





# UNC 0671:








New Capacity Exchange process at NTS exit points and ~~consequent~~ relief from User Commitment obligations when ~~NTS exit capacity substitution is permitted~~

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

**Purpose of Modification:**

This Modification, which applies to both DNOs and Shippers, proposes to introduce a new process to allow exchanges of both Enduring and Annual Exit Flat Capacity between NTS exit points. There will also be relief from changes to the User Commitment obligations in respect of the capacity exchanged. This will enable Users to respond to changes in their consumers' requirements in TPD Section B to improve the of efficiency NTS Firm Exit Capacity bookings.

	<p>The Proposer recommends that this modification should be:</p> <ul style="list-style-type: none"> <li>• assessed by a Workgroup.</li> </ul> <p>This modification will be presented by the Proposer to the Panel on 18 October 2018. The Panel will consider the Proposer's recommendation and determine the appropriate route.</p>
	<p>High Impact: Transporters, <a href="#">Shippers to NTS direct connects</a></p>
	<p>Medium Impact: <a href="#">Here</a></p>
	<p>Low Impact: <del>NTS Users</del>, Customers</p>

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<b>10 Recommendations</b>	<b><u>10117</u></b>	Systems Provider: <b>Xoserve</b>
<b>Timetable</b>		 <a href="mailto:commercial.enquiries@xoserve.com">commercial.enquiries@xoserve.com</a>
<b>The Proposer recommends the following timetable:</b>		
Initial consideration by Workgroup	01 November 2018	
Workgroup Report presented to Panel	21 February 2019	
Draft Modification Report issued for consultation	21 February 2019	
Consultation Close-out for representations	14 March 2019	
Final Modification Report available for Panel	19 March 2019 (short notice)	
Modification Panel decision	21 March 2019	

## 1 Summary

### What

Under the current requirements of TPD Section B any increase to Flat Capacity at any National Transmission System (NTS) Exit Point results in the application of a 4-year user commitment period during which time the new level of capacity has to be booked and paid for at a price set per exit point. It is understood that the NTS exit capacity prices reflect the cost of transporting gas to those exit points and as such that booking at cheaper offtakes would increase the efficiency of the NTS and potentially lower Carbon emissions from reduced use of its compressors. NTS Exit Prices are reset for every gas year (01 October Y to 01 October Y+1).

In many cases Gas Distribution Networks (GDNs) operate integrated networks within the Local Distribution Zones that can be fed from 2 or more NTS Exit Points and analysis is carried out to optimise the booking of flat capacity from the NTS offtakes. Optimisation can be carried out relative to a number of factors including costs and/or storage. [These movements will typically be small relative to current volumes but could deliver definite benefits.](#)

The current rules around User Commitment mean that moving capacity (which has already met the requirements of any User Commitment at the original point) would then incur User Commitment for an additional 4 years at the new point, despite the fact that capacity is released at the original source for use by other users. This means there is a deterrent against moving capacity. [to offtakes with lower associated costs for the NTS and this increases the costs for GDN customers.](#)

### Why

The current Use Commitment arrangements restrict the ability of [Users GDNs](#) to move capacity in response to [customer requirements NTS pricing signals on an annual basis](#). This may [affect DNO's ability to facilitate biomethane entry and flexible generation](#). [lead to reduced efficiency on the NTS and higher charges for the GDN and its Users.](#)

### How

[This proposal would require the Exit Capacity Release Methodology Statement \(ECRMS\) and the Exit Capacity Substitution and Revision Methodology Statement \(ECSRMS\) to be amended or more substantial changes to be made to TPD B. We note the concurrent proposal 0667 which relates to entry and believe that it would be sensible to have a broadly consistent approach between the proposals noting that they are not related in that they are seeking to change different arrangements.](#)

[A new process is required to allow Users to coordinate increases in Enduring Annual Exit \(Flat\) Capacity at offtakes with equal decreases at others. Currently these processes exist separately. A similar process to allow allow Users to coordinate an increases in Annual Exit \(Flat\) Capacity at offtakes with equal decreases at others in Years Y+2 and Y+3. We are not proposing to allow this process for Y+1 as this would have an impact on NTS revenue recovery for Y+1.](#)

[We acknowledge the current system of exchange rates in the ECSRMS and acknowledge that providing capacity at some points in the system may be less easy than at others. We propose that the process](#)

should differ between cases where the increased capacity at the increasing offtake would be less than or equal to baseline and cases where it would exceed baseline.

Where the capacity increase does not take the capacity at the increasing offtake above baseline then the capacity exchange should be on a 1:1 basis. Where there is insufficient baseline capacity at the increasing offtake then we accept that it is reasonable to use the exchange rates when considering moving capacity to reflect that it is more difficult to provide capacity at downstream offtakes. We acknowledge that this will require analysis by NTS.

We propose that relief from User Commitment obligations is provided for the amount of capacity moved from the decreasing offtake where a capacity exchange occurs and this User Commitment moves to the increasing offtake. There may still remain a User Commitment at the decreasing offtake in respect of the capacity remaining there and the movement of the capacity to the increasing offtake would create a User Commitment at the increasing offtake. The key change compared to the current arrangements is that the capacity that in respect of the capacity that is exchanged there is not a User Commitment at both the decreasing and increasing offtake where no NTS investment is required. Allowing reductions in Annual NTS Exit (Flat) Capacity in Y+2 and Y+3 will have a similar financial effect for this product although User Commitment does not apply to this product.

We are not proposing to amend the User Commitment obligations in ECSRMS; in particular we are not proposing a change from the current four year commitment period nor have a general rule that there is no User Commitment if there is no requirement for additional NTS investment.

Arrangements regarding User Commitments relating to NTS Exit Capacity are changed so that capacity can be moved between GDN/LDZ/Users without incurring additional User Commitment where the increased level does not require additional NTS investment. The baseline at the 'donor' point will reduce by the same amount as is moved.

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## 2 Governance

### Justification for Authority Direction

This modification should be subject to Authority Direction as it is likely to have a material effect on commercial activities associated with the transmission of gas through pipes (Self Governance criterion bb) because GDNs will be more able to respond to price differences for NTS Firm Exit Capacity at offtakes. This will enable DNOs to optimise the management of their system and respond to the changing needs of customers (such as flexible generation and biomethane producers) as well as minimising the cost of NTS Firm Exit Capacity. Consequently, this modification is also likely to have a material effect on the operation of one or more pipeline systems (Self Governance criterion cc) because if DNOs can make changes in how the gas flows round its integrated networks it provides more flexibility in meeting the needs of the growing number of flexible generation and biomethane plants.

### Requested Next Steps

This modification should:

- be assessed by a Workgroup.

The benefits of this change can be realised in the 2019/20 planning process if implemented by 01 July 2019; however, it would be desirable if it were implemented in advance of this date, so the Modification timetable has been set with a view to implementing by 01 June 2019. This timetable will allow four

transmission Workgroup meetings and submission of a draft modification report to the February Modification Panel.

### 3 Why Change?

DNOs need to purchase Firm Exit Capacity as they need to be certain that they have enough exit capacity to meet a 1 in 20 demand which is a requirement of their Safety Case. For this reason, they cannot use non-firm capacity to meet these requirements. Changes in operational requirements to meet customer requirements mean that DNOs and Shippers may wish to move capacity between offtakes but there is no coordinated process that enables this process.

We have deliberately refrained from using terms that have other meanings in other documents such as “doner”, “recipient”, “swaps” and “substitution” to avoid confusion with other processes.

#### New process required

TPD B has separate processes for increases in Enduring Annual NTS Exit (Flat) Capacity in 3.2.1 to 3.2.9 and reductions in 3.2.14 to 3.2.26 but they operate as separate processes and to different timescales. A User can apply for increase in the whole of the Annual Application window (1<sup>st</sup> to 31<sup>st</sup> July) (3.2.4) but can only apply for decreases in the period 1<sup>st</sup> to 15<sup>th</sup> July (3.2.15). The reason for the shorter window for reductions is to allow for any changes to be reflected in commodity charges for Y+1 thereby ensuring NTS fully recovers its allowed exit revenue. A new process that allowed coordinated increases and decreases between offtakes stated by the User, in a defined window, would address this. We are not proposing that this operates except in a defined window each year. This process would allow movement of capacity from more than one offtake (decreasing offtake(s)) to more than one offtake (increasing offtakes(s)), that the User would clearly state in their application.

We note that the Capacity weighted Distance model which is the basis for most of the 0621 series of modifications will result in charges that are broadly higher the further downstream of the NTS that an offtake is situated and the relative prices at different offtakes reflect the relative distance from entry points. We acknowledge that these charges recover the fixed NTS exit capacity revenue and therefore would not compensate NTS for delivering the same capacity at more remote offtakes however where there is spare capacity at an offtake, that is the Firm Exit (Flat) Capacity sold is less than the baseline then this should be made available at an exchange rate of 1:1 and the window should be 1<sup>st</sup> to 31<sup>st</sup> July.

Where the request for a capacity exchange would cause the capacity at the increasing offtake to exceed the baseline, then NTS will need to do analysis to see whether the capacity exchange can be made without additional NTS investment. To allow for this and for interaction between the User and NTS we propose that there should be a process in advance of the window in June to provide exchange rates on request with the window for application being 1<sup>st</sup> to 31<sup>st</sup> July. We accept that it may be more difficult to deliver gas to offtakes that are further downstream the transmission system and for capacity provided above the base line then it is reasonable to use exchange rates which reflect the effect of pressure drops further down the system. If investment is required to provide capacity in excess of the baseline then NTS will be required to assess whether the capacity exchange could be made up to the baseline at the increasing offtake and if so offer this as an option to the User.<sup>1</sup>

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<sup>1</sup> An alternative would be to allow the User to withdraw the application and resubmit, however if this was outside the window for applications the User would not be able to do this.

**Changes to financial commitments required**

Enduring Annual Exit (Flat) Capacity is booked in Gas Year Y for Gas Years Y+4 , Y+5 and Y+6. Annual NTS Exit (Flat) Capacity is booked in Gas Year Y for Gas Years Y+1, Y+2 and Y+3.

User Commitment applies to Enduring Annual NTS Exit (Flat) Capacity (TPD 3.2.17). Annual NTS Exit (Flat) Capacity is not subject to User Commitment but the User is committed to paying for Annual NTS Exit (Flat) Capacity booked in previous years; this provides certainty for NTS in terms of revenue recovery for Y+1. The current rules around User Commitment mean that moving capacity (which has already met the requirements of any User Commitment at the original point) would then incur User Commitment for an additional 4 years at the new point, despite the fact that capacity is released at the original source for use by other Users. The requirement to pay for Annual NTS Exit (Flat) Capacity creates an obligation for Y+1 to Y+3. This means that even where DNOs can revise their operating strategy to facilitate customer requirements there is a financial disincentive to move capacity. This is likely to result in reduced ability for DNOs to change flow patterns on DNO systems to support the requirements of DNO customers or to respond to price signals from the NTS. It should be noted the operational considerations mean that capacity is moved from a cheaper offtake to a more expensive offtake.

We are proposing that where capacity (both Enduring Annual NTS Exit (Flat) Capacity and Annual NTS Exit (Flat) Capacity) for Y+2 and Y+3 but not Y+1) is moved between one set of offtakes (decreasing offtakes) to another set of offtakes (increasing offtakes) as part of this new process then where there is no NTS investment required to facilitate this move then no additional User Commitment should be acquired by the User. We propose that where there was a User Commitment at the decreasing offtake then the User Commitment (in the case of Enduring Annual NTS Exit (Flat) Capacity) and the commitment to pay (in the case of Enduring Annual NTS Exit (Flat) Capacity) should move with the capacity that is moved to the increasing offtake. Any User Commitment or commitment to pay associated with the capacity remaining at the decreasing offtake will remain. The capacity that is moved to the increasing offtake will create a User Commitment or a commitment to pay at the increasing offtake.

TPD B 3.2.17 gives NTS the discretion to relieve Users from User Commitment where a User applies for a reduction in capacity in if the User has applied to hold enduring capacity at another NTS exit point and this capacity can be provided due to the reduction that the User has applied for. We suggest that this provision needs to have the discretion removed to provide certainty to Users. Further provisions qualifying this provision may be required, these need to be clear and unambiguous. Alternatively ECRMS paragraph 120 could be amended. We are also suggesting that a new provision is put in place relieving Users of the obligation to pay for Annual NTS Exit (Flat) Capacity where some of this capacity is moved to another offtake for either of Y+2 or Y+3 but not Y+1; but for the avoidance of doubt not where a User only wishes to reduce its Annual NTS Exit (Flat) Capacity. We have excluded Y+1 in recognition of the effect on NTS exit revenue recovery.

The current rules around User Commitment mean that moving capacity (which has already met the requirements of any User Commitment at the original point) would then incur User Commitment for an additional 4 years at the new point, despite the fact that capacity is released at the original source for use by other Users. This means that even where DNOs can revise their operating strategy to take gas from Offtakes with lower NTS prices there is a deterrent against moving capacity. This is likely to result in reduced ability for DNOs to change flow patterns on DNO systems to support the requirements of DNO customers or to respond to price signals from the NTS. It should be noted the operational considerations mean that capacity is moved from a cheaper offtake to a more expensive offtake.

Section 4 below. These documents are produced under NTS licence obligations and DNOs and Shippers have no rights to raise change proposals and can only respond to consultations. WWU raised this issue in its response to the May 2017 consultation on the Exit Capacity Release Methodology and stated that it was considering raising a UNC modification. The documents state that where there is a conflict between them and the UNC then the UNC takes precedence so raising a UNC modification is an effective way of proposing a change.

~~Revised arrangements that allow DNOs to move capacity between their offtakes without incurring additional User Commitment (where the new levels don't necessitate NTS investment) would improve the process by which DNOs can optimise their bookings. This should mean that more bookings are moved away from NTS Exit Points with higher NTS prices for Firm Exit Capacity to NTS Exit Points with lower NTS Firm Exit Capacity prices thus lowering costs for DN consumers and also enabling DNOs to better meet their customers' requirements.~~

~~DNOs need to purchase Firm Exit Capacity as they need to be certain that they have enough exit capacity to meet a 1 in 20 demand which is a requirement of their Safety Case. For this reason, they cannot use non-firm capacity to meet these requirements.~~

The detail of User Commitment and Substitution arrangements are in the NTS documents listed in Section 4 below. These documents are produced under NTS licence obligations and DNOs and Shippers have no rights to raise change proposals and can only respond to consultations. WWU raised this issue in its response to the May 2017 consultation on the Exit Capacity Release Methodology and stated that it was considering raising a UNC modification. The documents state that where there is a conflict between them and the UNC then the UNC takes precedence so raising a UNC modification is an effective way of proposing a change.

## 4 Code Specific Matters

### Reference Documents

Section B:

[http://www.gasgovernance.co.uk/sites/default/files/TPD%20Section%20B%20-%20System%20Use%20&%20Capacity\\_52.pdf](http://www.gasgovernance.co.uk/sites/default/files/TPD%20Section%20B%20-%20System%20Use%20&%20Capacity_52.pdf)

Exit Capacity Release Methodology [Statement](#):

<https://www.nationalgridgas.com/sites/gas/files/documents/Exit%20Capacity%20Release%20Methodology%20Statement%20%28Approved%29%20v12.0-%20Effective%2031%20July%202017.pdf>

Exit Capacity Substitution [and Revision](#) Methodology [Statement](#):

<https://www.nationalgridgas.com/sites/gas/files/documents/Exit%20Capacity%20Substitution%20Methodology%20Statement%20%28Approved%29%20v7.0-%20-%20Effective%2031%20July%202017.pdf>

### Knowledge/Skills

Knowledge of NTS processes for exit capacity.

## 5 Solution

Amend Transportation Principal Document Section B to:

Allow DNOs and Users to move capacity between NTS offtakes without incurring additional User Commitment (where the new levels don't necessitate investment in NTS incremental exit capacity).

Amend the base line capacity at the donor offtake so that it falls by the same amount as is moved to the recipient offtake.

The easiest solution is to amend the ECRMS and ECSRMS:

- a. Introduce a new process to allow coordination of an increase and a decrease ("Capacity Exchange") in NTS Enduring Firm Exit Capacity for an User at offtakes specified by the User through the Annual Application Window (1<sup>st</sup> to 31<sup>st</sup> July). For exchanges where the capacity at the increasing offtake exceeds baseline a process would exist in June to allow the user to request exchange rates from NTS. The process would not be available at other times. The changes to capacity would take place from the following 1<sup>st</sup> October for exchanges where the capacity at the increasing offtake does not exceed baseline and for exchanges where the capacity at the increasing offtake exceeds baseline. This could be achieved by:
  - i. Amending ECRMS (possibly with a name change to the document) to create a new process "Capacity Exchange process" which would be dealt with as one application and not as two separate but connected applications for an increase and decrease.
    1. Where capacity at the increasing offtake does not exceed baseline exchanges would be allowed between from any set of offtakes to any other set of offtakes
    2. Where the the capacity at the increasing offtake exceeds baseline exchanges would be allowed from any set offtakes to any other set of offtakes
  - ii. Amending ECRMS paragraph 117 to allow, during a window in the the Annual Application Window, for a User to apply for reductions in Enduring Annual Exit (Flat) Capacity at offtakes stated by the User when done in conjunction with an application for an increase in Enduring Annual Exit (Flat) Capacity at offtakes stated by the User.
  - iii. Allowing reductions in Annual Exit (Flat) Capacity for Y+2 and Y+3 in a similar way
  - iv. Relating this to the existing substitution process this would mean that the decreasing NTS Exit Point would be specified by the User and not determined by NTS so the equivalent to paragraphs 33-42 inclusive of the ECSRMS would not apply to this new process.
- b. Provide relief from User Commitment where the increase can be met without the need for additional NTS investment in Incremented Obligated Firm Exit Capacity
  - i. ECRMS paragraph 120 currently allows for the User Commitment to be waived where at that offtake another User requests the Capacity that is being given up. This waiver would be extended to the decreasing offtake in cases of a Capacity Exchange as long as the User was prepared to accept the reduction in pressure (if any) required to permit the Capacity Exchange as described above. Any User Commitment at the recipient offtake resulting from the Capacity Exchange would remain.
  - ii. Alternatively amend TPD B 3.2.17 to remove discretion from NTS possibly with additional conditions added.

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c. Adjust the NTS base line so no there is net increase in NTS obligated Exit Capacity (ECSRMS paragraph 15)

If all the changes were made in the ECRMS then there would be no need for this modification as no changes would be required to the UNC.

Failing this Transportation Principal Document Section B will need to be amended to introduce the provisions into the UNC.

#### TPD B

- 1) Require the ECRMS to include processes for Capacity increases, Capacity decreases and Capacity exchanges between offtakes specified by the User within a specified window within the Annual Allocation Window but not outside this window for both Enduring Annual Exit (Flat) Capacity and Annual Exit (Flat) Capacity.
- 2) Amend TPD B 3.2.17 to remove discretion from NTS regarding relief from User Commitment possibly with additional conditions added to require them to relieve the User from the User Commitment at the decreasing offtakes where the exchange does not require additional NTS investment to facilitate it. Any User Commitment at the recipient offtakes resulting from the capacity exchange remains.
- 3) Add new clause to permit reductions in Annual Exit (Flat) Capacity in Y+2 and Y+3 where a Capacity Exchange occurred.

## 6 Impacts & Other Considerations

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

No.

### Consumer Impacts

There will be indirect impacts on consumers on GDN networks as they will benefit from any reduction in the costs of NTS exit capacity and some consumers will directly benefit in cases where the DNO can adjust flows to enable them to better meet customer requirements.

### Cross Code Impacts

None

### EU Code Impacts

None

### Central Systems Impacts

Impacts to be confirmed but WWU's initial view is that there would be none as the proposed changes would not change the outputs from the planning process which are prices for NTS exit flat capacity. All that would change is the process, in that it would now include a process by which capacity could be moved between NTS offtakes in certain circumstances. Xoserve's initial view is that there will be central systems impacts, if so this will affect the proposed implementation timescales.

## 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.	Positive
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.	None

Demonstration of how the Relevant Objectives are furthered inserted here.

This proposal furthers relevant objective (b) by encouraging response to price signals from NTS that should reduce costs for DNOs. It will also allow DNOs which have integrated systems to adjust flows from the NTS to enable them to better facilitate their customers' requirements especially from flexible electricity generation plants and green gas production facilities.

## 8 Implementation

WWU would like this modification to be implement by 01 July 2019 so that it can be used in the process for setting NTS capacity for 01 October 2019.

For implementation on 01 June 2019 an Authority direction to implement must be made by 30 April 2019.

For implementation on 01 July 2019 an Authority direction to implement must be made by 29 May 2019.

For an Authority direction received after 29 May 2019 implementation would be 01 October 2019.

## 9 Legal Text

### Text Commentary

To be provided

### Text

To be provided

## 10 Recommendations

### Proposer's Recommendation to Panel

Panel is asked to:

- Agree that Authority Direction should apply
- Refer this proposal to a Workgroup for assessment.