

UNC Modification

At what stage is this document in the process?

UNC 0611:





(Code Administrator to issue reference)

Amendments to the firm capacity payable price at Interconnection Points


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

Purpose of Modification:

This modification seeks to facilitate compliance with the EU tariff code. It seeks to make amendments to the payable price at Interconnection Points (IP)s.

	<p>The Proposer recommends that this modification should be assessed by a Workgroup</p> <p>This modification will be presented by the Proposer to the Panel on 16 February 2017. The Panel will consider the Proposer's recommendation and determine the appropriate route.</p>
	<p>High Impact: Shippers and National Grid NTS</p>
	<p>Medium Impact: N/A</p>
	<p>Low Impact: N/A</p>

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Timetable	
The Proposer recommends the following timetable:	
Initial consideration by Workgroup	03 March 2017
Workgroup Report presented to Panel	18 May 2017
Draft Modification Report issued for consultation	18 May 2017
Consultation Close-out for representations	08 June 2017
Final Modification Report available for Panel	09 June 2016
Modification Panel decision	15 June 2016

 Any questions?


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1 Summary

What

The EU Capacity Allocation Mechanism (CAM) code was introduced into the UNC via Modification 0500. Since then several changes have been made to the EU CAM code which has resulted in subsequent proposals to change the UNC, namely Modification 0598S which seeks to introduce changes to the auction calendar and Modification 0597 which seeks to introduce a framework and rules to enable the acquiring of incremental capacity at Interconnection Points to take place. Commission Regulation (EU) [2017/460](#) establishing a network code on harmonised transmission tariff structures for gas requires changes to rules governing the payable price for both available and incremental annual firm capacity at interconnection points (IPs). This Modification Proposal seeks to introduce rules into the UNC concerning the payable price for the capacity released under the new incremental process at IPs (to be introduced by Modification 0597) and ensure the rules for the payable price for existing available capacity at IPs is compliant with this new EU Tariff code.

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Why

The EU Tariff code prohibits the use of a fixed payable price approach for available firm capacity at IPs, It also introduces the concept of a mandatory minimum premium that may be applied to the payable price for incremental capacity for situations where the reserve price on its own would fail to pass the economic test for incremental release. This Modification shall ensure compliance with this new EU regulation.

How

The following changes to the payable price for annual firm capacity at IPs shall be added to the UNC.

- a) Annual Yearly Capacity Auctions
 - The rules governing the payable price for NTS Entry Capacity at interconnections points allocated in an Annual Yearly Auction shall be aligned to that for the treatment of Annual Firm Exit Capacity. Namely, the reserve price element of the payable price shall be redetermined to reflect the prevailing reserve price when the capacity falls due for payment.
- b) For Incremental Capacity at Interconnection Points
 - Incremental capacity may be released either via an auction mechanism, or an alternative allocation mechanism.
 - This Modification shall introduce the concept of a Mandatory Minimum Premium which may be added to ~~the~~ Applicable Payable Price for incremental capacity for situations where the reserve price on its own would fail to pass the economic test for incremental release.

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2 Governance

Justification for Authority Direction

This modification proposal is recommended to be sent to the Authority for direction as it shall change the payable price for capacity released at interconnection points in both the Annual Yearly auction and in any incremental release. As this will impact the rules governing the payable price for firm capacity at IPs it may have a material effect on the shipping and transportation of gas, as well as the security of supply for GB.

Requested Next Steps

This modification should:

- be assessed by a Workgroup

as this will affect the payable price that shippers shall bear for capacity at IPs and so could benefit from industry discussion and scrutiny.

3 Why Change?

The EU Tariff code enters into force [6 April 2017](#). Changes to the UNC are required to ensure compliance with this regulation. The EU tariff code prohibits the use of a fixed payable price approach for available firm capacity at IPs. It also introduces the concept of a mandatory minimum premium that may be applied to the payable price for incremental capacity for situations where the reserve price on its own would fail to pass the economic test for incremental capacity release. These changes shall principally affect NTS shippers. If the Modification is not implemented GB may not be compliant with EU Regulations.

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4 Code Specific Matters

Reference Documents

<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L:2017:072:FULL&from=EN>

Knowledge/Skills

An understanding of the EU Tariff code and the European Interconnection Document within the UNC would be beneficial.

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5 Solution

Annual Yearly Capacity Auctions

The rules governing the Applicable Daily Rate of the Capacity Charge for Annual Yearly Entry will have to be aligned to that for Exit. The daily charge for interconnection point capacity allocated in an annual yearly capacity auction is the NTS Auction Price, which consists of the Reserve Price plus a share of any auction premium. This Modification proposes to change the NTS Auction Price such that for the purposes of calculating the Applicable Daily Rate the reserve price element shall be redetermined as the reserve price for such Gas Year in the prevailing Transportation Statement.

Incremental Capacity

With regards to incremental capacity it is proposed that the following definitions are introduced:

- a) ~~The role of the Mandatory Minimum Premium shall be elaborated.~~ This shall be an additional pricing element that may be applied to the payable price for incremental capacity to enable a positive economic test outcome where the allocation of all incremental capacity at the reserve price calculated via the normal charging methodology would not generate sufficient revenues to pass the test.
- b) ~~The Applicable Daily Rate of the Capacity Charge for when incremental capacity at IPs is released via an Alternative Allocation Mechanism shall be the Reserve Price plus the Mandatory Minimum Premium (where applied). For the purposes of calculating the Applicable Daily Rate, the reserve price shall be redetermined as the reserve price for such Gas Year in the prevailing Transportation Statement.~~

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For the avoidance of doubt, the concept of the Mandatory Minimum Premium shall be included in the code but the mechanism by which it is calculated shall be elaborated in both the entry and exit capacity release methodology statement.

6 Impacts & Other Considerations

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

No impact identified.

Consumer Impacts

Slightly positive. This Modification supports the new process for releasing incremental capacity at Interconnection Points which may facilitate the addition of capacity to the GB market which in turn could be of benefit to consumers.

Cross Code Impacts

None identified.

EU Code Impacts

This UNC Modification proposal demonstrates how GB will comply with the EU Tariff code. There are also links with amendments to the EU CAM code as detailed in UNC Modifications 0597 and 0598^S.

Central Systems Impacts

The move from a fixed price to an administered price for entry capacity at interconnection points will impact GEMINI. Any system changes to GEMINI will be dealt with as part of National Grid's EU Phase 4 project.

User Pays (Proposer to complete this table)

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 modification 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

7 Relevant Objectives

Impact of the modification on the Relevant Objectives:

Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	None
b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters.	None
c) Efficient discharge of the licensee's obligations.	None
d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	None
e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers.	None
f) Promotion of efficiency in the implementation and administration of the Code.	None
g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of	Positive

.This modification furthers relevant objective g) because it introduces appropriate changes into the UNC to reflect ~~Commission Regulation 2017/460.~~

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8 Implementation

No implementation timescales are proposed. The European Commission has specified that this Regulation should come into effect on ~~6 April 2017~~ with respect to the mandatory minimum premium; however the earliest such a premium could apply is Q1 2018 subject to an incremental signal being confirmed following the demand assessment phase in March 2017. The requirement for entry capacity allocated at the annual auction to have a floating price is not required until the annual auction in July 2018. The Authority decision should take account of these timelines.

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9 Legal Text

Text Commentary

Amendment	Comment
EID Section B	
Amend existing paragraph 2.1.5 (g) & (l) to read as follows:	
(g) “Reserve Price” means the (subject to paragraph 2.1.7) the reserve-price below which (applicable to the relevant Capacity Period) in respect of Interconnection Point Capacity may not be purchased which shall be set each for Gas Year in accordance with the prevailing National Grid NTS Transportation Statement for that Gas Year as at the Auction Information Time ;	Revised definition to clarify meaning.
(l) “NTS Auction Price” means the Reserve Price plus the NTS Share of the Auction Premium plus: (i) for the purposes of calculating the Applicable Daily Rate, the Reserve Price prevailing in respect of the period in relation to which the Applicable Daily Rate is payable; (ii) ;for the purposes of an Auction, the Reserve Price prevailing in respect the period to which the Auction relates, or where the Auction relates to a period of more than one Gas Year, the Reserve Price prevailing in respect the first Gas Year to which the Auction relates ;	Definition expanded to show that the payable price shall float and that this is not the same as the cleared price in an auction.
Amend existing paragraphs 2.1.6 & 2.1.7 to read as follows:	
2.1.6 For the purposes of TPD Sections B2.11 and B3.12, subject to paragraph 2.1.7, the Applicable Daily Rate in respect of Interconnection Point Capacity allocated in an Auction is the NTS Auction Price.	Section 2.1.7 no longer required – see below.
2.1.7 In relation to NTS Exit (Flat) Capacity allocated (for any Gas	No longer required as concept of

<p>Year) in an Annual Yearly Auction:</p> <p>(a) the [prevailing] final reserve price for such Gas Year is determined in the Transportation Statement prevailing at the start of such Gas Year;</p> <p>(b) the Starting Price for the Auction shall be determined on the basis of the [prevailing] final reserve price;</p> <p>(c) the NTS Auction Price will be determined (at the time of holding the Auction) based on the [prevailing] final reserve price, subject to paragraph (d);</p> <p>(d) for the purposes of determining (at the time at which such amounts fall due for payment) the Applicable Daily Rate of the Capacity Charge, and other amounts payable pursuant to this Section B, the NTS Auction Price will be redetermined as the final [prevailing] reserve price plus the NTS Share of the Auction Premium.</p>	<p>floating/administered price captured in definition of NTS Auction Price.</p>
<p>EID Section E</p>	
<p>A new section 8 to go into EID section E.</p>	
<p>8 <u>APPLICABLE DAILY RATE FOR INTERCONNECTION POINT CAPACITY</u></p> <p>8.1 <u>For the purposes of TPD Sections B2.11 and B3.12 the Applicable Daily Rate in respect of Interconnection Point Capacity allocated under an alternative allocation mechanism is the Reserve Price plus any mandatory minimum premium referred to in paragraph 4.1.4(d)(i)(3) and calculated in accordance with National Grid NTS's Entry Capacity Release Methodology Statement.</u></p>	<p>New section created to define the payable price (Applicable Daily Rate) in an alternative allocation mechanism. It also points to where calculation methodology can be found for the mandatory minimum premium.</p>

Text

EID Section B

Amend existing paragraph 2.1.5 (g) & (l) to read as follows:

- (g) “**Reserve Price**” means ~~the (subject to paragraph 2.1.7) the reserve price below which (applicable to the relevant Capacity Period) in respect of Interconnection Point Capacity may not be purchased which shall be set each for Gas Year~~ in accordance with the ~~prevailing~~ National Grid NTS Transportation Statement ~~for that Gas Year as at the Auction Information Time;~~

- (l) “**NTS Auction Price**” means ~~the Reserve Price plus~~ the NTS Share of the Auction Premium ~~plus:~~
 - (i) ~~for the purposes of calculating the Applicable Daily Rate, the Reserve Price prevailing in respect of the period in relation to which the Applicable Daily Rate is payable;~~
 - (ii) ~~for the purposes of an Auction, the Reserve Price prevailing in respect the period to which the Auction relates, or where the Auction relates to a period of more than one Gas Year, the Reserve Price prevailing in respect the first Gas Year to which the Auction relates;~~

Amend existing paragraphs 2.1.6 & 2.1.7 to read as follows:

2.1.6 For the purposes of TPD Sections B2.11 and B3.12, ~~subject to paragraph 2.1.7,~~ the Applicable

Daily Rate in respect of Interconnection Point Capacity allocated in an Auction is the NTS Auction Price.

~~2.1.7 In relation to NTS Exit (Flat) Capacity allocated (for any Gas Year) in an Annual Yearly Auction:~~

- ~~(a) the [prevailing] final reserve price for such Gas Year is determined in the Transportation Statement prevailing at the start of such Gas Year;~~
- ~~(b) the Starting Price for the Auction shall be determined on the basis of the [prevailing] final reserve price;~~
- ~~(c) the NTS Auction Price will be determined (at the time of holding the Auction) based on the [prevailing] final reserve price, subject to paragraph (d);~~
- ~~(d) for the purposes of determining (at the time at which such amounts fall due for payment) the Applicable Daily Rate of the Capacity Charge, and other amounts payable pursuant to this Section B, the NTS Auction Price will be redetermined as the final [prevailing] reserve price plus the NTS Share of the Auction Premium.~~

EID Section E

A new section 8 to go into EID section E.

8 **APPLICABLE DAILY RATE FOR INTERCONNECTION POINT CAPACITY**

- 8.1 For the purposes of TPD Sections B2.11 and B3.12 the Applicable Daily Rate in respect of Interconnection Point Capacity allocated under an alternative allocation mechanism is the Reserve Price plus any mandatory minimum premium referred to in paragraph 4.1.4(d)(i)(3) and calculated in accordance with National Grid NTS's Entry Capacity Release Methodology Statement.

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10 Recommendations

Proposer's Recommendation to Panel

Panel is asked to:

- Refer this proposal to a Workgroup for assessment.