

# 0417S:

## Notice for Enduring Exit Capacity Reduction Applications

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The modification would remove the requirement for the 14 months' notice to apply for reductions in Enduring Annual NTS Exit (Flat) Capacity at July application windows, where the User Commitment Amount (UCA) has been satisfied in advance.



The Workgroup recommends that this self-governance modification should now proceed to Consultation.



High Impact:



Medium Impact:



Low Impact:

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## About this document:

The purpose of this report is to make a recommendation to the Panel, to be held on 19 April 2012, on whether Modification 0417S is sufficiently developed to proceed to Consultation and to submit any further recommendations in respect of the definition and assessment of this self-governance modification.



### 3 Any questions?

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# 1 Summary



## Is this a Self-Governance Modification?

The Modification Panel determined that this is a self-governance modification.

## Why Change?

When Exit Capacity charges are reviewed and, as a consequence, Users holding Enduring Annual NTS Exit (Flat) Capacity face higher charges, this may lead to an early satisfaction of their relevant User Commitment Amounts (UCA). However, due to the "14 months notice" rule, these Users would be prevented from applying for any reduction in their capacity holdings with effect before 12 months from the first day of booking, potentially exposing them to unforeseen but significant increases in their operating cost.

## Solution

It is proposed to amend the "14 months notice rule" such that Users holding Enduring Annual NTS Exit (Flat) Capacity and expecting to satisfy the UCA within 12 months from the first day of booking (given the actual charges) are allowed to make an application in the Reduction Application Window preceding the first day of booking for any reduction with effect from the 1<sup>st</sup> of any month after the UCA has been satisfied.

## Impacts and Costs

Systems implications resulting from the proposed change are being assessed by National Grid NTS (NG).

## Implementation

While no implementation timescale is proposed, it would be beneficial if this modification is implemented in advance of the next July application window, in order to allow Users who are exposed to the above condition to be allowed to submit a relevant reduction application.

As this is a self-governance modification, implementation could be 16 business days after a Modification Panel decision to implement.

## The Case for Change

Allowing the reduction of exit capacity holdings when the User Commitment Amount is expected to be satisfied should facilitate Users holding the quantities of capacity they require, thereby better allocating costs between users and releasing otherwise sterilised capacity to potentially be held by other Users. Hence implementation would be expected to facilitate the securing of effective competition between Shippers, and better achievement of National Grid NTS' licence obligations to the extent that investment is better informed and hence economic and efficient.

## Recommendations

The Workgroup considers that this self-governance modification is sufficiently developed and should now proceed to Consultation.

## Definitions

### **Enduring Annual NTS Exit (Flat) Capacity**

(TPD B 3.1.5.c) is Annual NTS Exit (Flat) Capacity which may be applied for and registered as held (in a given amount) by a User with effect from the Day for which it is allocated, on the basis that the User will continue to hold such amount of capacity subject only to:  
(i) a reduction;  
(ii) the User ceasing to hold the capacity;  
(iii) any System Capacity Assignment

### **Reduction Application Window**

(TPD B 3.2.15)

A notice of reduction of Enduring Annual NTS Exit (Flat) Capacity may be given no earlier than 08:00 hours or later than 17:00 hours on a Business Day in the period 1 July to 15 July (inclusive) in any Gas Year (Y).

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## 2 Why Change?



### Definitions

#### **User Commitment Amount**

(NTS Exit Capacity Release Methodology Statement)

In respect of a User, the User Commitment Amount (UCA) shall be determined by:

$$UCA (\text{£}) = P_{\text{ind}} / 100 \times Q \times (365 \times 4 + 1) - \text{Charges}_{\text{actual}}$$

where

**P<sub>ind</sub>** = the indicative NTS Exit Capacity price

**Q** = total amount (existing plus total incremental) of Enduring Annual NTS

Exit (Flat) Capacity allocated to the User (kWh/Day) over the commitment period,

**Charges<sub>actual</sub>** means Exit Capacity Charges (£) paid solely in respect of

Enduring Annual NTS Exit (Flat) Capacity and shall exclude all other charges.

### Implementation of 195AV

In the notice of implementation for Modification 0195AV, the Authority noted that: all of the 0116/0195 proposals (except 0116A) would introduce user commitment under which users triggering new investment would be required to commit to pay the prevailing transmission charge at that offtake point for a period of four years. This principle is known as "User Commitment" and it has been introduced into both the UNC and the ExCR.

Under this principle, any User applying for Incremental Exit Capacity, should:

- pay, by way of exit capacity charges, an amount equal to no less than four years indicative (at the time of the application) exit capacity charges [i.e. not the prevailing]; and
- give a minimum of 14 months notice of a reduction in its capacity allocation [i.e. at least one years prevailing charge].

### Implications

When Exit Capacity charges are reviewed and, as a consequence, Users holding Enduring Annual NTS Exit (Flat) Capacity face higher charges, this may lead to an early satisfaction of their relevant User Commitment Amounts. However, due to the "14 months notice", these Users would be prevented from applying for any reduction in their capacity holdings with effect before 12 months from the first day of booking, potentially exposing them to unforeseen but significant increase in their operating cost.

#### **Worked example (Moffat and Mod 356)**

|              |   |
|--------------|---|
| Jul 2009     | application for 1 GWh incremental capacity at indicative price (0.0001 p/kWh/d), resulting in a UCA of £1 per day for 4 years, i.e. £1440 |
| Apr 2012     | Mod 0356 set actual price at 0.0021 p/kWh/d, resulting in £21 per day   |
| Oct 2012     | User starts paying exit charges   |
| Dec 2012     | User satisfy the UCA (after 68.5 days)  |
| Jan-Oct 2013 | User is exposed for additional 292 days of actual charges, i.e. £6132   |

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### 3 Solution

It is proposed to amend the “14 months notice rule” such that Users

1. holding Enduring Annual NTS Exit (Flat) Capacity at an NTS Exit Point where the registration of some, or all, of that Enduring Annual NTS Exit (Flat) Capacity commences (i.e. the User Commitment starts) in Gas Year Y, and
2. expecting to satisfy the UCA within the Gas Year Y

are allowed to make an application during the Reduction Application Window in Gas Year Y-1 for a reduction of their registered capacity at that NTS Exit Point with effect from the 1<sup>st</sup> of any month after the UCA has been satisfied.

NG will not reject such an application unless NG determines that:

1. the UCA will be unfulfilled before the requested date for the reduction to take effect (given the charges for Year Y, as stated in the Notice of Gas Transmission Transportation Charges, which is published in advance of the Reduction Application Window); or
2. the requested date is not 1<sup>st</sup> of the month; or
3. the requested date is not in Gas Year Y.

## 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.   | Positive          |
| b) Coordinated, efficient and economic operation of<br>(i) the combined pipe-line system, and/ or<br>(ii) the pipe-line system of one or more other relevant gas transporters.   | None              |
| c) Efficient discharge of the licensee's obligations.  | Positive          |
| d) Securing of effective competition:<br>(i) between relevant shippers;<br>(ii) between relevant suppliers; and/or<br>(iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers. | Positive          |
| 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              |

### Achievement of relevant objective (a) "Efficient and economic operation of the pipe-line system"

Enabling Users to adjust downward their signals for Enduring Annual NTS Exit (Flat) Capacity releases National Grid NTS from the obligation to make such capacity available at the relevant point on a firm basis. This could allow National Grid NTS to maximise the release of non-obligated firm and interruptible capacity at nearby locations, making more efficient use of the pipe-line system.

### Achievement of relevant objective (c) "Efficient discharge of the licensee's obligations"

Releasing National Grid NTS from the obligation to make available non-needed capacity would make the capacity available to other Users, avoiding sterilisation, and thereby allow a better facilitation of Relevant Objective (c) with respect to licence obligations relating to economic and efficient system development.

### Achievement of relevant objective (d) "Securing of effective competition"

Shippers and DN Operators (both as Users) would benefit from the implementation of this modification by avoiding the unnecessary holding of Enduring Annual NTS Exit (Flat)

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Capacity when it is not needed (or cannot be used). Such holding of capacity would cause the relevant User to incur additional costs (by way of NTS Exit (Flat) Capacity Charges) that could have a detrimental financial impact upon their business. Allowing Users to hold capacity rights that ore closely match their actual requirements would help to ensure that costs are allocated appropriately and so facilitate the securing of effective competition. Capacity may also be released for other Users, also facilitating effective competition among Shippers.

## 5 Impacts and Costs



### Consideration of Wider Industry Impacts

No wider industry impacts are anticipated

#### Costs

| Indicative industry costs – User Pays   |  |
|---|--|
| Classification of the modification as User Pays or not and justification for classification   |  |
| In the absence of an assessment of the systems implications by National Grid NTS, there are no grounds for classifying this is awaited. |  |
| Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification        |  |
| NA  |  |
| Proposed charge(s) for application of Users Pays charges to Shippers  |  |
| NA  |  |
| Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from Xoserve                                       |  |
| NA  |  |

#### Impacts

| Impact on Transporters' Systems and Process |   |
|---|---|
| Transporters' System/Process                | Potential impact  |
| UK Link                                     | <ul style="list-style-type: none"> <li>No assessment provided by National Grid NTS</li> </ul> |
| Operational Processes                       | <ul style="list-style-type: none"> <li>No assessment provided by National Grid NTS</li> </ul> |
| User Pays implications                      | <ul style="list-style-type: none"> <li>No assessment provided by National Grid NTS</li> </ul> |

| Impact on Users         |                  |
|-------------------------|------------------|
| Area of Users' business | Potential impact |
|                         |                  |

**Where can I find details of the UNC Standards of Service?**

In the Revised FMR for Transco's Network Code Modification

**0565 Transco Proposal for Revision of Network Code Standards of Service** at the

following location:

[www.gasgovernance.co.uk/sites/default/files/0565.zip](http://www.gasgovernance.co.uk/sites/default/files/0565.zip)

| Impact on Users   |  |
|---|--|
| Administrative and operational  | <ul style="list-style-type: none"> <li>Users will be able to apply for reductions of incremental Enduring Annual NTS Exit (Flat) Capacity with effect anytime after the user commitment amount has been exhausted</li> </ul> |
| Development, capital and operating costs                              | <ul style="list-style-type: none"> <li>None</li> </ul>   |
| Contractual risks   | <ul style="list-style-type: none"> <li>Removes the risk of paying substantially more than the user commitment amount to the extent that capacity can be released in response to changing prices</li> </ul>                   |
| Legislative, regulatory and contractual obligations and relationships | <ul style="list-style-type: none"> <li>None</li> </ul>   |

| Impact on Transporters  |  |
|---|--|
| Area of Transporters' business  | Potential impact   |
| System operation  | <ul style="list-style-type: none"> <li>Improved signals of capacity requirements avoid sterilisation and support efficient system development and operation</li> </ul> |
| Development, capital and operating costs                              | <ul style="list-style-type: none"> <li>No assessment provided by National Grid NTS</li> </ul>  |
| Recovery of costs   | <ul style="list-style-type: none"> <li>NA</li> </ul>   |
| Price regulation  | <ul style="list-style-type: none"> <li>None</li> </ul>   |
| Contractual risks   | <ul style="list-style-type: none"> <li>None</li> </ul>   |
| Legislative, regulatory and contractual obligations and relationships | <ul style="list-style-type: none"> <li>None</li> </ul>   |
| Standards of service  | <ul style="list-style-type: none"> <li>None</li> </ul>   |

| Impact on Code Administration |  |
|-------------------------------|--|
| Area of Code Administration   | Potential impact                                       |
| Modification Rules            | <ul style="list-style-type: none"> <li>None</li> </ul> |
| UNC Committees                | <ul style="list-style-type: none"> <li>None</li> </ul> |
| General administration        | <ul style="list-style-type: none"> <li>None</li> </ul> |

| Impact on Code          |   |
|-------------------------|---|
| Code section            | Potential impact  |
| UNC TPD Section B3.2.17 | <ul style="list-style-type: none"> <li>See Draft Text, Section 8</li> </ul> |

| Impact on UNC Related Documents and Other Referenced Documents               |  |
|--|--|
| Related Document   | Potential impact                                       |
| Network Entry Agreement (TPD I1.3)   | <ul style="list-style-type: none"> <li>None</li> </ul> |
| Network Exit Agreement (Including Connected System Exit Points) (TPD J1.5.4) | <ul style="list-style-type: none"> <li>None</li> </ul> |
| Storage Connection Agreement (TPD R1.3.1)                                    | <ul style="list-style-type: none"> <li>None</li> </ul> |
| UK Link Manual (TPD U1.4)  | <ul style="list-style-type: none"> <li>None</li> </ul> |
| Network Code Operations Reporting Manual (TPD V12)                           | <ul style="list-style-type: none"> <li>None</li> </ul> |
| Network Code Validation Rules (TPD V12)                                      | <ul style="list-style-type: none"> <li>None</li> </ul> |
| ECQ Methodology (TPD V12)  | <ul style="list-style-type: none"> <li>None</li> </ul> |
| Measurement Error Notification Guidelines (TPD V12)                          | <ul style="list-style-type: none"> <li>None</li> </ul> |
| Energy Balancing Credit Rules (TPD X2.1)                                     | <ul style="list-style-type: none"> <li>None</li> </ul> |
| Uniform Network Code Standards of Service (Various)                          | <ul style="list-style-type: none"> <li>None</li> </ul> |

| Impact on Core Industry Documents and other documents                   |  |
|---|--|
| Document  | Potential impact                                       |
| Safety Case or other document under Gas Safety (Management) Regulations | <ul style="list-style-type: none"> <li>None</li> </ul> |
| Gas Transporter Licence   | <ul style="list-style-type: none"> <li>None</li> </ul> |

| Other Impacts                 |  |
|-------------------------------|--|
| Item impacted                 | Potential impact                                       |
| Security of Supply            | <ul style="list-style-type: none"> <li>None</li> </ul> |
| Operation of the Total System | <ul style="list-style-type: none"> <li>None</li> </ul> |
| Industry fragmentation        | <ul style="list-style-type: none"> <li>None</li> </ul> |

Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties

- None

## 6 Implementation

While no implementation timescale is proposed, this modification should be implemented in advance of the next July application window, in order to allow Users who are exposed to the above condition to be allowed to submit a relevant reduction application.

As self-governance procedures are proposed, implementation could be 16 business days after a Modification Panel decision to implement.

## 7 The Case for Change

None in addition to that identified the above.

## 8 Legal Text

The following draft Legal Text has been provided by National Grid NTS. National Grid NTS has also committed to putting forward a supporting change to their ExCR.

### TPD Section B

*Amend paragraph 3.2.17 to read as follows:*

3.2.17 Where a User has applied for a reduction of Enduring Annual NTS Exit (Flat) Capacity specifying a User Reduction Date which is earlier than 1 October in Gas Year Y+2, National Grid NTS ~~may give effect to the reduction (acting in its sole discretion) from:~~

- (a) ~~may give effect to the reduction (acting in its sole discretion) from the User Reduction Date specified in the User's application, where:~~
  - (i) a User has applied to be registered as holding Enduring Annual NTS Exit (Flat) Capacity at any NTS Exit Point; and
  - (ii) National Grid NTS is able to satisfy such application by reason of giving effect to the reduction applied for; or
- (b) ~~will give effect to the reduction from the User Reduction Date specified in the User's application, where:~~
  - (i) ~~the User Reduction Date is after the end of the commitment period as determined in accordance with the principles in the prevailing Exit Capacity Release Methodology Statement ("Commitment Period"); and~~
  - (ii) ~~the Commitment Period commences in Gas Year Y+1; or~~
- ~~(b)(c)~~ may give effect to the reduction from 1 October in Gas Year Y + 2 where the circumstances in paragraphs (a) and (b) do not apply.

*Amend paragraph 3.2.19 to read as follows:*

3.2.19 National Grid NTS may reject a notice of reduction where:

- (a) ~~any of the requirements of paragraph 3.2.15 or 3.2.22 is not complied with;~~
- (b) ~~by reference to System Capacity Transfers notified prior to the notice of reduction, the User's Enduring Annual NTS Exit (Flat) Capacity would, on the basis of the reduced amount specified in such notice, be negative at any time in the future;~~
- (c) ~~the User Reduction Date is earlier than the end of the eCommitment pPeriod as determined in accordance with the principles in the prevailing Exit Capacity Release Methodology Statement and National Grid NTS is unable to utilise the reduction amount to satisfy a further application for Enduring Annual NTS Exit (Flat) Capacity at any NTS Exit Point.~~

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## 9 Recommendation

The Workgroup invites the Panel to:

- AGREE that this self-governance modification should be submitted for Consultation.