

0541B:

Ex-post removal of uncontrollable UNC charges at ASEP's which include sub-terminals operating on a 06.00 to 06.00 Gas Day.

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

Removal of uncontrollable UNC charges incurred by shippers allocated 0500 to 0500 Gas Day User Daily Input Quantities at ASEP's which include sub-terminals operating on a 0600 to 0600 Gas Day. This is achieved through ex-post ~~adjustments credits to to a second category of capacity, and balancing, scheduling and INS charges neutrality adjustment accounts.~~



The Proposer recommends that this modification should be:

- assessed by a Workgroup



High Impact: Shippers



Medium Impact: None



Low Impact: None

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| About this document: | |  01926 655031 |
| This modification was presented by the proposer to the panel on 16 July 2015 as Modification 0543. Following the Panel's consideration Modification 0543 was withdrawn and renumbered to Modification 0541B. | | Systems Provider: Xoserve |
| The Proposer recommends the following timetable: | |  commercial.enquiries@xoserve.com |
| Initial consideration by Workgroup | 06 August 2015 |  telephone |
| Workgroup Report presented to Panel | 07 August 2015 | Additional contacts: Nick Wye |
| Draft Modification Report issued for consultation | 20 August 2015 |  nick@waterswye.co.uk |
| Consultation Close-out for representations | 11 September 2015 |  01789 266811 |
| Final Modification Report presented to Panel | 15 September 2015 | |
| UNC Modification Panel recommendation | 17 September 2015 | |
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1 Summary

Is this a Self-Governance Modification?

The proposer does not consider that Self-Governance procedures apply to this modification, as it may have a material effect on competition in the shipping of gas, since the modification attempts to ensure that UNC charges are not unfairly applied to certain Users.

Is this a Fast Track Self-Governance Modification?

No, Fast-Track procedures do not apply because this is not a housekeeping modification.

Why Change?

The European Network Code on Capacity Allocation Mechanisms (“CAM”) stipulates that there should be a harmonised gas Day across the EU. CAM ~~was due to be~~ implemented ~~on~~ 01 November 2015. The European Network Code on Gas Balancing (“BAL”) makes reference to the gas Day as defined in the CAM Network Code. BAL ~~was due to be~~ implemented ~~on~~ 01 October 2015. Both the CAM and BAL Network Codes form part of Regulation (EC) No 715/2009 of the European Parliament dated 13 July 2009 (the “Regulation”). However the Regulation only applies the harmonised gas Day to Interconnection Points and downstream systems within the EU. It does not apply to arrangements “upstream” of the transmission systems (within which the Balancing zones are situated) such as the UK gas beach processing terminals.

The National Transmission System will run a United Kingdom time 0500 hours to 0500 hours gas Day from 01 October 2015. However the majority of United Kingdom gas beach processing sub terminals will continue to run on a United Kingdom time 0600 hours to 0600 hours gas Day on and after 01 October 2015 (the “GMT Terminals”). This is due to the technical challenges and costs that would be incurred in changing all terminal and upstream metering to run on a 0500 hours to 0500 hours gas Day.

Users inputting gas to the NTS from GMT Terminals will only have Day ahead and within Day information about their intended and actual flows on a 0600 hours to 0600 hours basis and will accordingly have to schedule and nominate to National Grid NTS and make “Claims” to the Claims Validation Agent based on 0600 hours to 0600 hours numbers.

National Grid NTS will give the Claims Validation Agent a 0500 hours to 0500 hours metered Entry Point Daily Quantity Delivered for each System Entry Point at a GMT Terminal and the Claims Validation Agent will need to allocate that quantity between Users based on 0600 hours to 0600 hours Claim numbers. There will therefore likely be on all Days mismatches arising from the differences between the 0500 hours to 0600 hours aggregate quantity on one Day and the 0500 hours to 0600 hours quantity on the next Day (“Time Shift Mismatches”).

Without this Modification Users at GMT Terminals would likely incur on every Day NTS Daily Imbalance Charges and Scheduling Charges and potentially Overrun Charges and Incentivised Nomination Charges as a result of the Time Shift Mismatches since they would be out of balance every Day (long or short) depending on whether the Entry Point Daily Quantity Delivered is greater or smaller than the aggregate of all Users’ Claim numbers (“Time Shift Charges”).

Time Shift Charges would be unearned and not capable of mitigation by Users and would not arise from the physical needs of the NTS nor the Users failure to balance. Monies raised from Time Shift Charges would be returned to all Users via the neutrality charge systems. Time Shift Charges would therefore not be in compliance with the principles set out in Regulation that balancing rules should: (i) financially incentivise network users to balance their balancing portfolios via cost reflective imbalance charges; (ii) reflect genuine system needs; (iii) be non discriminatory; and (iv) avoid cross subsidisation.

Solution

Reimbursing Users at GMT Terminals for Time Shift Charges ~~via adjustments to~~ ~~by creating a second category of cCapacity, and bBalancing scheduling and INS -Neutrality Charges for Users at GMT Terminals only.~~

This would mean that Users would be reimbursed for Time Shift Charges and would have the effect of preventing Users incurring unearned charges, restore the correct financial incentives to balance and avoid discrimination of Users at GMT Terminals and cross subsidisation by Users at GMT Terminals of all other Users.

Relevant Objectives

The modification better facilitates the achievement of Relevant Objectives d (i) and g.

The proposal ensures that those UNC charges which are levied on Users as a result of mismatches arising from the differences between the 0500 hours to 0600 hours aggregate quantity on one Day and the 0500 hours to 0600 hours quantity on the next Day are reversed through secondary adjustments to capacity and balancing neutrality charges. Users have no control over the “Time Shift Mismatches” and are unable to take any mitigating actions to address them. The imposition of UNC charges which result from the Time Shift Mismatches means that affected Users face unwarranted costs which would be redistributed to all Users via neutrality charges, for example. In combination, these outcomes create inefficiencies in terms of cost allocation and undermine competition.

The proposal better facilitates compliance with Regulation (EC) No 715/2009 following the required change to the gas Day. In short, the proposal ensures that charges are such that they (i) financially incentivise network users to balance their balancing portfolios via cost reflective imbalance charges; (ii) reflect genuine system needs; (iii) are non discriminatory; and (iv) avoid cross subsidisation.

Implementation

No implementation timescales are proposed, however it is anticipated that this modification should be implemented ~~as soon as possible after the~~ ~~on the~~ 01 October 2015, the date on which the Gas Day ~~will~~ ~~changed~~ to 0500 hours to 0500 hours, ~~or at the earliest possible date thereafter.~~

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

This modification is likely to impact Systems Changes for EU Reform due to the need to acquire “GMT UDQI” data and the subsequent adjustments to Capacity and Balancing Neutrality charges.

2 Why Change?

The Issue

The European Network Code on Capacity Allocation Mechanisms (“CAM”) stipulates that there should be a harmonised gas Day across the EU. CAM ~~was implemented on~~ ~~is due to be implemented from~~ 01 November 2015. The European Network Code on Gas Balancing (“BAL”) makes reference to the gas Day as defined in the CAM Network Code. BAL ~~was~~ ~~is due to be~~ implemented ~~on~~ ~~from~~ 01 October 2015. Both the CAM and BAL Network Codes form part of Regulation (EC) No 715/2009 of the European Parliament dated 13 July 2009 (the “Regulation”). However the Regulation only applies the harmonised gas Day to Interconnection Points and downstream systems within the EU. It does not apply to arrangements “upstream” of the transmission systems (within which the Balancing zones are situated) such as the UK gas beach processing

terminals. The National Transmission System ~~has~~ will run a United Kingdom time 0500 hours to 0500 hours gas Day from 01 October 2015. However the majority of United Kingdom gas beach processing sub terminals ~~will~~ continue to run on a United Kingdom time 0600 hours to 0600 hours gas Day on and after 01 October 2015 (the "GMT Terminals"). This is due to the technical challenges and costs that would be incurred in changing all terminal and upstream metering to run on a 0500 hours to 0500 hours gas Day.

There will be no arrangements (for example linepack flexibility or operational balancing type arrangements) between National Grid NTS and the GMT Terminals to handle mismatches arising from the NTS running on a 0500 hours to 0500 hours gas Day and the GMT Terminals running on a 0600 hours to 0600 hours gas Day.

Impact on Users at GMT Terminals

Users inputting gas to the NTS from GMT Terminals will only have Day ahead and within Day information about their intended and actual flows on a 0600 hours to 0600 hours basis and will accordingly have to schedule and nominate to National Grid NTS and make "Claims" to the Claims Validation Agent based on 0600 hours to 0600 hours numbers.

National Grid NTS will give the Claims Validation Agent a 0500 hours to 0500 hours metered Entry Point Daily Quantity Delivered for each System Entry Point at a GMT Terminal and the Claims Validation Agent will need to allocate that quantity between Users based on 0600 hours to 0600 hours Claim numbers. There will therefore likely be on all Days mismatches arising from the differences between the 0500 hours to 0600 hours aggregate quantity on one Day and the 0500 hours to 0600 hours quantity on the next Day ("Time Shift Mismatches").

The effect of such Time Shift Mismatches on the existing Claims Validation arrangements would be that: (1) if the Entry Point Daily Quantity Delivered is less than the aggregate of all Users' Claims, all Users' Claim numbers and therefore their User Daily Quantity Input quantities will be reduced pro rata; and (2) if the Entry Point Daily Quantity Delivered is greater than the aggregate of all Users' Claim numbers, the resulting "Time Shift Excess Gas" will be lost to the NTS as unallocated gas. Depending on the overall NTS balance, such Time Shift Excess Gas may be sold by National Grid NTS and the proceeds returned to all Users via the balancing neutrality system rather than just to Users using the GMT Terminals.

In order to prevent the loss of Time Shift Excess Gas on a regular basis as a result Time Shift Mismatches, the shareholders of the Claims Validation Agent are in the process of amending the Claims Validation arrangements so that Time Shift Excess Gas will be allocated to Users at the GMT Terminals rather than be treated as unallocated gas. This will have the effect of increasing each such User's Claim number and therefore their User Daily Quantity Input quantities. These changes will also enable the Claims Validation Agent to provide National Grid NTS with each User's UDQI on a 0500 hour to 0500 hours basis and on 0600 hours to 0600 hours basis if required.

Even following such intervention, without this Modification Users at GMT Terminals will likely incur on every Day NTS Daily Imbalance Charges and Scheduling Charges and potentially Overrun Charges and Incentivised Nomination Charges as a result of the Time Shift Mismatches since they will be out of balance every Day (long or short) depending on whether the Entry Point Daily Quantity Delivered is greater or smaller than the aggregate of all Users' Claim numbers ("Time Shift Charges").

The Users will be unable to manage or mitigate the Time Shift Charges as they are a factor simply of the difference between the 0500 hours to 0600 hours aggregate quantity on one Day and the 0500 hours to 0600 hours quantity on the next Day. The Time Shift Mismatches will have no effect on the overall physical balance of the NTS. Users will only become aware of their Time Shift Mismatches after the Day.

Time Shift Charges will be unearned and not capable of mitigation by Users and will not arise from the physical needs of the NTS nor the Users failure to balance. Monies raised from Time Shift Charges will be returned to all Users via the neutrality charge systems. Time Shift Charges will therefore not be in compliance

with the principles set out in Regulation that balancing rules should: (i) financially incentivise network users to balance their balancing portfolios via cost reflective imbalance charges; (ii) reflect genuine system needs; (iii) be non discriminatory; and (iv) avoid cross subsidisation.

3 Solution

Reimbursing Users at GMT Terminals for Time Shift Charges via adjustments to by creating a second category of cCapacity, and bBalancing, scheduling and INS-Neutrality Charges, for Users at GMT Terminals only.

This would mean that Users would be reimbursed for Time Shift Charges and would have the effect of preventing Users incurring unearned charges, restore the correct financial incentives to balance and avoid discrimination of Users at GMT Terminals and cross subsidisation by Users at GMT Terminals of all other Users. For the avoidance of doubt, charges will continue to be applied for User imbalances arising from physical imbalances and as such the Users allocated gas at GMT Terminals will not benefit from any positive discrimination.

The Claims Validation Agent will be able to provide National Grid NTS for each User at a System Point at a GMT Terminal (a “GMT System Entry Point”) for each Day with a UDQI calculated from National Grid’s Entry Point Daily Quantity Delivered (0500 hours to 0500 hours basis) and with a “GMT UDQI” calculated from the User’s Claim on an 0600 hours to 0600 hours basis for the “GMT Day” starting on the Day.¹ The User’s “Time Shift Quantity” for the Day, being the difference between the UDQI and the GMT UDQI, whether positive or negative, can therefore be calculated.

Changes should be made to, inter alia, the following Sections of the Uniform Network Code:

TPD Sections A and E

Add concept of “GMT Day” (i.e. 0600 hours to 0600 hours) and a concept of “Associated GMT Day”, being the GMT Day starting on the Day, to General Terms.

Add a new Section A.5 introducing concept of “GMT System Entry Point” being a System Entry Point connected to facilities using a GMT Day.

Add concept of a “GMT UDQI” being the quantity of gas treated as being entered by the by the User to the Total System on the Associated GMT Day at a GMT System Entry Point to Section E1.1.2 and a new Section E2.4 detailing how GMT UDQI’s will be calculated. Then add concept of a “Time Shift Quantity” being the difference between the UDQI and the GMT UDQI.

Add an obligation on Users to provide a “GMT Entry Allocation Statement” setting out the “GMT UDQI” at the GMT System Entry Point.

TPD Section B – Capacity Neutrality Arrangements

Exclude “Time Shift Entry Overrun Charges” on an ex-post basis(being System Entry Overrun Charges arising solely from Time Shift Quantities) from the calculation of Relevant Capacity Revenues in Section B2-13.2.

¹ The obligation to provide the GMT UDQI will sit with the shippers in the UNC, however, it is expected that CVSL will discharge this obligation on the shippers’ behalf.

~~Add new Sections from 2.13.8 onwards setting up a new “Time Shift Capacity Neutrality Arrangements” scheme. This scheme should follow the existing Capacity Neutrality Arrangements but Revise Section B to include:~~

- ~~- only be in respect of Time Shift Entry Overrun Charges less any applicable National Grid NTS costs (“Relevant Time Shift Capacity Revenues) the calculation of Time Shift Entry Overrun Quantities for each User at each GMT System Entry Point~~
- ~~— be in respect of GMT System Entry Points only~~
- ~~- shall return the Relevant Time Shift Capacity Revenues arising at a GMT System Entry Point to Users at such GMT System Entry Point pro rata to the amount of Time Shift Entry Overrun Charges paid by them in the relevant period. application of the Time Shift Entry Overrun Quantities in the calculation of adjustments to Capacity Neutrality Charges at the earliest possible date after the month in which the Overrun occurred.~~

TPD Section I – Balancing Neutrality Charges

Exclude “Time Shift Daily Imbalance Charges” payable to National Grid NTS (being Daily Imbalance Charges arising solely from Time Shift Quantities), “Time Shift Scheduling Charges” (being Scheduling Charges arising solely from Time Shift Quantities) and “Time Shift Incentivised Nomination Charges” (being Incentivised Nomination Charges arising solely from Time Shift Quantities) from the calculation of Aggregate System Receipts ~~in Section 4.4.2~~ and the calculation of the Monthly Adjustment Neutrality Amount ~~in Section 4.5.3~~.

Exclude “Time Shift Daily Imbalance Charges” payable by National Grid NTS (being Daily Imbalance Charges arising solely from Time Shift Quantities) from the calculation of Aggregate System Payments ~~in Section 4.4.3~~ and the calculation of the Monthly Adjustment Neutrality ~~Amount~~ Amount in Section 4.5.3.

~~Add new Sections from 4.7 onwards setting up a new “Time Shift Balancing Neutrality Arrangements” scheme. This scheme should follow the existing Balancing Neutrality Arrangements but~~

Further revisions to include:-

- ~~- the calculation of Time Shift Quantities for each User across all GMT System Entry Points~~
- ~~- application of the Time Shift Quantities in the calculation of adjustments to Balancing Neutrality Charges to incorporate credits for Time Shift Balancing, Time Shift Scheduling and Time Shift INS charges at the earliest possible date after the month in which the Overrun occurred.~~
- ~~—~~
- ~~— only be in respect of Time Shift Entry Daily Imbalance Charges (positive and negative), Time Shift Scheduling Charges and Time Shift Incentivised Nomination Charges less any applicable National Grid costs and adjusted by any interest due for late payments (“Time Shift Balancing Neutrality Charge”)~~
- ~~— be in respect of GMT System Entry Points only~~
- ~~— shall return the Time Shift Balancing Neutrality Charge arising at a GMT System Entry Point to Users at such GMT System Entry Point pro rata to the amount of such charges paid by them in the relevant period.~~

TPD Section C – Nominations and Renominations

~~Amend Section 1.1.5 to say that Users will use reasonable endeavours based on the information available to them nominate and renominate accurately~~

Reconciliation

As# this Modification is not in force from# 01 October 2015, National Grid NTS will# run a reconciliation process from the date of implementation of the Modification back to 01 October 2015 to reimburse Users for Relevant Time Shift Capacity ~~Overrun charges~~Revenues and Time Shift Balancing Neutrality Charges due to the Users in the period from 01 October 2015. In order to effect this reconciliation, all Users will provide National Grid (logically via CVSL) with GMT Entry Allocation Statements for each day of the reconciliation period.~~Note: National Grid NTS to use Reconciliation process to reallocate any such Relevant Time Shift Capacity Revenues and Time Shift Balancing Neutrality Charges that have been returned to all Users using the existing neutrality processes in the interim period.~~

| 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 modification and it is not, therefore, classified as a User Pays Modification. |
| Identification of Users of the service, the proposed split of the recovery between Gas Transporters and Users for User Pays costs and the justification for such view. | N/A |
| Proposed charge(s) for application of User Pays charges to Shippers. | N/A |
| Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve. | N/A |

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 | Positive |

| | |
|--|----------|
| arrangements with other relevant gas transporters) and relevant shippers. | |
| 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 |

The proposal ensures that those UNC charges which are levied on Users as a result of mismatches arising from the differences between the 0500 hours to 0600 hours aggregate quantity on one Day and the 0500 hours to 0600 hours quantity on the next Day are dis-applied, on a ex-post basis. Users have no control over the “Time Shift Mismatches” and are unable to take any mitigating actions to address them. The imposition of UNC charges which result from Time Shift Mismatches means that affected Users face unwarranted costs which are redistributed to Users via neutrality charges, for example. In combination, these outcomes create inefficiencies in terms of cost allocation and undermine competition.

The Regulation stipulates a number of basic principles which should be adhered to in relation to the implementation of a daily balancing regime. These principles include:

- **Non-discriminatory** rules for access conditions to natural gas transmission systems.
- Balancing Rules to reflect **genuine system needs** taking into account the resources available to the transmission system operator.
- Imbalance charges shall be **cost-reflective** whilst providing **appropriate financial incentives on network users to balance their input and off-take of gas**.
- Imbalance charges to **avoid cross-subsidisation** between network users and shall not hamper the entry of new market entrants.
- **Shippers to have primary responsibility to balance their balancing portfolios** in order to minimise the need for transmission system operators to undertake balancing actions.

The levying of UNC charges on “Time Shift Mismatches” would be inconsistent with these principles and therefore would not be compliant with the Regulation. This proposal will ensure that the balancing rules in the UNC and more specifically those charges which are applied to Users at GMT Terminals are compliant with the Regulation.

5 Implementation

There are likely to be ~~some~~limited costs associated with the central systems fix to implement the modification. The costs will arise from the need to obtain the “GMT UDQI” data and the subsequent adjustments to Capacity and Balancing Neutrality charges.

No implementation timescales are proposed, however the UNC Gas Day ~~will~~ changed to 0500 hours to 0500 hours on 01 October 2015, implementation of this modification should be ~~as soon as possible after this date, on this date, or as soon as possible thereafter. If implementation is post 01 October then a reconciliation~~ Reconciliation of the relevant charges will be applied as set out in the business rules in

section 3 above to ensure Users are relieved of any Time Shift Charges incurred during the period between 01 October and the implementation date.-

6 Impacts

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

This proposal is likely to impact Systems Changes for EU Reform due to the need to acquire “GMT UDQI” data and the subsequent adjustments to Capacity and Balancing Neutrality charges.

Postre EU Systems Change Phase 3 Implementation

~~Ideally, the modification will be implemented prior to the Systems Change, however, if this is not feasible as soon as possible thereafter. If implementation occurs after this time then reconciliation arrangements will be introduced to account for the relevant UNC charges incurred from 01 October 2015. Phase 3 of the EU Systems Change is in progress and it is not feasible for the systems changes required to implement this modification to be added to the programme. Implementation should occur as soon as possible after the implementation of Phase 3.~~

The benefits of making the change relate to the inefficiencies and detrimental impacts on competition of the Time Shift Mismatches which will occur at GMT Terminals.

7 Legal Text

Transporters are requested to provide legal text

8 Recommendation

The Proposer invites the Panel to:

- Determine that this modification should not be subject to self-governance;
- Progress to Workgroup assessment; and
- To consider requesting Legal text so that the workgroup can complete its assessment to meet the challenging timescales