












UNC Modification	At what stage is this document in the process?
<h1>UNC 0611:</h1> <h2>Amendments to the firm capacity payable price at Interconnection Points</h2>	<div>01 Modification</div> <div>02 Workgroup Report</div> <div>03 Draft Modification Report</div> <div>04 Final Modification Report</div>
<p>Purpose of Modification:</p> <p>This modification seeks to facilitate compliance with the EU tariff code making amendments to the payable price at Interconnection Points (IP)s.</p>	
	<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>

Contents		 Any questions?
1	Summary	3
2	Governance	4
3	Why Change?	4
4	Code Specific Matters	4
5	Solution	4
6	Impacts & Other Considerations	4
7	Relevant Objectives	6
8	Implementation	7
9	Legal Text	7
10	Recommendations	7
Timetable		 Any questions? Contact: Joint Office of Gas Transporters  enquiries@gasgovernance.co.uk  0121 288 2107 Proposer: Colin Hamilton  colin.j.hamilton@nationalgrid.com  01926 653423 Transporter: National Grid Systems Provider: Xoserve  commercial.enquiries@xoserve.com
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 recommendation	15 June 2016	

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) [No. XXX/2017] 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.

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 capacity 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 NTS Auction Price shall be amended for the purpose of calculation the Applicable Daily Rate so that the reserve price element of this 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 shall require a new definition to be introduced into the UNC of an “Applicable Payable Price” where such an allocation mechanism is used.
- This Modification shall introduce the concept of a Mandatory Minimum Premium which may be added to Auction Price or 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.

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 at the end of March 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.

4 Code Specific Matters

Reference Documents

<http://www.gasgovernance.co.uk/sites/default/files/EU%20Tariff%20Code%20-%20final%20clean.pdf>

Knowledge/Skills

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

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) A new defined term known as the **Mandatory Minimum Premium**. 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) A new defined term known as the **Applicable Payable Price** shall be required for when incremental capacity at IPs is released via an Alternative Allocation Mechanism. The Applicable Daily Rate of the Capacity Charge shall be the Applicable Payable Price, which shall be the Reserve Price plus the Mandatory Minimum Premium (where applied). 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.

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 statements.

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.

Central Systems Impacts

The move from the current fixed price to the new 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 (<i>Proposer to complete this table</i>)	
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	None

satisfied as respects the availability of gas to their domestic customers.	
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

This modification furthers relevant objective g) because it introduces appropriate changes into the UNC to reflect EU Regulation [xxx/2017].

8 Implementation

No implementation timescales are proposed. The European Commission has specified that this Regulation should come into effect on 1st 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.

9 Legal Text

Text Commentary

To be provided.

Text

To be provided.

10 Recommendations

Proposer's Recommendation to Panel

Panel is asked to:

- Refer this proposal to a Workgroup for assessment.