance) and publication in a transparent and non-discriminatory way of the level of the steering difference (including threshold indication – Gemini as a preferred option) and visibility of any operational consequences such as additional costs or IT modifications.
National Grid NTS	Support	g) - Positive	<ul style="list-style-type: none"> National Grid NTS has discussed the INT Code obligations with its Adjacent TSOs and each of them considers that the INT Code's default (obligatory) allocation rule is appropriate. Therefore, the UNC needs to be amended to facilitate this type of allocation regime in respect of GB Interconnection Points (IPs).

Representations are published alongside the Final Modification Report.

Additional Comments for Consideration

British Gas Trading (BGT) remained of the view that certain rules to be introduced to the TSO-TSO Interconnection Agreements could have unintended commercial consequences for shippers should the rules either prove to be not fit for purpose or not fully adhered to by the TSOs. This modification proposal will introduce such certain rules to Interconnection Agreements. It is therefore necessary that appropriate governance arrangements be developed for relevant parts of the Interconnection Agreements to provide shippers with a means of promoting changes they consider necessary.

National Grid NTS observed that the application of the 'proportional allocation' principle has been a key topic of discussion in the Modification 0510 Workgroup. Respondents will note that the legal text proposes that National Grid NTS 'follows' the adjacent TSO's allocations on a 'Non-OBA Day'. The reason for this is that National Grid NTS is unable to write a single rule for proportional allocation into UNC that is able to satisfy potential requirements of its adjacent TSOs. Therefore, subject to certain conditions (defined in the legal text, including that the net sum of the adjacent TSO's allocations to its

shippers is equal to the end of day physical measurement) National Grid NTS will allocate Users in accordance with the scaling applied by the adjacent TSO.

Development of this Modification with Users has, necessarily, taken place in parallel with development of the operational rules for OBAs at each IP with National Grid NTS' adjacent TSOs. National Grid NTS expects to consult with Users on the OBA rules that it proposes to apply at each IP (and indeed on all other aspects of proposed Interconnection Agreement amendments that affect Users) in June/July 2015. At this point, Users will be able to see 'the whole picture' for each IP.

During the recent development of the OBA rules in respect of the BBL IP, an issue has arisen concerning the 'Non-OBA Days' text in relation to the BBL IP. National Grid NTS is currently investigating this issue in conjunction with BBL.

9 Panel Discussions

10 Recommendation

Panel Recommendation

Having considered the Modification Report, the Panel recommends:

- that proposed Modification 0510 [should/should not] be made.

CHAPTER II Interconnection Agreements

Article 3 General provisions

Adjacent transmission system operators shall ensure that at least the following terms and conditions detailed in Articles 6 to 12 are covered by an interconnection agreement in respect of each interconnection point:

- (a) rules for flow control;
- (b) measurement principles for gas quantities and quality;
- (c) rules for the matching process;
- (d) rules for the allocation of gas quantities;
- (e) communication procedures in case of exceptional events;
- (f) settlement of disputes arising from interconnection agreements;
- (g) amendment process for the interconnection agreement.

Article 4 Information obligation

1. The transmission system operators shall identify the information contained in interconnection agreements that directly affects network users and shall inform them thereof.
2. Before concluding or amending an interconnection agreement which contains the rules referred to in Article 3(c), (d) and (e), transmission system operators shall invite network users to comment on the proposed text of those rules at least two months before the agreement is concluded or amended. The transmission system operators shall take the network users' comments into account when concluding or amending their interconnection agreement.
3. The mandatory terms of interconnection agreements listed in Article 3 or any amendments thereof concluded after the entry into force of this Regulation shall be communicated by the transmission system operators to their national regulatory authority and to ENTSOG within 10 days after conclusion or amendment of the agreement. Transmission system operators shall also communicate interconnection agreements upon request of competent national authorities of the Member State within 10 days.

Article 9 Rules for the allocation of gas quantities

1. In respect of the allocation of gas quantities, the adjacent transmission system operators shall establish rules ensuring consistency between the allocated quantities at both sides of the interconnection point.

2. Unless otherwise agreed in the interconnection agreement, the transmission system operators shall use an operational balancing account. The transmission system operator in control of the measurement equipment shall recalculate the operational balancing account with validated quantities and communicate it to the adjacent transmission system operator(s).
3. Where an operational balancing account applies:
 - a) the steering difference shall be allocated to an operational balancing account of the adjacent transmission system operators and the allocations to be provided by each adjacent transmission system operator to their respective network users shall be equal to the confirmed quantities;
 - b) the adjacent transmission system operators shall maintain an operational balancing account balance that is as close to zero as possible;
 - c) the operational balancing account limits shall take into account specific characteristics of each interconnection point and/or the interconnected transmission networks, in particular:
 - d) i physical characteristics of the interconnection point;
 - e) ii linepack capability of each transmission network;
 - f) iii the total technical capacities at the interconnection point;
 - g) iv gas flow dynamics at the interconnected transmission networks.

Where the defined limits of the operational balancing account are reached, the adjacent transmission system operators may agree to extend those limits in order to provide allocations to network users that are equal to their confirmed quantities or otherwise allocate quantities to network users proportionally based on the measured quantity.

4. The adjacent transmission system operators may agree to maintain or implement an allocation rule other than the operational balancing account, provided that this rule is published and network users are invited to comment on the proposed allocation rule within at least two months after publication of the allocation rule.

12 Appendix B: Diagrammatic representation of circumstances when the TSOs consider proportional allocation may apply

