










UNC Draft Modification Report	At what stage is this document in the process?
<h1>UNC 0616S:</h1> <h2>Capacity Conversion Mechanism for Interconnection Points</h2>	<div style="display: flex; flex-direction: column; gap: 5px;"> <div style="border: 1px solid #ccc; border-radius: 5px; padding: 5px; display: flex; align-items: center;"> 01 Modification </div> <div style="border: 1px solid #ccc; border-radius: 5px; padding: 5px; display: flex; align-items: center;"> 02 Workgroup Report </div> <div style="border: 1px solid #ccc; border-radius: 5px; padding: 5px; display: flex; align-items: center;"> 03 Draft Modification Report </div> <div style="border: 1px solid #ccc; border-radius: 5px; padding: 5px; display: flex; align-items: center;"> 04 Final Modification Report </div> </div>
<p>Purpose of Modification:</p> <p>To provide a process for ‘converting’ unbundled capacity into bundled capacity in compliance with the amended EU CAM code.</p>	
	<p>This Draft Modification Report is issued for consultation responses at the request of the Panel. All parties are invited to consider whether they wish to submit views regarding this self-governance modification.</p> <p>The close-out date for responses is 12 October 2017, which should be sent to enquiries@gasgovernance.co.uk. A response template, which you may wish to use, is at www.gasgovernance.co.uk/0616.</p> <p>The Panel will consider the responses and agree whether or not this self-governance modification should be made.</p>
	<p>High Impact: None</p>
	<p>Medium Impact: National Grid Gas Transmission, Shipper Users</p>
	<p>Low Impact: None</p>

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Timetable			
Modification timetable:			commercial.enquiries@xoserve.com
Initial consideration by Workgroup	04 May 2017		
Workgroup Report presented to Panel	21 September 2017		
Draft Modification Report issued for consultation	21 September 2017		
Consultation Close-out for representations	12 October 2017		
Final Modification Report available for Panel	13 October 2017		
Modification Panel decision	19 October 2017		

1 Summary

What

Shipper Users who hold unbundled capacity on one side of an IP may wish to acquire matching unbundled capacity on the other side of the IP. Because priority is given to offering capacity as bundled, then the Shipper User may find that they have no option but to buy a new bundled product to acquire capacity on both sides of the IP. This means that the Shipper User will have purchased capacity twice on one side of the IP. There is currently no capacity conversion mechanism within the UNC.

Why

The amendment to the EU network code on Capacity Allocation Mechanisms (CAM) was published into the EU Official Journal on 17 March 2017 as regulation 2017/459. CAM requires a capacity conversion mechanism to be offered to Users at interconnection points (IP), and this modification shall introduce that process into the Uniform Network Code. Not doing so would create non-compliance with CAM.

How

It is proposed that a capacity conversion mechanism, describing the preconditions and validations to be performed, be added into Section B of the European Interconnection Document (EID) within the UNC. The proposal will achieve compliance with the CAM code.

2 Governance

Justification for Self-Governance

The Modification Panel determined that this modification should follow the self-governance procedure.

This is on the basis that it is proposed to implement the new mechanism in a relatively simple ex-post manner, and the new mechanism does not significantly alter the general arrangements for transporting gas at IPs when they are considered in the round. There is therefore no material impact on competition in the shipping, transportation or supply of gas conveyed through pipes or any commercial activities connected with the shipping, transportation or supply of gas conveyed through pipes.

Requested Next Steps

This modification should:

- be assessed by a Workgroup.

3 Why Change?

The amendment to the EU network code on capacity allocation mechanisms was published into the EU Official Journal on 17 March 2017 as regulation 2017/459. This shall hereafter be simply referred to as CAM. CAM requires a capacity conversion mechanism to be offered to network Shipper Users at interconnection points (IP), and this modification shall introduce that process into the Uniform Network Code. The CAM code requires the mechanism to be effective from 01 January 2018.

The mechanism will affect capacity entitlements at IPs and the associated liabilities, and so should be implemented through the UNC so there are clear transparent rules.

This proposal shall enable compliance with the CAM code.

4 Code Specific Matters

Reference Documents

The CAM code can be found here:

[http://www.entsog.eu/public/uploads/files/publications/CAM%20Network%20Code/2017/COMMISSION%20REGULATION%20\(EU\)%202017-459%20-%20CAM%20NC.pdf](http://www.entsog.eu/public/uploads/files/publications/CAM%20Network%20Code/2017/COMMISSION%20REGULATION%20(EU)%202017-459%20-%20CAM%20NC.pdf)

Knowledge/Skills

An understanding of the CAM code and the GB capacity regime would be beneficial, notably UNC Section B of both the Transportation Principal Document and the European Interconnector Document.

5 Solution

The following rules should be added into Section B of the EID.

1. Following a bundled auction of yearly, quarterly or monthly IP capacity then Shipper Users may request to convert unbundled capacity.
2. The request must be received by National Grid NTS no later than 17:00, 3 business days after the close of auction. Late requests will be rejected. The request will contain at least the following information:
 - a. PRISMA reference number(s) for the bundled auction(s);
 - b. The Interconnection Point;
 - c. The direction of flow;
 - d. The unbundled capacity amount to be converted;
 - e. The capacity duration, and period, for the conversion;
 - f. Shipper ID; and
 - g. Contact details for the shipper.

A Shipper User may withdraw a request at any time up to the conversion deadline.

3. National Grid NTS will complete both technical and commercial validation.
4. Technical validation:
 - a. If any of the information received is incomplete then National Grid NTS will reject the request and will ask the sender to resubmit within the standard 3 day window.
5. Commercial validation:
 - a. National Grid NTS will perform a capacity check to ensure that the shipper user holds sufficient net firm unbundled capacity entitlements compared to the conversion quantity submitted for the period and direction requested.
 - b. The conversion quantity must be less than or equal to the quantity of bundled capacity purchased in the relevant bundled auction(s).
 - c. The conversion duration must be for yearly, quarterly or monthly products.
 - d. National Grid NTS will inform a Shipper User on the outcome of the request no later than 2 business days (48 hours) after receiving it.
 - e. The confirmation from National Grid NTS shall contain at least the following information:
 - i. PRISMA reference number for the bundled auction;
 - ii. The Interconnection Point;
 - iii. The direction of flow;
 - iv. The unbundled capacity amount to be converted;
 - v. The capacity duration, and period, for the conversion;
 - vi. Shipper ID; and
 - vii. Whether the request has been successful. If not successful, then National Grid NTS will provide the reasons why.
 - f. For the avoidance of doubt, there is no conditionality on the results of the bundled auction with the success, or otherwise, of the conversion. Capacity allocated in the bundled auction shall be Registered against the Shipper User regardless of whether capacity is later converted, and the User's bundled entitlements will increase accordingly.
6. Following a successful application:
 - a. For Information: The conversion process does not affect existing Registered Capacity holdings for unbundled capacity, and the Shipper User shall remain liable to pay the original unbundled capacity holding.
 - b. For the conversion quantity, the Shipper User shall receive a credit amount for the reserve price component of the clearing price paid, for the relevant bundled auction.
 - c. For the conversion quantity, the Shipper User shall remain liable to pay the auction premium component of the clearing price for the relevant bundled auction, and no credit amount is generated with regards to the premium.

- d. The unbundled capacity entitlements of the successful Shipper User shall be reduced by the approved conversion quantity.
 - e. For the avoidance of doubt, the Shipper User shall be liable to pay both the reserve price and premium for any amount that was allocated in the bundled auction and is not part of the conversion quantity.
7. The approved conversion quantity will be made available in any subsequent auctions as part of National Grid's Allocable Capacity. Note: the conversion quantity needs to be available for as long as the whole duration of the capacity product offered in an auction, in order to be considered available.
 8. The order in which National Grid NTS shall allocate capacity following an auction shall be:
 - a. Capacity made available through the conversion mechanism.
 - b. Unsold technical capacity.
 - c. Capacity made available through Surrender, (LT UIOLI) Withdrawal or Additional (non-obligated) capacity.
 9. The credit identified under 6b) shall be generated out of revenue received following the bundled auction. Revenue shall be taken from revenue streams in the reverse order in which they are allocated¹. This follows a 'last in, first out' principle and respects the existing merit order.

Where converted capacity is reoffered and subsequently sold in a future IP auction, the treatment of the associated revenue shall reflect where the revenue was foregone at the time of the conversion process e.g. if baseline capacity had revenue foregone then the conversion revenue will be treated as TO revenue; if Surrendered Capacity had revenue foregone then the conversion revenue will be treated as a neutrality feed, etc. This approach will replenish any revenue that was foregone in the bundled auction preceding the conversion.
 10. Some further opportunities for added clarity within EID Section B have also been identified, and included in the Legal Text under the section 'other changes to EID B'. This includes paragraphs 3.1.1 and 6.3.2.
 11. The below example has been added at the request of the Workgroup.

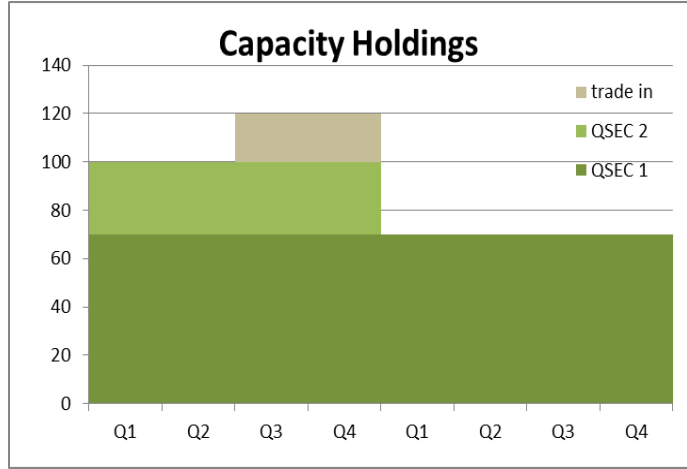
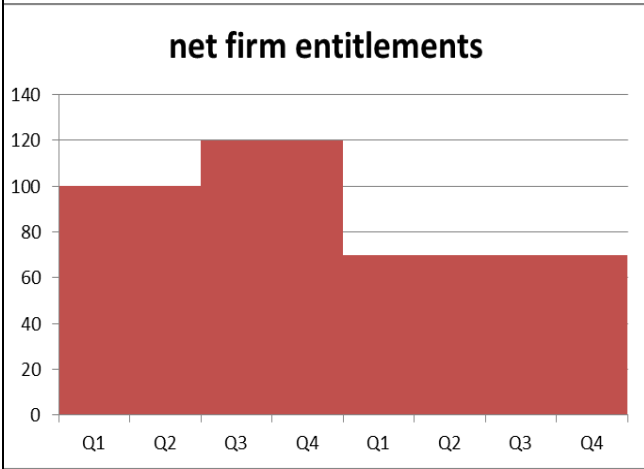
Worked Example

This example shall examine a shipper's capacity before and after the conversion process, with particular focus on Q2 with respect to financial obligations created.

Phase 1: Before bundled auction

A shipper holds available unbundled capacity entitlements as follows. The breakdown of the capacity holdings is also shown (on the right).

¹ [The merit order for allocating capacity at interconnection points is as listed in EID B3.1.1 \(as confirmed by EID B3.5.1\)](#)



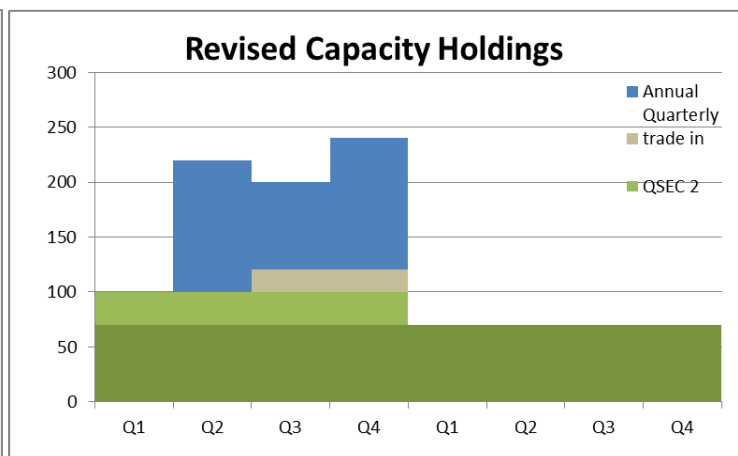
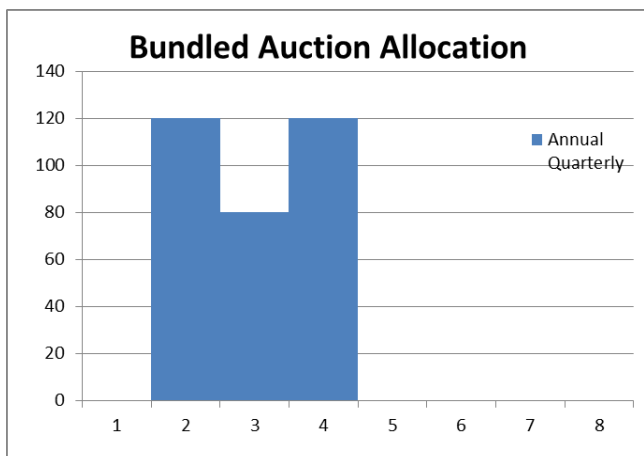
The Shipper's net firm unbundled entitlements can be considered as its convertible capacity.

The Shipper liabilities for each gas day in Q2 are as follows:

Process (e.g. auction)	Amount (£)
QSEC 1	70 units at (R1+P1)
QSEC 2	30 units at (R2+P2)

Phase 2: After Bundled auction; before conversion

The Shipper purchases the following capacity in the Annual Quarterly auction. The revised breakdown of total capacity holdings is also shown (on the right).



The shipper liabilities for each gas day in Q2 are now as follows:

Process (e.g. auction)	Amount (£)
QSEC 1	70 units at (R1+P1)
QSEC 2	30 units at (R2+P2)
Annual Quarterly	120 units at (R3+P3)

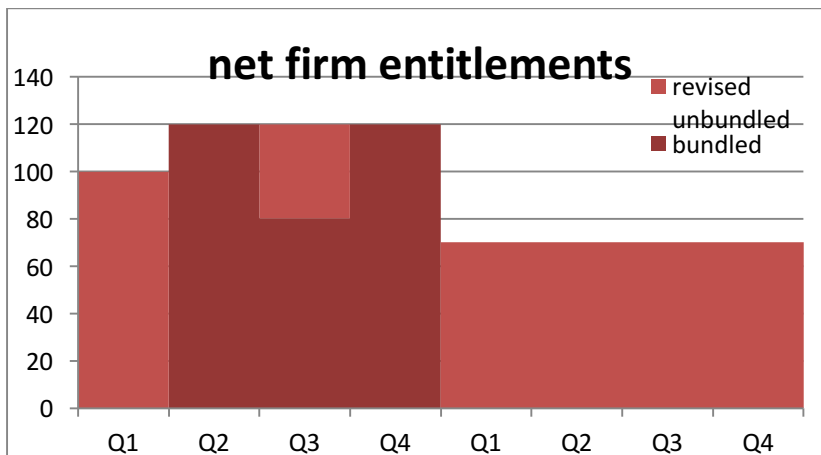
Phase 3: conversion request

After the auction, an ex-post conversion service takes place (3 bus. day window). The shipper submits the following capacity amounts for conversion. (Flat amounts across each quarter are submitted here, but different amounts for each month could be submitted if the shipper wishes.)

Period	Max permitted	Amount Requested
Q1 months 1,2,3	0	0
Q2 months 4,5,6	100	100
Q3 months 7,8,9	80	80
Q4 months 10,11,12	120	120

Phase 4: after conversion

[The shipper's revised capacity entitlements are now as follows.](#)



The table below compares the net firm entitlements before and after the process.

Period	Before Process	Bundled Purchase	Convert	After Process	Description of activities
Q1	100	0	0	100	No activity
Q2	100	120	-100	120	Additional 120 units bought, only 100 converted
Q3	120	80	-80	120	Additional 80 units bought, but 80 converted so no net change
Q4	120	120	-120	120	Additional 120 units bought, but 120 converted so no net change

Shipper liabilities for Q2 after the process.

Process (e.g. auction)	Amount (£)
QSEC 1	70 units at (R1+P1)
QSEC 2	30 units at (R2+P2)
Annual Quarterly	120 units at (R3+P3)
Conversion Credit	100 units at R3

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

The net effect of this proposal should be to redress the situation where shipper users have to purchase system capacity twice at interconnection points. This may result in lower costs for shipper users which in turn may result in a lower cost to consumers.

Cross Code Impacts

No impact identified.

EU Code Impacts

This UNC modification proposal demonstrates how GB will comply with the capacity conversion mechanism required under the CAM code.

Central Systems Impacts

Any change to systems resulting from this modification will be dealt with, and funded, through National Grid's EU phase 4 project. A change proposal has been raised to this effect, and been submitted to the Change Management Committee. This change proposal, XRN4262, can be viewed on the Joint Office website: <https://www.gasgovernance.co.uk/Change-Proposals>.

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 Energy Regulators.	Positive

Relevant objective g) *Compliance with the Regulation etc*, will be furthered because the mechanism proposed by this modification achieves compliance with the EU CAM code.

8 Implementation

As self-governance procedures are proposed, implementation could be sixteen business days after a Modification Panel decision to implement, subject to no Appeal being raised. However, the CAM code requires the mechanism to be effective from the 01 January 2018 and it is anticipated that this modification would be implemented on this date.

9 Legal Text

Text Commentary

Paragraph	Explanation
A new paragraph 10 of EID B	
Paragraph 10.1.1	This summarises capacity conversion.
Paragraph 10.1.2	These are the definitions used.
Paragraph 10.2.1	This sets out what a User must include in its request to convert capacity.
Paragraph 10.2.2	This describes what will comprise a valid request to convert. A User may convert its existing capacity in blocks of a month comprising the same amount of capacity each day in the month. A User may convert against bundled capacity acquired by it in an auction.
Paragraph 10.2.3	This explains when a request to convert may be withdrawn.
Paragraph 10.3.1	This explains when National Grid will accept/reject an application.
Paragraph 10.4.1(a)	This describes what conversion means. A User's capacity position is converted from one of mis-match, resulting from the addition of interconnection point capacity on both sides of the interconnection point to the User's existing capacity on one side of the interconnection point, to one of a matching position on both sides of the interconnection point by the reduction of the User's existing capacity.
Paragraph 10.4.1(b)	This describes the effect of capacity conversion on the tariff payable by the User for its bundled capacity.
Paragraph 10.4.2	This describes how the credit with which National Grid provides the shipper converting its capacity will reduce Relevant Capacity Revenues.
Paragraph 10.4.3	This describes how and the extent to which Relevant Capacity Revenues are replaced with the proceeds from the sale of converted capacity.

Other changes to EID B	
Paragraph 1.1.1	This reflects the addition of capacity conversion in the introduction.
Paragraph 1.1.2 (j)	This includes capacity conversion in the list of issues dealt with in EID B.
Paragraph 1.1.3	This provision should also apply to conversion.
Paragraph 1.8.2	This corrects an existing erroneous cross reference and is unrelated to capacity conversion.
Paragraph 3.1.1(a)	This amendment includes converted capacity in the capacity which is allocable in an auction as the capacity which is offered first.
Paragraph 6.3.2(b)(ii)	This corrects an existing typo and is unrelated to capacity conversion.

Text

European Interconnection Document Section B

Note:

Existing paragraph 10 of EID B will be renumbered 11 and the references to paragraph 10 in paragraphs 1.6.9(a), 10.1.1 and 10.4.1, shall be amended to refer to paragraph 11.

Existing paragraph 11 of EID B will be renumbered 12 and the references to paragraph 11 in paragraphs 11.1.1, 11.1.2 and 11.1.3, shall be amended to refer to paragraph 12.

Insert New Paragraph 10 into the European Interconnection Document Section B (EIDB), as follows:

10 CAPACITY CONVERSION

10.1 General

10.1.1 A User which holds Convertible Capacity at an Interconnection Point and is allocated Corresponding Bundled Capacity, may Convert an amount of that Convertible Capacity in accordance with this paragraph 10.

10.1.2 For the purposes of this Section B:

- (a) “Conversion” means a reduction in the Convertible Capacity held by a User in accordance with paragraph 10.4.1(a), and “Converted” and “Convert” shall be construed accordingly;
- (b) “Conversion Deadline” means 17:00 hours on the third Business Day after the Day on which the relevant Auction Closes;
- (c) “Conversion Month” means a period commencing at 05:00 hours on the first Gas Day beginning in a calendar month and ending at 05:00 hours on the first Gas Day beginning in the following calendar month;

- (d) “Conversion Request” means a User’s request to Convert Convertible Capacity in accordance with this paragraph 10;
- (e) “Convertible Capacity” means Unbundled Interconnection Point Capacity which is Available;
- (f) “Corresponding Bundled Capacity” means Bundled Interconnection Point Capacity allocated in an Annual Yearly Auction, Annual Quarterly Auction or Rolling Monthly Auction at the Interconnection Point to which a Conversion Request relates.

10.2 Conversion Request

10.2.1 A Conversion Request shall specify:

- (a) the identity of the User making the request;
- (b) the Convertible Capacity in each Conversion Month which it wishes to Convert;
- (c) the Interconnection Point at which that Convertible Capacity and the Corresponding Bundled Capacity is held;
- (d) whether the Convertible Capacity is NTS Entry Capacity or NTS Exit (Flat) Capacity;
- (e) any reference number(s) given by the Capacity Platform Operator to the Auction(s) in which the Corresponding Bundled Capacity was allocated; and
- (f) the User’s contact details for the request.

10.2.2 A User’s Conversion Request is valid if:

- (a) it complies with the requirements in paragraph 10.2.1;
- (b) it is submitted no later than the Conversion Deadline;
- (c) it is to Convert Convertible Capacity over a period of a Conversion Month, or any number of Conversion Months;
- (d) it is to Convert an equal amount of Convertible Capacity on each Gas Day in each Conversion Month;
- (e) the Convertible Capacity requested to be Converted in each Conversion Month is equal to, or less than, the Convertible Capacity held by the User in the relevant Conversion Month at the Interconnection Point to which the Conversion Request relates;
- (f) the Convertible Capacity requested to be Converted in each Conversion Month is equal to, or less than, the Corresponding Bundled Capacity allocated to the User in the relevant Conversion Month; and
- (g) it is to Convert (i) NTS Entry Capacity and the Corresponding Bundled Capacity is also NTS Entry Capacity, or (ii) NTS Exit (Flat) Capacity and the Corresponding Bundled Capacity is also NTS Exit (Flat) Capacity.

10.2.3 A User may withdraw a Conversion Request at any time up to the Conversion Deadline.

10.3 Response to Conversion Request

10.3.1 National Grid NTS shall respond to a Conversion Request within 48 hours of having received it (not counting time falling in any period which is not within a Business Day) setting out the information set out in paragraph 10.2.1(b) to (f) and the following:

- (a) whether the Conversion Request is valid under paragraph 10.2.2, in which case that the Conversion Request is accepted;
- (b) whether and in what respect the Conversion Request is invalid under paragraph 10.2.2 and whether National Grid NTS, in any event, accepts the Conversion Request; or
- (c) whether and in what respect the Conversion Request is invalid under paragraph 10.2.2, in which case that the Conversion Request is rejected and of no effect and, where the Conversion Deadline has not already passed, an invitation to the User to submit a corrected Conversion Request.

10.4 Capacity Conversion

10.4.1 If a Conversion Request is accepted under paragraph 10.3.1(a) or (b), the following shall apply:

- (a) the User's Convertible Capacity shall be reduced in accordance with its request (but, for the avoidance of doubt, any Registered Unbundled Interconnection Point Capacity held by the User, shall remain unchanged); and
- (b) National Grid NTS shall credit the User with an amount equal to the Reserve Price (but, for the avoidance of doubt, not the Auction Premium) paid by the User for the amount of the Corresponding Bundled Capacity in respect of which the Convertible Capacity is Converted.

10.4.2 The credit which National Grid NTS applies under paragraph 10.4.1(b) shall be deemed to reduce the Capacity Charges received by National Grid NTS from the Auction of the Corresponding Bundled Capacity. The reduction in charges shall be attributed to the categories of capacity listed in paragraph 3.1.1 in the reverse order in which they are listed (commencing with Additional Interconnection Point Capacity) with the effect that Relevant Capacity Revenues shall be reduced accordingly.

10.4.3 The Capacity Charges received by National Grid NTS from the allocation of any Converted Capacity in any Auction following any Conversion, shall be attributed to any categories of capacity to which the reduction in charges was attributed under paragraph 10.4.2, up to the amount of capacity affected in each category under paragraph 10.4.2, such attribution being made in the order in which the categories of capacity are listed in paragraph 3.1.1 (and not in the reverse order), with the effect that Relevant Capacity Revenues shall be increased accordingly.

OTHER CHANGES TO EID B:

Amend paragraph 1.1.1 to read as follows:

1.1.1 This Section B provides for the basis on which System Capacity at Interconnection Points may be allocated to Users, bundled with capacity in an Interconnected System, and transferred, converted, or surrendered by or withdrawn from Users.

Amend paragraph 1.1.2 to read as follows:

1.1.2 This Section B sets out:

- (a) general provisions in relation to Interconnection Point Capacity;
- (b) general rules for the holding of Auctions of Interconnection Point Capacity;

- (c) the basis for determining the amount of Interconnection Point Capacity made available in an Auction;
- (d) rules for Ascending Clock Auctions;
- (e) rules for Uniform Price Auctions;
- (f) the basis on which Interconnection Point Capacity may be Bundled;
- (g) the basis on which Interconnection Point Capacity may be Surrendered;
- (h) the basis on which Interconnection Point Capacity may be Withdrawn;
- (i) the basis on which System Capacity Transfers may be made in respect of Interconnection Point Capacity;
- (j) [the basis on which Interconnection Point Capacity may be Converted](#);
- ~~(j)~~(k) modifications of certain other provisions of the Transportation Principal Document in relation to Interconnection Points.

Amend paragraph 1.1.3 to read as follows:

- 1.1.3 In order to acquire, bundle, [convert](#), surrender or transfer Interconnection Point Capacity under the provisions of this Section B, a User must have had assigned to it and hold an Energy Identification Code, which is an identification code issued by the central issuing office or any local issuing office under the Energy Identification Coding scheme established by the European Network of Transmission System Operators for Electricity (ENTSOE).

Amend paragraph 1.8.2 to read as follows:

- 1.8.2 At the EID Implementation Date the provisions referred to in paragraph 1.78.1(a), (b), (c), (d) and (e) are the following paragraphs of TPD Section B:

Amend paragraph 3.1.1 to read as follows:

- 3.1.1 The “**Allocable**” Interconnection Point Capacity in relation to an Auction of Firm Interconnection Point Capacity is the aggregate ~~amount of Interconnection Point Capacity which~~ [of the following](#) ~~(at the Auction Information Time)~~ ~~is~~:
- ~~(a) — Eligible Technical Interconnection Point Capacity (in accordance with paragraph 3.2); or~~
 - (a) [any Converted Convertible Capacity \(in accordance with paragraph 10.4.1\(a\)\)](#);
 - (b) [the Eligible Technical Interconnection Point Capacity \(in accordance with paragraph 3.2\)](#);
 - ~~(b)~~(c) [any Interconnection Point Capacity which is](#) subject to a Surrender Offer (in accordance with paragraph 7), in the case of an Ascending Clock Auction; ~~or~~
 - ~~(c)~~(d) [any Interconnection Point Capacity which is](#) subject to a Withdrawal Offer (in accordance with paragraph 8), in the case of an Ascending Clock Auction; ~~and or~~
 - ~~(d)~~(e) [any Additional Interconnection Point Capacity \(in accordance with paragraph 3.3\)](#).

Amend paragraph 6.3.2 to read as follows:

- 6.3.2 Where (other than in connection with a System Capacity Transfer of Bundled Interconnection Point Capacity) the Adjacent TSO notifies National Grid NTS that, under any provision of the Adjacent TSO Rulebook, a User (as IS User) will cease or has ceased (for any Day or consecutive Days) to hold any amount of Interconnected System Capacity which the Adjacent TSO records as bundled with Equivalent Interconnection Point Capacity, National Grid NTS will:

- (a) compare what is notified by the Adjacent TSO with its record of Bundled Interconnection Point Capacity, and
- (b) revise the record:
 - (i) by reducing the amount of Interconnection Point Capacity recorded as Bundled for the relevant Day(s) where and by the amount by which such reduction appears to National Grid NTS to be appropriate; and
 - (ii) unless there is a corresponding reduction in the User's Available Interconnection Point Capacity, by increasing the amount recorded as Unbundled by the same amount).

10 Recommendations

Panel's Recommendation to Interested Parties

The Panel have recommended that this report is issued to consultation and all parties should consider whether they wish to submit views regarding this self-governance modification.