Joint Office of Gas Transporters

Stage 03: Draft Modification Report

0426:

Amendment to the NTS System Entry Overrun Charge

This modification seeks to remove a potential scenario whereby a User may generate a chargeable System Entry overrun quantity and not incur a System Entry Overrun Charge.

Responses invited by by XX October 2012.

Medium Impact: National Grid NTS and Users

At what stage is this document in the process?

01 Modification

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About this document:

This document is a Draft Modification Report, which was issued for consultation responses, at the request of the Panel on 20 September 2012. The close-out date for responses is XX October 2012. The Panel will consider the responses and agree whether or not this modification should be made.

Any questions?

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1 Summary

Is this a Self-Governance Modification?

The Modification Panel determined that this is not a self-governance modification.

Why Change?

A zero or no Overrun Charge may be generated where either all the NTS Entry Capacity allocated at an ASEP is at zero price or where no NTS Entry Capacity has been booked at an ASEP on a Gas Flow Day by any User. This weakens the incentive on Users to purchase NTS Entry Capacity consistent with their entry flow requirements, and the scenario has been observed on a number of occasions.

Solution

The proposed solution is to amend UNC TPD (Section B 2.12.3), the calculation of the System Entry Overrun Charge, to ensure a non-zero Overrun Charge applies to all instances where an entry overrun occurs.

This Modification retains the existing NTS Entry Capacity overrun calculation and includes the Monthly system Entry Capacity (MSEC) reserve price at the ASEP at which the overrun occurs, to the criteria for determining the overrun price as below:

Therefore it is proposed that the System Entry Overrun Charge shall be calculated as the amount of the overrun quantity multiplied by whichever is the greatest of:

a) (8 * A), where 'A' is the highest bid price in relation to a capacity bid in respect of which NTS Entry Capacity was allocated following any NTS Entry Capacity Release mechanism for that ASEP
b) (1.1* B), where 'B' is the relevant average accepted offer price;
c) (1.1* C), where 'C' is the relevant average accepted forward price;
d) (1.1* D), where 'D' is the relevant average accepted exercise price;
e) (1.1* E), where 'E' is the highest unit price accepted by National Grid NTS; and
f) (8 * F), where 'F' is the NTS Entry Capacity reserve price as defined in paragraph 2.2.3 (b), at that ASEP, applicable on the Day the overrun occurs,

where (a), (b), (c), (d), (e) and (f) are calculated by reference to information available to National Grid NTS at 02:00 hours on the relevant Day.

Impacts and Costs

The impact of the modification would be that, where a User overruns, an overrun charge is generated and that charge will not be zero.

This modification would result in changes to the Gemini system – the modification has been raised as a User Pays Modification. System implementation costs are expected to be between £86k and £102k. Implementation may provide benefit for both Shippers and National Grid NTS, and the proposed cost apportionment is Transporters 50%/Shippers 50%.

Implementation

No implementation timescale is proposed. However, if this modification is approved implementation will follow the completion of the System changes. The Workgroup recommends that Xoserve should identify any opportunities to implement the change alongside other requirements with a view to benefiting from economies of scope and so reducing costs.

The Case for Change

The System Entry Overrun Charge should encourage Users to book sufficient NTS Entry Capacity to cover their gas flow requirements - the "ticket to ride" principle. Implementation would ensure a positive overrun charge applies in all instances.

Recommendations

All parties are invited to consider whether they wish to submit views regarding this modification.

2 Why Change?

Where a User delivers gas onto the System over a Gas Day at an ASEP that is in excess of their aggregate Available NTS Entry Capacity, that User incurs a System Entry Overrun Charge. The existence of a System Entry Overrun Charge encourages Users to purchase NTS Entry Capacity consistent with their flow requirement; this is known as the "ticket to ride" principle.

An entry overrun quantity as determined under UNC TPD B2.12.2 is, in respect of a User at an ASEP for any Gas Flow Day, the amount by which the sum of the User's UDQIs on that Day in respect of each System Entry Point comprised in the ASEP exceeds the sum of the User's Fully Adjusted Available NTS Entry Capacity.

UNC TPD B2.12.3 states that the System Entry Overrun Charge shall be calculated as the amount of the overrun quantity multiplied by whichever is the greatest of:

a) (8 * A), where 'A' is the highest bid price in relation to a capacity bid in respect of which NTS Entry Capacity was allocated following an invitation under any Annual NTS Entry Capacity, Rolling Monthly NTS Entry Capacity, or Daily NTS Entry Capacity auctions
b) (1.1* B), where 'B' is the relevant average accepted offer price;
c) (1.1* C), where 'C' is the relevant average accepted forward price;
d) (1.1* D), where 'D' is the relevant average accepted exercise price; and
e) (1.1* E), where 'E' is the highest unit price accepted by National Grid NTS;

where (a), (b), (c), (d) and (e) are calculated by reference to information available to National Grid NTS at 02:00 hours on the relevant Day.

However the UNC rules as outlined in TPD B2.12.3 above may lead to the following unintended consequences:

- where all NTS Entry Capacity held at an ASEP on a Gas Flow Day has been bought at zero price (assuming there is no offer price, forward price or exercise price), a zero overrun charge being generated; and
- where there is no NTS Entry Capacity booked at an ASEP on a Gas Flow Day by any User, no overrun charges being created.

There have been a number of instances where Users have generated System Entry Overruns and incurred either a zero or no overrun charge, which weakens the incentive on Users to procure NTS Entry Capacity in line with their gas flow requirements undermining the "ticket to ride" principle. Recent instances and their scale are summarised in the following table:

Background

Q What is a UDQI?

User Daily Quantity Input (UDQI) is the quantity of gas treated as delivered by a User to the Total System on that day at a system entry point.

Year	No. of instances of overruns incurring a zero / non overrun charge	Maximum Overrun Quantity GWh	Total Overrun Charges incurred	Estimated *Total of Overrun Charges applied under Modification 0426
2008	34	2.2	0	£4,414
2009	9	5.6	0	£8,757
2010	27	10.7	0	£10,953
2011	6	17.1	0	£13,324

** Based on current MSEC Reserve Prices*

Source: National Grid NTS

The possibility of entry overruns with either a zero or no overrun charge being generated may increase following the introduction of the interruptible reverse flow service at Moffat ASEP (Modification 0352). This is because only Interruptible NTS Entry Capacity, with a zero reserve price, may be offered. As part of the Modification 0352 process, industry parties (including Ofgem) raised this issue and National Grid NTS signalled that it would seek to address the issue.

3 Solution

This Modification will amend the current calculation of the System Entry Overrun Charge by adding a further price to the current list of overrun prices. The addition of the NTS Entry Capacity reserve price (i.e. the AMSEC reserve price) will effectively act as a default price where none of the others prices are applicable or generate a zero or no overrun charge. The additional overrun price proposed is 8* NTS Entry Capacity reserve price.

National Grid NTS publish all relevant MSEC reserve prices within "The Statement of Gas Transmission Transportation Charges":
http://www.nationalgrid.com/NR/rdonlyres/BC4BF846-44D8-4DBC-926F-E36C8001FBE2/47516/TransmissionTransportationChargesApr2011R2.pdf

The System Entry Overrun Charge shall be calculated as the amount of the overrun quantity multiplied by whichever is the greatest of:

a) (8 * A), where 'A' is the highest bid price in relation to a capacity bid in respect of which NTS Entry Capacity was allocated following any NTS Entry Capacity Release mechanism for that ASEP
b) (1.1* B), where 'B' is the relevant average accepted offer price;
c) (1.1* C), where 'C' is the relevant average accepted forward price;
d) (1.1* D), where 'D' is the relevant average accepted exercise price;
e) (1.1* E), where 'E' is the highest unit price accepted by National Grid NTS; and
f) (8 * F), where 'F' is the NTS Entry Capacity reserve price, in accordance with paragraph 2.2.3 (b), at that ASEP, applicable on the day the overrun occurs,

where (a), (b), (c), (d), (e) and **(f)** are calculated by reference to information available to National Grid NTS at 02:00 hours on the relevant Day.

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 (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.	Positive
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.	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

By incentivising Users to book their capacity requirements when there would otherwise be no overrun charge, better information may be provided to National Grid NTS regarding Users' intended use of the National Transmission System. This would enable National Grid NTS to plan the operation of the System accordingly, and so facilitate efficient and economic operation of the system.

In addition to improved signals of short-term capacity requirements in support of system operation, incentivising appropriate capacity bookings would also be expected to improve the information available in support of network planning decisions. Implementation would therefore also be consistent with facilitating National Grid NTS's licence obligations with respective to economic and efficient system development.

A fundamental principle that supports the development of effective competition is that parties should face the costs for which they are responsible. Implementation of this modification would ensure that Users pay for the use of the system when no capacity has been booked and so could be expected to improve the allocation of costs between Users. However, in their decision letter rejecting Modification 0119 (Amendment to the Entry Overrun Charge) Ofgem concluded that:

> *"Furthermore, the inclusion of the highest reserve price specified in the auction invitation, in determining the overrun price, is problematic as it does not relate*

to the possible costs incurred by NGG as a result of overruns. This lack of reflecting the possible costs incurred as a result of an overrun means that a shipper which is penalised in this manner is likely to pay a different charge than the cost their actions resulted in. This would put such a shipper at a disadvantage to other shippers when the penalty is higher than the actual costs incurred as a result of the overrun, and vice versa."

The foremost objective of Modification 0426 is to incentivise Users to book sufficient NTS Entry Capacity for their flow requirements, which reflects Ofgem's definition of why an overrun charge is set, as detailed in its decision letter on Modification 0341 (Manifest Errors in Entry Capacity Overruns): "*The overrun charge is set at a rate to encourage users to purchase NTS entry capacity consistent with their flow requirements*". The Workgroup is satisfied that Modification 0426 will support incentivising appropriate booking behaviour and so further the "ticket to ride" principles of the capacity regime.

Whilst the Workgroup appreciates the importance of cost reflectivity across the regime, it is its view that the overrun charging components (both those existing and that proposed in this Modification) are primarily an incentive for Shippers to purchase capacity consistent with their flow requirements and therefore are not necessarily reflective of the costs incurred by National Grid NTS as a result of an overrun. The Workgroup is of the view that the additional overrun charge calculation component proposed in this modification reinforces this incentive and as such will not materially impact upon the current levels of cost reflectivity.

The Workgroup also noted that the additional calculation component proposed in this modification is consistent with those introduced for NTS Exit (Flat) Overrun Charges through Modification 0195AV (TPD B.3.13.3), which are also not necessarily reflective of the costs incurred by National Grid NTS as a result of an NTS Exit (Flat) Capacity overrun.

5 Impacts and Costs

Consideration of Wider Industry Impacts

None identified.

Costs

Indicative industry costs – User Pays
Classification of the modification as User Pays or not and justification for classification
This modification has been raised as User Pays. This modification benefits both National Grid NTS and Users by improving the operation of the System and effective competition between Users. National Grid NTS has raised a Rough Order Of Magnitude (ROM) and Xoserve has confirmed that this modification will result in changes to the Gemini system, with estimated costs of between £86k and £102k.
Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification
This modification benefits both National Grid NTS and Users by improving the operation of the System and effective competition between Users, as noted earlier. This modification apportions the costs as: • 50% Shipper Users • 50% Transporters (i.e. National Grid NTS) The cost apportionment is based on the potential benefits accrued by different parties under the relevant objectives under Standard Special Condition A11 (a) and (d) (i).
Proposed charge(s) for application of Users Pays charges to Shippers
These charges will be one-off charges invoiced as soon as possible following the implementation of the System functionality. National Grid NTS proposes that, for the sake of simplicity, the User Pays costs should be prorated based on a User's end of day Entry Capacity holdings on the date of implementation.
Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from Xoserve
To be confirmed.

Impacts

Impact on Transporters' Systems and Process	
Transporters' System/Process	Potential impact

UK Link	• System changes costing up to £102k are expected.
Operational Processes	• None
User Pays implications	• As above

Impact on Users	
Area of Users' business	Potential impact
Administrative and operational	• None
Development, capital and operating costs	• Users may incur an increased Overrun Charge.
Contractual risks	• None
Legislative, regulatory and contractual obligations and relationships	• None

Impact on Transporters	
Area of Transporters' business	Potential impact
System operation	• National Grid NTS may benefit from this UNC modification through improved information.
Development, capital and operating costs	• Investment costs may be better informed as a result of implementation.
Recovery of costs	• 50% Transporters/50% Shippers is proposed.
Price regulation	• None
Contractual risks	• None
Legislative, regulatory and contractual obligations and relationships	• None
Standards of service	• None

Impact on Code Administration	
Area of Code Administration	Potential impact
Modification Rules	• None
UNC Committees	• None
General administration	• None

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: http://www.gasgovernance.co.uk/sites/default/files/0565.zip

Impact on Code	
Code section	Potential impact
UNC TPD Section B2.12.3	Addition of a further element to the System Entry Overrun Charge calculation

Impact on UNC Related Documents and Other Referenced Documents	
Related Document	Potential impact
Network Entry Agreement (TPD I1.3)	• None
Network Exit Agreement (Including Connected System Exit Points) (TPD J1.5.4)	• None
Storage Connection Agreement (TPD R1.3.1)	• None
UK Link Manual (TPD U1.4)	• None
Network Code Operations Reporting Manual (TPD V12)	• None
Network Code Validation Rules (TPD V12)	• None
ECQ Methodology (TPD V12)	• None
Measurement Error Notification Guidelines (TPD V12)	• None
Energy Balancing Credit Rules (TPD X2.1)	• None
Uniform Network Code Standards of Service (Various)	• None

Impact on Core Industry Documents and other documents	
Document	Potential impact
Safety Case or other document under Gas Safety (Management) Regulations	• None
Gas Transporter Licence	• None

Other Impacts	
Item impacted	Potential impact
Security of Supply	• None
Operation of the Total System	• None

Industry fragmentation	• None
Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties	• None

6 Implementation

No implementation timescale is proposed. However, if this modification is approved implementation will follow the completion of the necessary system changes.

National Grid NTS recognises that the estimated system costs to amend the entry overrun calculation are higher than the revenue from the potential overrun charges that would have applied for the period 2008 to 2011 if Modification 0426 had been implemented. However, the likelihood of future entry capacity overruns is unpredictable and therefore the disparity between the estimated system costs and the overrun charges that would have been generated is not necessarily an indication of the cost effectiveness of the modification.

Given the low materiality of the overrun charges that would have been incurred to date, which are below the cost of implementation, the Workgroup recommends that National Grid NTS should monitor and report any change in the level of overruns seen that fall in this category. If any increase in materiality is experienced, or evidence emerges of deliberate use of the mechanism by one or more Users, then system changes should be progressed. In the meantime, the Workgroup recommends that Xoserve should identify any opportunities to implement the change alongside other requirements with a view to benefiting from economies of scope and so reducing costs. If an opportunity presents itself to implement the change below the cost identified in the current ROM, the Uniform Network Code Committee should be consulted regarding the desirability of taking advantage of the opportunity.

7 The Case for Change

Nothing in addition to that identified above.

8 Legal Text

Text

National Grid NTS has prepared the following Text at the request of the Modification Panel.

TPD Section B

Amend paragraph 2.12.3 to read as follows:

2.12.3 The System Entry Overrun Charge shall be calculated as the amount of the overrun quantity multiplied by whichever is the greatest of:

(a) (8 * A), where 'A' is the highest bid price in relation to a capacity bid in respect of which NTS Entry Capacity was allocated following a invitation under paragraphs 2.2, 2.3 and 2.4; and

(b) (1.1 * B), where 'B' is the relevant average accepted offer price;

(c) (1.1 * C), where 'C' is the relevant average accepted forward price;

(d) (1.1 * D), where 'D' is the relevant average accepted exercise price; ~~and~~

(e) (1.1 * E), where 'E' is the highest unit price accepted by National Grid NTS; and

(f) (8 * F), where 'F' is the NTS Entry Capacity reserve price as defined in paragraph 2.2.3 (b), at that ASEP, applicable on the Day the overrun occurs,

where (a), (b), (c), (d), ~~and~~ (e) and (f) are calculated by reference to information available to National Grid NTS at 02:00 hours on the relevant Day.

9 Recommendation

All parties are invited to consider whether they wish to submit views regarding this modification. The close-out date for responses is XX October 2012, which should be sent to enquiries@gasgovernance.co.uk. A response template which you may wish to use is at www.gasgovernance.co.uk/0426

Consultation Ends

On XX October 2012