

# 0534S:

## Maintaining the efficacy of the NTS Optional Commodity ('shorthaul') tariff at Bacton entry points

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

This modification seeks to preserve the original intent of the NTS Optional Commodity tariff, namely to avoid inefficient by-pass of the NTS.

Changes to EU law require that CAM and CMP procedures are applied across interconnectors. In response, the Bacton ASEP will be split, creating two new "sub" Aggregate System Entry points (ASEPs); it is this change that may inadvertently restrict a Shipper's ability to make full use of the NTS Optional Commodity tariff and this proposal endeavours to rectify.



The Workgroup recommends that this modification should now proceed to Consultation.



High Impact: Shippers



Medium Impact: None



Low Impact: NTS

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<b>About this document:</b>		Systems Provider: <b>Xoserve</b>
This report will be presented to the Panel on 20 August 2015.		 <a href="mailto:commercial.enquiries@xoserve.com">commercial.enquiries@xoserve.com</a>
The Panel will consider whether the modification should proceed to Consultation or be returned to the Workgroup for further assessment.		Additional contacts: <b>Nick Wye</b>
The Workgroup recommends the following timetable:		 <a href="mailto:nick@waterswye.co.uk">nick@waterswye.co.uk</a>
Initial consideration by Workgroup	02 April 2015	 01789 266811
Workgroup Report presented to Panel	20 August 2015	
Draft Modification Report issued for consultation	20 August 2015	
Consultation Close-out for representations	10 September 2015	
Final Modification Report published for Panel	11 September 2015	
UNC Modification Panel decision	17 September 2015	

# 1 Summary

## Is this a Self-Governance Modification?

The Modification Panel determined that this is a self-governance modification because it is unlikely to have material effect on competition in the shipping of gas and the operation of the NTS, since the modification attempts to ensure the efficient operation of pipeline systems and would not unduly discriminate between different classes of UNC parties or have a material effect on existing or future gas customers, competition, operation of the pipeline system(s), matters relating to sustainable development, safety or security of supply, or the management of the market or network emergencies.

## Is this a Fast Track Self-Governance Modification?

Fast-Track procedures do not apply because this is not a housekeeping modification.

## Why Change?

In order to ensure compliance with the EU Capacity Allocation Mechanisms in Gas Transmission Systems Network Code, the existing Bacton ASEP within the GT Licence, which National Grid Gas holds in respect of the NTS, will need be split into two new ASEPs (Bacton UKCS ASEP and Bacton IP ASEP) as described in Ofgem's recent decision in this regard. The splitting of the ASEP will mean that, if the current optional commodity tariff eligibility criteria are left unchanged, a User will only be able to link one of the newly created ASEPs to a nominated NTS exit point.

Given the split of the Bacton ASEP is "artificial" and for the sole purpose of ensuring compliance with the EU CAM Code, it is appropriate to modify the optional commodity tariff eligibility criteria to ensure cost-reflective charging; preservation of the existing arrangements detrimentally impacted by an artificial change to the configuration of an existing ASEP; and non-discriminatory treatment of those Users shipping gas from the same physical entry point to a nominated exit point.

## Solution

At the new Bacton ASEPs only, a new definition for a qualifying entry point for the purposes of the application of the optional commodity tariff is established as follows:

A "**Combined Bacton ASEP**" shall comprise of the Bacton UKCS ASEP and the Bacton IP ASEP, (which are System Entry Points in close physical proximity to each other and each form part of contiguous entry terminal facilities).

This new definition will permit the aggregation of relevant entry flows across the two Bacton ASEPs for the sole purpose of the calculation of the optional commodity tariff.

## Relevant Objectives

Implementation of this Modification would better facilitate the Relevant Objectives a) economic and efficient operation of the pipeline system, b) coordinated, efficient and economic operation of the NTS pipeline system and adjacent transporters at Bacton ASEPs, and d) securing of effective competition between relevant shippers.

## Implementation

The modification should be implemented at such date that the split of the Bacton ASEP is implemented, which is expected to be 01 November 2015. The Bacton split is expected to be implemented by either Modification 0501V or any of its variants.

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

The Workgroup believes there are no impacts on the systems changes for EU Reform.

## 2 Why Change?

The NTS Optional Commodity (“shorthaul”) tariff is available to Shippers as an alternative to the standard SO commodity tariff and the TO commodity tariff (both at entry and exit). The charge was introduced in 1998 to reflect more accurately the costs of gas transportation from any eligible entry point to a nearby large exit point, and in so doing seeks to avoid inefficient by-pass of the NTS. The NTS Optional Commodity Charge tariff is levied on the lower of either the daily entry or exit point allocation; the assumption being that any ‘extra’ gas must come from another entry point or alternatively flows to another exit point.

Changes required by EU law, namely those set out in the Network Code on Capacity Allocation Mechanisms (CAM) and the Congestion Management Procedures require harmonised, transparent and non-discriminatory access to transmission capacity at applicable Interconnection Points across the EU. To ensure CAM/CMP procedures can be applied at entry for relevant existing Interconnection Points (IPs) Ofgem has determined that the existing Bacton ASEP be split into two new ASEPs (Bacton UKCS ASEP and Bacton IP ASEP).<sup>1</sup> In summary, the split is a result of legislative change, rather than any alteration to the physical characteristics of the ASEP.

Any changes to ASEP designations driven by the requirement of EU law have an unintended impact on the NTS Optional Commodity tariff, in that it may restrict the quantity of gas that can be shipped to the nominated exit point under these arrangements. Shippers may therefore be forced to pay higher conventional TO and SO commodity charges for some of the gas shipped. Firstly, this self-evidently undermines the original intent of the NTS Optional Commodity tariff, which seeks to dissuade inefficient by-pass of the NTS, and, secondly, it fails to preserve the existing arrangements currently employed by Bacton Users adding unjustified costs to the shipment of gas from the Bacton ASEP to a nearby NTS Exit Point such as an interconnector, thus acting as an undue barrier to cross-border trade. This modification proposal addresses this defect by permitting both of the newly created entry points, in combination, to be eligible to supply nominated NTS Exit Points for the sole purpose of qualifying for the application of the NTS Optional Commodity tariff. For all intents and purposes, it is an artificial reconfiguration of the existing Bacton entry for the single reason of “levering in” the EU CAM code to fit with the existing UK entry and exit capacity arrangements.

Addressing this defect will maintain the efficacy of the NTS Optional Commodity tariff arrangements at Bacton following the split of the Bacton ASEP.

## 3 Solution

This modification is dependent on the splitting of the Bacton ASEP as currently envisioned by modification 0501V or any of its variants.

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<sup>1</sup> Ofgem Modification of Special Conditions 1A and 5F of National Grid Gas plc’s Gas Transporter Licence to facilitate implementation of the Capacity Allocation Mechanisms Network Code, 10 February 2015

The proposed solution will ensure the NTS Optional Commodity Tariff will continue to be calculated on the basis of shipper total daily allocations across all ASEPs located at Bacton, irrespective of whether the gas deliveries originate from the UKCS or a neighbouring member state via an interconnector.

This modification creates a “Combined Bacton ASEP” for the purpose of determining the total daily quantity used in levying the NTS Optional Commodity tariff for gas shipped to a nominated NTS Exit point (when it is lower than the relevant exit point allocation). Calculating entry allocations in this way will ensure that the ‘splitting’ of the existing Bacton ASEP will not artificially under-represent the volume of gas that could have theoretically bypassed the NTS if an alternative pipeline had been built.

To create this Combined ASEP, in order to preserve the original intent of the NTS Optional Commodity (‘shorthaul’) tariff, the following suggested definition is proposed to be inserted into the UNC TPD document:

1. A “**Combined Bacton ASEP**” shall comprise of the Bacton UKCS ASEP and the Bacton IP ASEP, [which are System Entry Points in close physical proximity to each other and each form part of contiguous entry terminal facilities].  
*(This definition aims to permit the relevant entry allocation quantities for the NTS Optional Commodity tariff to be aggregated at the appropriate level).*

For avoidance of doubt this modification proposal does not seek to change the methodology used for determining the NTS Optional Commodity tariff, or indeed the justification for such a tariff, nor will it require a Licence change to establish a new ASEP for the purposes of the release of NTS Entry Capacity. It simply seeks to clarify the volume of gas deliveries that can be used in the tariff formula i.e. other than combining the two new ASEPs for calculating a Users UDQI (User Daily Quantity input) for the calculation of Shorthaul, the process should remain unchanged. The proposal also recognises the ‘point to point’ nature of the NTS Optional Commodity tariff calculation, which means that the individual Bacton ASEPs that make up a Combined ASEP are adjacent to each other and are capable of both being connected by the theoretical bypass pipeline to the relevant NTS Exit Point.

The existing process by which Users nominate a combination of one entry point and one or more exit points for shorthaul will remain unchanged i.e. Users will continue to nominate one entry point, which may be either the Bacton UKCS ASEP or the Bacton IP ASEP. Where such a nomination occurs the presumption shall be that the User has nominated the Combined Bacton ASEP.

As stated above the modification requires that the “Combined Bacton ASEP” be used to determine the total daily quantity used and the resultant NTS Optional Commodity Tariff. It is expected that an enduring systems solution will be developed by National Grid, however, in the short term transitional rules are likely to be required to afford National Grid the time to implement the system changes necessary to support the enduring solution.

#### **Current commodity tariffs invoicing arrangements:**

The current invoicing arrangements for both the standard entry and exit commodity tariffs and for the Optional Commodity Tariff are as follows:

For illustrative purposes, November 2015 is taken as a reference Month,

- (1) Month +8 Business Days (would be 10 December) – Unique Sites Invoice would be issued (contains the exit commodity volume billed at shorthaul rate)
- (2) Month +18 Business Days (would be 24 December) – Standard NTS Entry Commodity charges are invoiced via NTS Entry Commodity Invoice (NTE). Users flowing gas through either of the Bacton ASEPs that qualifies for shorthaul (as determined by the creation of the Combined Bacton ASEP) would receive a Commodity Invoice which does not properly reflect the shorthaul discount.

- (3) Month +19 Business Days (would be 29 December) – the Optional NTS Commodity Tariff Adjustment Invoice (OTA) is issued.

In short, once the Bacton ASEP is split into Bacton UKCS ASEP and Bacton IP ASEP, in absence of an enduring solution, only one of these points (the nominated shorthaul entry point) will be charged as per invoice (3), while the other (non-nominated) entry point will be charged as per invoices (1) and (2)

**Proposed transitional solution:**

As a transitional arrangement, until such time as an enduring solution is established, this modification proposes the use of an ad hoc invoice to adjust the shorthaul charges so that they are consistent with a Combined Bacton ASEP. The ad hoc invoice will be issued two months after the month during which the gas flowed. The solution would be as follows:

For illustrative purposes, November 2015 is taken as a reference Month,

- (1) Month +8 Business Days (would be 10 December) – Unique Sites Invoice would be issued (contains the exit commodity volume billed at shorthaul rate)
- (2) Month +18 Business Days (would be 24 December) – Standard NTS Entry Commodity charges are invoiced via NTS Entry Commodity Invoice (NTE). Users flowing gas through either of the Bacton ASEPs that qualifies for shorthaul (as determined by the creation of the Combined Bacton ASEP) would receive a Commodity Invoice which does not properly reflect the shorthaul discount.
- (3) Month +19 Business Days (would be 29 December) – the Optional NTS Commodity Tariff Adjustment Invoice (OTA) is issued.
- (4) 2 Months after reference month (would be January) – any charging adjustment required for the purpose of ensuring that both new Bacton ASEPs are charged the shorthaul tariff when flowing to the same nominated NTS exit point.

In the event, the implementation of the transitional solution is delayed beyond the second month from when the Bacton ASEP is split in two, the very first ad hoc adjusting invoice (4) that is submitted shall cover all relevant charges and eligible flows from the date that the Bacton split is implemented.

User Pays	
<p>Classification of the modification as User Pays, or not, and the justification for such classification.</p>	<p>No User Pays service would be created or amended by implementation of this modification and the proposer believes it is not, therefore, classified as a User Pays Modification.</p> <p>National Grid NTS disagree: The implementation of functionality to provide for a combined Bacton ASEP NTS Optional Commodity Tariff will include offline interim arrangements and an enduring solution. This will require recovery of two sets of development costs incurred as a result of the implementation of Modification 0534S.</p>
<p>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.</p>	<p>Costs will be recovered annually, each Combined Bacton User will pay a charge based on their proportion of the total flows nominated for the NTS Optional Commodity Tariff i.e. over each 12 month period (from the implementation date of the mod).</p>

Proposed charge(s) for application of User Pays charges to Shippers.	Costs will be apportioned based on relevant Shippers' percentage of the aggregate flows for which the NTS Optional Commodity Tariff was levied. The costs attributable to the interim solution will be recovered over the first 2 years. A similar process will be followed for the enduring system development.
Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.	Interim Solution: £100k Enduring System changes: In the range £100k to £400k

## 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.	Positive
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.	None

The proposal ensures efficient utilisation of the NTS as it enables all gas that can be economically transported in the NTS continues to be so transported, furthering Relevant Objective a). Investment in economically inefficient alternative pipelines should be avoided reducing in the overall level of transportation charges that would otherwise have to be paid by shippers using the NTS.

Without this modification, gas that might otherwise have been delivered into the NTS may be dissuaded from being supplied to the GB market.

Moreover, the current modification ensures that there is no discrimination between shippers or sources of gas, and ensures that no undue barriers to cross-border trade are artificially raised, furthering Relevant Objective d) – securing of effective competition between shippers.

## 5 Implementation

There should be no additional implementation costs for Shippers as this proposal simply clarifies the basis for the determining of the daily entry allocation used for the NTS Optional Commodity tariff, in the light of recent changes to EU law.

Although the European Commission has specified that the Regulation on Capacity Allocation Mechanisms will apply from 01 November 2015, this modification shall only apply from the date when the Bacton ASEP is split into Bacton IP ASEP and Bacton UKCS ASEP, as is described in Modification 0501V.

In the event, the implementation of the transitional solution is delayed, the very first ad hoc adjusting invoice that is submitted shall cover all relevant charges and eligible flows from such date when the Bacton split is implemented.

It is anticipated that Shippers will be able to re-nominate entry flows under these arrangements once the Bacton split final position (under Modification 0501V) is notified to Shippers by National Grid NTS. This will be confirmed directly to affected Shorthaul Users by National Grid NTS.

As self-governance procedures are proposed, implementation could be 16 business days after a Modification Panel decision to implement, subject to no appeal being raised.

## 6 Impacts

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

The Workgroup believed there were no impacts on the systems changes for EU Reform.

## 7 Legal Text

### Text Commentary

The introduction of the EU CAM Code has required that the current Bacton ASEP be split into two new ASEPs (Bacton UKCS ASEP and Bacton IP ASEP). This has a knock on effect on the existing NTS Optional Commodity arrangements within the UNC as Users are only able to nominate one entry point to one or more exit points (an exit point cannot be nominated to more than one entry point).

Modification 0534S proposes to amend the UNC to reflect that, for the purposes of the NTS Optional Commodity arrangements only, the two new Bacton ASEPs will be considered as one entry point (the Bacton Combined ASEP). The proposed legal text covers the requirement of Modification 0534S for the NTS Optional Commodity Rate be applied based on a Bacton Combined ASEP and invoiced on an enduring basis under the existing UNC timeframes and also interim measures to facilitate a manual solution (due to the lead times required to implement the necessary UK Link system functionality) to ensure that the correct charges are levied.

#### Uniform Network Code - Transition Document

##### PART IIC – Transitional Rules

The new paragraph 19 will cover the transitional (interim) NTS Optional commodity Tariff arrangements that will be in place for the Combined Bacton ASEP until such time as new system functionality can be developed and implemented. It details the process that will be undertaken to account for the inclusion of the two new Bacton ASEPs as one entry point.

19.1 sets out that the paragraph 19 process is an interim measure which will cease to apply once UK Link can correctly process Bacton Combined ASEP invoices.

19.2 outlines that where a User has nominated one of the two new Bacton ASEPs for the NTS Optional Commodity Tariff and the User has flows at both of the new Bacton ASEPs the new interim process will be applied.

19.3 outlines that the existing NTS Optional Commodity Rate invoices will be issued in the same way as they currently are i.e. based on the use of either the Bacton IP ASEP or the Bacton UKCS ASEP and that after these invoices are issued the NTS Optional Commodity charges will be manually recalculated based on the Bacton Combined ASEP. After the charges are recalculated and within the space of one calendar month an ad hoc invoice will be issued for any adjustment required for the NTS Entry Commodity charge and the NTS Exit (Flat) Commodity charge. This paragraph also covers implementation of the modification after the 1 November 2015 ensuring that the first adjustment invoice issued covers the period between the 1 November 2015 and that invoice being issued.

#### Uniform Network Code - Transportation Principal Document

##### TPD Section B - System Use and Capacity

B3.12.8 (c) has been amended to reflect that the nomination of either of the two new Bacton ASEPs for the NTS Optional Commodity Tariff will be treated as a nomination of the Bacton Combined ASEP and includes the Bacton Combined ASEP as a “Specified Entry Point”.

B3.12.8 (d) defines what a “Bacton Combined ASEP” is.

## Text

The following Text has been prepared by National Grid NTS in response to the formal request from the UNC Modification Panel, and no issues were raised by the Workgroup regarding its content.

### UNIFORM NETWORK CODE - TRANSITION DOCUMENT

#### PART IIC – TRANSITIONAL RULES

*Insert new paragraph 19 in Transition Document Part IIC (Transitional Rules) as follows:*

#### 19. MAINTAINING THE EFFICACY OF THE NTS OPTIONAL COMMODITY TARIFF AT BACTON ENTRY POINTS

- 19.1 This paragraph 19 shall apply until such date as UK Link is able to issue Invoice Documents correctly reflecting the Bacton Combined ASEP for the purposes of calculating the NTS Optional Commodity Rate.
- 19.2 In respect of the Bacton Combined ASEP where:
- 19.2.1 a User elects pursuant to UNC TPD B3.12.7 that the Applicable Commodity Rate in respect of a Specified Entry Point shall be the NTS Optional Commodity Rate; and
  - 19.2.2 the User has delivered gas to the System on any Day at both the Bacton IP ASEP and the Bacton UKCS ASEP within the relevant invoicing period;
  - 19.2.3 the Transporter is unable to issue an Invoice Document correctly reflecting the Specified Entry Point as the Bacton Combined ASEP,  
the provisions of paragraph 19.3 shall apply.
- 19.3 Where paragraph 19.2 applies the Transporter shall:
- 19.3.1 issue Invoice Documents in accordance with UNC TPD Section S which reflects the NTS Exit (Flat) Commodity Charge being calculated using the NTS Optional Commodity Rate and on the basis that the Specified Entry Point is either Bacton IP ASEP or Bacton UKCS ASEP (as identified in the User's Conventional Notice in accordance with UNC TPD B3.12.13);
  - 19.3.2 following the issue of this Invoice Document;
    - (a) calculate the correct NTS Exit (Flat) Commodity Charge which reflects the Specified Entry Point being Bacton Combined ASEP; and
    - (b) calculate the correct NTS Entry Commodity Charge payable by the User for the Bacton Combined ASEP; and
  - 19.3.3 issue an Ad Hoc Invoice within (subject to paragraph 19.3.4) one calendar month of the issue of the relevant Invoice Document referred to in paragraph 19.3.1 to:
    - (a) reflect the difference (credit or debit) between the NTS Exit (Flat) Commodity Charge calculated pursuant to 19.3.2(a) and the NTS Exit (Flat) Commodity Charge invoiced in the Invoice Documents referred to in paragraph 19.3.1; and
    - (b) reflect the difference (credit or debit) between the NTS Entry Commodity Charge calculated pursuant to paragraph 19.3.2(b) and the NTS Entry Commodity Charge invoiced to the User in respect of Bacton Combined ASEP for the relevant invoicing period.
  - 19.3.4 where implementation of Modification 0534S occurs after the 1 November 2015, the first Ad Hoc Invoice issued pursuant to paragraph 19.3.3 shall be in respect of the period from 1 November 2015 to the start of the next invoicing period and any relevant adjustments shall be made and invoiced on this basis.

## UNIFORM NETWORK CODE – TRANSPORTATION PRINCIPAL DOCUMENT

Amend TPD Section B (System Use and Capacity) paragraph 3.12.8 as follows:

3.12.8 For the purposes of the Code:

- (a) an “**Eligible Entry Point**” is an Aggregate System Entry Point which is not a Storage Connection Point;
- (b) an “**Eligible Exit Point**” is a System Exit Point which is not a Storage Connection Point;
- (c) a “**Specified Entry Point**” is, in the case of a Supply Point, the Eligible Entry Point identified in the User’s Nomination in accordance with Section G2.3.2 or, in the case of a CSEP, the Eligible Entry Point identified in the Conventional Notice in accordance with paragraph 3.12.13. Where the Eligible Entry Point is either the Bacton IP ASEP or the Bacton UKCS ASEP, the Specified Entry Point shall be deemed to be the Bacton Combined ASEP;
- (d) the “**Bacton Combined ASEP**” shall comprise of the Bacton UKCS ASEP and the Bacton IP ASEP which are System Entry Points in close physical proximity to each other and each form part of contiguous entry terminal facilities;

## 8 Recommendation

The Workgroup invites the Panel to:

- AGREE that this self-governance modification should be submitted for Consultation.
- Seek industry views on the User Pays status:
  - Do respondents agree that User Pays does not apply for Modification 0534S? Please explain your rationale.