

**Draft Modification Report**  
**Treatment of Capacity affected by Force Majeure**  
**Modification Reference Number 0262**  
**Version 1.0**

This Draft Modification Report is made pursuant to Rule 9.1 of the Modification Rules and follows the format required under Rule 9.4.

**1 The Modification Proposal**

*Where capitalised words and phrases are used within this Modification Proposal, those words and phrases shall usually have the meaning given within the Uniform Network Code (unless they are otherwise defined in this Modification Proposal). Key UNC defined terms used in this Modification Proposal are highlighted by an asterisk (\*) when first used. This Modification Proposal\*, as with all Modification Proposals, should be read in conjunction with the prevailing Uniform Network Code\* (UNC).*

**Background**

Under the current Uniform Network Code\* (UNC) arrangements where National Grid NTS issues a Force Majeure\* (FM) notice (UNC General Terms Section B General), National Grid NTS is relieved from its UNC requirement to make payment for any delay or failure in the performance of its obligations under the UNC.

In relation to NTS Entry Capacity\* and Annual NTS Exit (Flat) Capacity\* such provisions relieve National Grid NTS of its obligation to buy back capacity where it is unable to meet its obligations as outlined within the FM notice, whilst Users\* remain liable for the full value of their Capacity\* holdings at the affected Aggregated System Entry Point (ASEP)\* or NTS Exit Point\*. This Modification Proposal\* seeks to address the impact on Users at either an ASEP\* or NTS Exit Point at which FM has been called which affects Users' Capacity rights.

**Nature of the Proposal**

For the avoidance of doubt this Modification Proposal will only cover the treatment of Capacity (that is Quarterly NTS Entry Capacity\*, Monthly NTS Entry Capacity\* and Annual NTS Exit (Flat) Capacity\*) at ASEPs and NTS Exit Points where FM has been called by National Grid NTS and the User(s) are unable to utilise some or all of their registered Capacity as a result of the FM declaration.

For clarification as a consequence of the proposal TPD section J3.6 will no longer apply to NTS Exit Points\* and will be modified accordingly.

Please note that for the purposes of this Modification Proposal:

Capacity will be used in proxy of Firm Quarterly NTS Entry Capacity, Monthly NTS Entry Capacity and Firm Annual NTS Exit (Flat) Capacity unless otherwise stated

NTS System Point will be used in proxy of both ASEP and NTS Exit Point unless otherwise stated

National Grid NTS proposes that in these instances of FM that Users registered

as holding Firm Capacity\* at a NTS System Point will be issued with a FM Rebate.

For the avoidance of doubt where a FM Notification (affecting Capacity) is in place on the date that the modification proposal is implemented the FM Rebate will only be applied from that implementation date i.e. it will not be applied retrospectively.

### **Force Majeure Rebate**

The FM Rebate will be based on the amount by which the Capacity at the affected NTS System Point is to be reduced, as outlined in the FM notification (the FM Amount), prorated between those Users Registered as holding Capacity (excluding any impacts of Capacity acquired/sold via Capacity Transfers\*) at the NTS System Point. The proration will be based on the Users Registered Capacity Holdings (for the purposes of this modification proposal Registered Capacity Holdings will mean NTS Entry Capacity acquired through the Annual and Rolling Monthly NTS Entry Capacity Auctions and/or Annual NTS Exit (Flat) Capacity) at that point in time divided by the total amount of Capacity held at the NTS System Point multiplied by an Adjusted Force Majeure Amount. An Adjusted FM Amount will mean the FM Amount as outlined within the FM Notification minus any Unsold Capacity and any Capacity allocated on the day of the FM Notification.

The value of the FM Rebate will be the Weighted Average Price (p/kWh/day) of each specific User's Registered Capacity Holdings (excluding any impacts of Capacity acquired/sold via Capacity Transfers) at the NTS System Point multiplied by the prorated Capacity quantity (kWh) for each day that the FM is in force. For clarification the Weighted Average Price at an ASEP will be calculated for each individual User as follows:

Sum of each successful Capacity bid quantity \* bid price / the registered holding of the User

Note: at an NTS Exit Point (for Annual NTS Exit (Flat) Capacity) the WAP will equal the actual price for that month.

The FM Rebate will be calculated monthly and invoiced via an Ad-hoc invoice issued in the same month, on a reasonable endeavours basis, as the relevant Capacity invoice applicable for the User's registered Capacity holdings on which the rebate is calculated. Please note that the Ad-hoc invoice will be issued after the relevant Capacity invoice for each month included within the FM Rebate period.

For clarification Users will continue to retain full liability for all Capacity that they are registered as holding (i.e. Capacity that Users have acquired from National Grid NTS) at the affected NTS System Point and will be invoiced accordingly irrespective of the FM notification.

Please note that a modification to the NTS Transportation Charging Methodology is not required to define the calculation of the FM rebate as it will be based on charges already calculated in accordance with the Charging Methodology i.e. Capacity charges. The UNC will define the rebate and the Charging Methodology effectively already maps the rebate on to the relevant price control terms e.g. obligated/baseline capacity is TO whereas incremental

and non obligated capacity is SO. The mapping of the FM rebates onto TO and SO actual revenue allows the consequential recalculation of other existing TO and SO charges.

An FM rebate would be mapped to one of the following licence terms;

Standard Special Condition C8B 2(a); Definition of TORCOMt ~ TO revenue other than that collected through capacity charges

Standard Special Condition C8C 2(a); Definition of RCOMt ~ SO revenue other than that collected through capacity and other Licence defined charges

An FM rebate in regard to Capacity sales, which represent TO revenue, would be treated as TO revenue; this would result in increased TO Entry Commodity Charges and/or TO Exit charges.

An FM rebate in regard to Capacity sales, which represent SO revenue, would be treated as SO revenue; this would result in increased SO Commodity Charges (Entry & Exit).

Where National Grid NTS issues an FM Notification that triggers the requirement to issue a FM Rebate National Grid NTS shall inform all Users that such an instance of FM has occurred and the likely impact on charges via the NTS Quarterly Charge Setting Report issued via the Transmission Charging Methodology Forum.<sup>1</sup>

### **Capacity Management Agreements\* - Force Majeure Option Agreement/Force Majeure Forward Agreement**

For the purposes of this modification proposal a Force Majeure Option Agreement will be a Capacity Management Agreement\* that National Grid NTS will enact on the National Grid NTS' system on behalf of a User or Users. For the avoidance of doubt this process will not require the User(s) to undertake any actions on National Grid NTS' systems nor a Force Majeure Option Agreement acceptance process from National Grid NTS.

National Grid NTS will, within 2 business days of a Force Majeure notice affecting Capacity rights being issued, at an NTS System Point, update it's systems on behalf of each User at that NTS System Point, with the details of the Force Majeure Option Agreement. This will include:

The NTS System Point

The duration of the Force Majeure Option Agreement as stated within the FM notice (Please note that National Grid NTS will only be able to exercise a Force Majeure Option Agreement where a FM notice is in place at the relevant NTS System Point)

The Premium (which will be zero) and Executable number of days

The maximum quantity of Firm Capacity (this quantity will equal the Users prorated amount of the quantity outlined within the Force Majeure Notification) that must be surrendered by a User when the Force Majeure

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<sup>1</sup> The NTS Quarterly Charge Setting Report is published on the National Grid website at the following address; <http://www.nationalgrid.com/uk/Gas/Charges/Tools/>

## Option Agreement is exercised

The price that National Grid NTS will pay for the surrender of Firm Capacity on the exercise of the Force Majeure Option Agreement, which in all cases will be zero

Once National Grid NTS has updated the relevant systems it will provide the details to the relevant User or Users.

The Force Majeure Option Agreement may be exercised when:

there is a constraint at the NTS System Point

National Grid NTS does not make gas available for offtake at an NTS Exit Point

National Grid NTS will also consider the use of a Force Majeure Forward Agreement where it deems it to be appropriate and has agreed to do so with the affected Users at the NTS System Point. For the purposes of this modification proposal a Force Majeure Forward Agreement will be a Capacity Management Agreement\* that National Grid NTS will enact on its system on behalf of a User or Users.

For clarification the use of a Force Majeure Forward Agreement would be supported by the issue of a set of Terms and Conditions (which for the purposes of this modification proposal will include the business rules applicable to the Force Majeure Forward Agreement).

Where the period of time covered by the FM Notification is extended or reduced National Grid NTS will ensure that its system reflects this change (either through amending the existing or the creation of new FM Option Agreement / Force Majeure Forward Agreement).

For clarification all Capacity bought back through this process shall feed into the Users Capacity entitlements and be considered in respect of calculating the Users Overrun Quantity\*.

For the avoidance of doubt any additional constraints beyond that declared under the FM Notification at an ASEP will be subject to normal buyback principles unless covered by a further FM Notification. Similarly where gas is not made available at an NTS Exit Point and is not covered by a Force Majeure notice existing UNC rules will be applied.

Please note that whilst a FM Notification is in place National Grid NTS will not be obligated to make available any additional Firm Capacity at that NTS System Point.

**2**

## **User Pays**

**a)**

### **Classification of the Proposal as User Pays or not and justification for classification**

No costs anticipated.

**b)**

### **Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification**

None.

**c) Proposed charge(s) for application of Users Pays charges to Shippers**

None.

**d) Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from xoserve**

Not applicable.

**3 Extent to which implementation of the proposed modification would better facilitate the relevant objectives**

*Standard Special Condition A11.1 (a): the efficient and economic operation of the pipe-line system to which this licence relates;*

Implementation would introduce additional certainty into the UNC. This would enable optimisation of Supply at an Entry Terminal under circumstances of Force Majeure affecting Capacity rights (whether or not such Force Majeure were agreed between parties) and so facilitate the achievement of this objective.

*Standard Special Condition A11.1 (b): so far as is consistent with subparagraph (a), the 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;*

Implementation would not be expected to better facilitate this relevant objective.

*Standard Special Condition A11.1 (c): so far as is consistent with subparagraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;*

Implementation would not be expected to better facilitate this relevant objective.

*Standard Special Condition A11.1 (d): so far as is consistent with subparagraphs (a) to (c) the 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;*

Implementation would promote greater fairness in treatment to individual NTS Capacity holders in the event of Force Majeure. This would increase the certainty of return on investment and so facilitate the achievement of this relevant objective. This relevant objective would also be facilitated as

implementation would ensure that Users at single points would not be inappropriately or disproportionately affected by Force Majeure.

*Standard Special Condition A11.1 (e): so far as is consistent with subparagraphs (a) to (d), the 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;*

Implementation would not be expected to better facilitate this relevant objective.

*Standard Special Condition A11.1 (f): so far as is consistent with subparagraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code;*

Implementation would not be expected to better facilitate this relevant objective.

**4 The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation**

No implications on security of supply, operation of the Total System or industry fragmentation have been identified.

**5 The implications for Transporters and each Transporter of implementing the Modification Proposal, including:**

**a) Implications for operation of the System:**

Implementation, by introducing additional certainty into the UNC, would enable optimisation of supply at an ASEP in the event of Force Majeure.

**b) Development and capital cost and operating cost implications:**

No development or capital costs would be incurred. The operating costs associated with manual processes for calculating and issuing Force Majeure rebates are expected to be minor.

**c) Extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:**

No additional cost recovery is proposed.

**d) Analysis of the consequences (if any) this proposal would have on price regulation:**

No such consequence is anticipated.

**6 The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal**

No such consequence is anticipated.

- 7 The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users**

No changes to systems would be required as a result of implementation of this Proposal.

- 8 The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk**

*Administrative and operational implications (including impact upon manual processes and procedures)*

Any such implications are expected to be minor.

*Development and capital cost and operating cost implications*

Implementation would potentially provide rebates to Users to balance against their continuing operating costs in the event of Force Majeure. There might also be an impact on NTS Commodity Charges.

*Consequence for the level of contractual risk of Users*

Implementation would reduce the current risk of Users continuing to pay for NTS Capacity that they are unable to utilise in the event of Force Majeure.

- 9 The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party**

No consequences on the implementation for other relevant persons have been identified.

- 10 Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal**

No such consequences identified.

- 11 Analysis of any advantages or disadvantages of implementation of the Modification Proposal**

**Advantages**

The following advantages have been identified:

- Users at single points would not be inappropriately or disproportionately affected by Force Majeure.

- Users would have a greater degree of certainty with regards to their treatment once Force Majeure had been called

### **Disadvantages**

The following disadvantage has been identified:

- Users may see an increase in their Commodity charges.

**12 Summary of representations received (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)**

Written Representations are now sought in respect of this Draft Report.

**13 The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation**

Implementation is not required to enable each Transporter to facilitate compliance with safety or other legislation.

**14 The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence**

Implementation is not required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence.

**15 Programme for works required as a consequence of implementing the Modification Proposal**

No programme for works would be required as a consequence of implementing the Modification Proposal.

**16 Proposed implementation timetable (including timetable for any necessary information systems changes and detailing any potentially retrospective impacts)**

Implementation could be immediate on receipt of a decision.

**17 Implications of implementing this Modification Proposal upon existing Code Standards of Service**

No implications of implementing this Modification Proposal upon existing Code Standards of Service have been identified.

**18 Recommendation regarding implementation of this Modification Proposal and the number of votes of the Modification Panel**



**19 Transporter's Proposal**

This Modification Report contains the Transporter's proposal to modify the Code and the Transporter now seeks direction from the Gas and Electricity Markets Authority in accordance with this report.

**20 Text**

**Representations are now sought in respect of this Draft Report and prior to the Transporters finalising the Report.**

For and on behalf of the Relevant Gas Transporters:

**Tim Davis**

**Chief Executive, Joint Office of Gas Transporters**