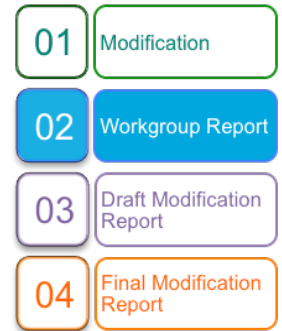


# 0510:

## Reform of Gas Allocation Regime at GB Interconnection Points



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



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



High Impact:  
Shippers, National Grid NTS



Medium Impact:  
Insert name(s) of impact



Low Impact:  
Insert name(s) of impact

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## About this document:

This report will be presented to the panel on 19 March 2015.

The panel will consider whether the modification should proceed to consultation or be returned to the workgroup for further assessment.

The Workgroup recommends the following timetable:

Initial consideration by Workgroup	04 September 2014
Amended Modification considered by Workgroup	02 December 2014
Workgroup Report presented to Panel	19 February 2015
Draft Modification Report issued for consultation	19 February year
Consultation Close-out for representations	dd month year
Final Modification Report presented to Panel	16 April 2015
UNC Modification Panel decision	dd month year



Any questions?

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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 & 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 Nomination 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 Interconnection Points equal to its Confirmed Nomination Quantities which will be the value determined by the Adjacent TSOs in response to the User's Nomination Quantities<sup>1</sup>. 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 Interconnection Points.

## Solution

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

- National Grid NTS communicates Confirmed Nomination Quantities to each IP User<sup>2</sup>
- National Grid NTS allocates gas to IP Users equal to their Confirmed Nomination Quantities
- National Grid NTS and the Adjacent TSO allocate the difference between metered quantities and net aggregate Confirmed Nomination Quantities to an Operational Balancing Account (OBA)<sup>3</sup>.
- 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.

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<sup>1</sup> See UNC TPD C1.1.2(e)

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

<sup>3</sup> 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'

## 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*. The consequential changes to the UNC will facilitate compliance with expected European legislative requirements.

## Implementation

No specific implementation date is proposed. However, National Grid NTS is currently planning to implement the revised allocation arrangements by 1<sup>st</sup> October 2015, in view of the interdependencies with the European Balancing and CAM 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.

## 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 1<sup>st</sup> 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 Interconnection Points 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 flow<sup>4</sup>.

Within the INT Code the default allocation rule is for the Adjacent TSOs to allocate gas to Users equal to their Confirmed Nomination Quantities (allocate as nominate) with the steering difference allocated to an Operational Balancing Account (OBA) between them. This means that such arrangements become obligatory if either the Adjacent TSOs fail to agree an allocation rule or if one of them requests such a rule. National Grid NTS's 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.

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<sup>4</sup> 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

## 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:

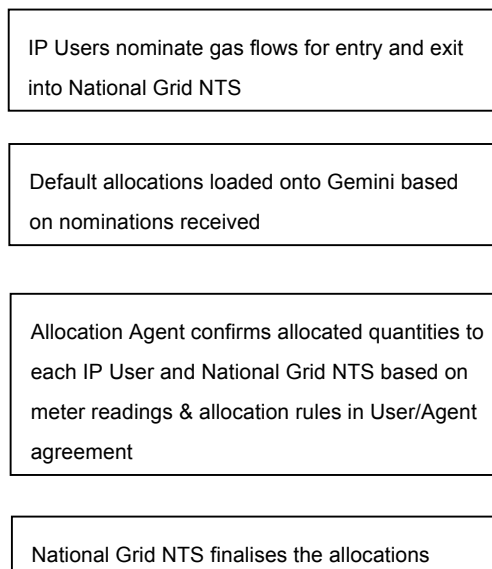
Article (paragraph)	Description
2(a)	Definitions – exceptional event
2(f)	Definitions – measured quantity
2(g)	Definitions – operational balancing account
2(i)	Definitions – steering difference
9	Rules for the allocation of gas quantities

## 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. 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 Interconnection Points. For the reasons explained above, the proposed allocation regime at Interconnection Points, as required by the INT Code, will differ from arrangements in respect of other NTS System Entry Points and NTS Connected System Exit Points. It is therefore necessary to amend the UNC in order to facilitate compliance with the INT Code. National Grid NTS and its Adjacent TSOs will separately need to incorporate allocation rules into the interconnection agreements.

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

### Current Process



### Allocate as nominate process

IP Users nominate gas flows for entry and exit into National Grid NTS

National Grid NTS communicates Confirmed Nomination Quantities to each IP User and the Adjacent TSO

National Grid NTS allocates gas to IP Users equal to their Confirmed Nomination Quantities

National Grid NTS and the Adjacent TSO use metered quantities for the purpose of determining and managing the Operational Balancing Account

Under allocate as nominate both National Grid NTS and the Adjacent TSOs utilise the Confirmed Nomination Quantities from the nominations Matching Process across the interconnection points as the User's allocation. Any gas flow steering difference (the difference between measured gas flow and net aggregated Confirmed Nominated Quantities) is accounted for within an Operational Balancing Account (OBA). However, in circumstances where the difference between physical and commercial quantities cannot be accommodated by an Adjacent TSO, having regard to the OBA, it is proposed that the TSOs may allocate gas to Users in proportion to the physical measurement. In such exceptional circumstances it is proposed that Users would be allocated equal to their Confirmed Nomination Quantities in the opposite direction of the physical flow. It is further proposed that Users be allocated a proportion of their Confirmed Nomination Quantities in the direction of the physical flow, with the net sum of the allocations in both directions being equal to the end of day measurement.

In line with Article 9(3) of the INT Code, it is proposed that the TSOs may only allocate proportionally to the end of day measurement at the IP in this way 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.

For information, a diagrammatic representation of the circumstances when National Grid may revert to proportional allocation is shown at Appendix B.

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
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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 Interconnection Points, mandated by the EU Interoperability and Data Exchange 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 1st October 2015. This is in view of the interdependencies with the Balancing and CAM 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.



## 7 Legal Text

### Text Commentary

*In support of the legal text provided, the legal representative shall provide a plain English explanatory note setting out the approach taken to converting the Solution into legal text, illustrating how the legal text delivers the intent of the Solution.*

Insert text here

### Suggested Text

Text has been prepared by National Grid NTS, published alongside this report, and no issues were raised by the Workgroup regarding its content.

## 8 Recommendation

The Workgroup invites the Panel to:

- AGREE that this modification should be submitted for consultation.

## 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.

# 10 Appendix B

Diagrammatic representation of circumstances when proportional allocation may apply

