

Pre-Mod UNCxxx –

Remove redundant text on capacity holdings and offtake rights

Lauren Jauss, 28 July 2023

National Gas Transmission initial views in blue text

What

Transmission Workgroup have been discussing whether holding registered exit capacity conveys additional operational offtake rights, or if exit capacity is a financial product only.

The text in TPD Section J of the UNC implies that holding exit capacity does convey additional offtake rights because it says that the Transporter, or National Gas, will not be obliged under any provision of the Code to make gas available for offtake from the Total System or from the NTS by a User:

- in a quantity that exceeds the Users exit registered capacity; or,
- at a rate which exceeds 1/24th of the registered exit capacity for any day

Transmission Workgroup now appear to be converging on a view that these clauses are probably superfluous for NTS offtake and that holding exit capacity does not convey additional operational NTS offtake rights.

The wording 'Transmission Workgroup' in this paragraph requires clarification as those who were not party to the discussion in this forum may interpret this statement as a unanimous view of the Transmission Workgroup which is certainly not the case. It was the view of a small group of vocal participants and was certainly not the view of National Gas Transmission ('NGT') i.e. that the clauses are superfluous.

There appear to be no circumstances where National Gas will make gas unavailable on the NTS other than where specifically stated they have the right to do so. In these circumstances, capacity holdings do not seem to have a bearing on National Gas's decisions or Users rights or obligations.

The relevant clauses reflect the absence of:

- *a User's legal rights to offtake volumes in excess of capacity rights/maximum permitted rates; and*
- *a Transporter's legal obligations to make gas available for offtake in excess of capacity/maximum permitted offtake rates*

Just because there may be circumstances / network conditions which make it manageable for Users to offtake volumes in excess of capacity/maximum permitted offtake rates, and Transporters are comfortable to make such volumes available, this, in our opinion, is insufficient justification for removal of these provisions from the UNC in their entirety.

If these clauses are agreed to be superfluous, by definition this should be a selfgovernance modification.

This Proposal arguably runs contrary to one of the founding principles of the whole transportation / use of system regime. This being the 'ticket to ride' principle i.e. the requirement to buy a ticket (capacity) to take a ride on the bus (transport gas). Given this, and the fact that there is not universal agreement that the clauses are indeed superfluous we do not agree that the modification is suitable for self-governance.

A key question for Distribution Workgroup is whether you have a view that these types of clauses are equally superfluous for the Total System and/or NTS/LDZ Offtakes, as well as NTS System Exit Points?

Why

The current clauses encourage Users to forward purchase exit capacity at NTS System Exit Points in case it is not available day ahead or within day, to ensure they have the right to offtake. If this additional right does not exist, the clauses are misleading and are incorrectly incentivising Users behaviour.

Procuring NTS Exit Capacity does convey a right to offtake gas hence why one of the measures open to NGT in an exit constraint is for us to buy back capacity from Users i.e. it is necessary to do so in order to remove that right from that User.

The existing regime reflects that offtake in excess of capacity rights (where such gas is permitted to flow by the Transporter) attracts the relevant charges / commercial consequences i.e. application of Overrun Charges (Supply Point Ratchets in the case of LDZ Capacity).

On this basis we do not agree that the clauses are misleading.

Given NTS/LDZ Offtake capacity purchase obligations, do these clauses have the same impact on Users at these offtake points?

Are there circumstances where Transporters can make gas unavailable on the Distribution Systems?

Should these clauses for the Total System and/or NTS/LDZ Offtakes also be removed?

As above NGT does not agree that these clauses should be removed.

Proposed Amendments to Legal Text

Highlighted text relevant for Distribution

TPD Section J

3.5 Gas not made available for offtake

3.5.1 Where:

- (a) the Transporter is or has been in breach of its obligation to make gas available for offtake from the System at an LDZ System Exit Point; or
- (b) gas made available for offtake from the System at a System Exit Point does not comply with the Applicable Offtake Requirements and an Offtaking User declined (in accordance with paragraph 3.3.2(b)) to offtake such gas

the further provisions of this paragraph 3.5 shall apply.

[further provisions allow for compensation payments to Users, however these compensation payments are only made to the extent of the User's capacity holdings]

3.8 User offtake obligations: LDZ DM Supply Points

3.8.4 The Transporter will not be obliged under any provision of the Code to make gas available for offtake from the Total System by a User at a DM Supply Point comprised in an LDZ Supply Point:

- (a) at any time, at a rate which exceeds the Permitted Supply Point Offtake Rate; or

~~(b) on any Day, in a quantity which exceeds the User's Registered Supply Point Capacity.~~

...

3.9 User offtake obligations: LDZ CSEPs

3.9.3 The Transporter will not be obliged under any provision of the Code to make gas available for offtake from the Total System at a LDZ Connected System Exit Point:

- (a) by CSEP Users in aggregate, at any time, at a rate which exceeds the maximum aggregate rate permitted in accordance with the CSEP Network Exit Agreement; and

~~(b) by a CSEP User, on any Day, in a quantity which exceeds the User's Registered LDZ Capacity.~~

...

3.10 User offtake obligations: NTS Exit Points and Inter-System Offtakes

3.10.1 A:

~~(a) Shipper User is not entitled to offtake gas from an NTS Supply Point or NTS Connected System Exit Point;~~

- (b) DNO User is not entitled to offtake gas from the upstream System at an InterSystem Offtake

at a rate which exceeds the maximum permitted rate in accordance with paragraph 3.10.2 or 3.10.3 (as applicable), and shall take all reasonable steps to ensure that gas is not offtaken at such a rate.

3.10.2 The maximum permitted rate in respect of:

(a) an NTS/LDZ Offtake, is a rate calculated as:

$$\{CFLAT / 24\} + \{C(M)FLEX / 4\}$$

where:

CFLAT is the DNO User's NTS Exit (Flat) Capacity;

C(M)FLEX is the magnitude of the DNO User's NTS Exit (Flexibility) Capacity;

(b) an NTS Supply Point or a NTS Connected System Exit Point, is a rate calculated as:

$$\{CFLAT / 24\}$$

where

CFLAT is the Shipper User's NTS Exit (Flat) Capacity.

3.10.3 The maximum permitted rate in respect of an LDZ/LDZ Offtake is the rate specified in or determined pursuant to the Network Exit Provisions.

...

3.10.5 In the case of an NTS Exit Point National Gas Transmission will not be obliged under any provision of the Code to make gas available for offtake from the NTS by a User:

(a) at any time, at a rate which exceeds the maximum permitted rate (in accordance with paragraph 3.10.2);

(b) on any Day, in a quantity which exceeds the User's Fully Adjusted Available NTS Exit (Flat) Capacity;

(c) in the period between 06:00 hours and 22:00 hours on any Day, in a quantity which exceeds $(NEFC1 + 16/24 * QD2)$ (as those terms are defined in Section B3.13);

(d) at any time, at a rate which exceeds the Maximum NTS Exit Point Offtake Rate.

3.10.6 In the case of an LDZ/LDZ Offtake the upstream Transporter will not be obliged under any provision of the Code to make gas available for offtake from the upstream System:

(a) at any time, at a rate which exceeds the maximum permitted rate (in accordance with paragraph 3.10.3);

(b) on any Day, in a quantity which exceeds the maximum permitted quantity in accordance with the Network Exit Provisions.

1 NEFC is the DNO User's NTS Exit (Flexibility) Capacity (which may be positive or negative).

2 QD is the quantity of gas offtaken by the DNO User at the NTS/LDZ Offtake in the whole of the Day.