

## Stage 04: Final Modification Report

# 0419:

## Redefining the capacity of the Specified Exit Point used in the calculation of the NTS Optional Commodity tariff

At what stage is this document in the process?



This Modification seeks to redefine the capacity of the Specified Exit Point used in the calculation of the NTS Optional Commodity Tariff (also known as "NTS Shorthaul").



Panel recommended implementation



High Impact: None



Medium Impact: None



Low Impact: Gas Shippers (particularly those who wish to elect Shorthaul after 01 October 2012), gas consumers and interconnector operators.

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## About this document:

This document is a Final Modification Report, to be presented to the Panel on 21 June 2012.

The Authority will consider the Panel's Recommendation and decide whether or not this change should be made.



3 **Any questions?**

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Final Modification Report

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Version 2.0

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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?

Users may elect the NTS Optional Commodity Rate at NTS Exit Points and the tariff is calculated using the following equation...

$$1203 \times [(SOQ)^{-0.834}] \times D + 363 \times (SOQ)^{-0.654} \text{ (p/kWh)}$$

...where SOQ (Standard Off-take Quantity) is a capacity related element at the NTS Exit Point.

The UNC definition equates to the obligated level in the Enduring Exit Period as defined under National Grid's NTS Licence. However, there are a number of sites that have obligated levels of zero in the Enduring Exit Period, and a value of zero cannot be used in the tariff equation as it would mathematically give a rate effectively equal to infinity and hence be undefined.

## Solution

For NTS Exit Points, it is proposed that the capacity of the Specified Exit Point, defined in UNC TPD Section B3.12.10(b), be redefined as the Maximum NTS Exit Point Offtake Rate ("MNEPOR") converted to kWh/day. For NTS Exit Points in respect of an interconnector which has no physical capability to offtake gas from the NTS, the capacity of the Specified Exit Point will be defined as an amount (where positive) determined as the instantaneous rate of flow into the NTS (in kWh/hour) which the Transporter determines to be the maximum instantaneous rate at which it is feasible to input gas into the NTS at the relevant System Entry Point, converted to kWh/day.

## Impacts and Costs

The modification requires a change to NTS internal manual processes only and hence there are no system impacts and no implementation costs have been identified for Users.

## Implementation

While no implementation timescale is proposed, National Grid NTS is required to publish charges two months prior to their application, such that a decision by 01 August 2012 would be helpful.

## The Case for Change

The modification would result in a definition of the capacity of the Specified Exit Point in TPD Section B3.12.10(b) which would enable calculation of the NTS Optional Commodity Rate.



## What is the MNEPOR?

*UNC TPD Section B, 3.6.6 defines the MNEPOR as "an amount (where positive) determined as the instantaneous rate of offtake (in kWh/hour) which the Transporter determines to be the maximum instantaneous rate at which it is feasible to make gas available for offtake at the NTS Exit Point".*

*As the MNEPOR is an instantaneous rate of offtake (in kWh/hour) this would need to be converted into a kWh/day value for it to be used in the shorthaul equation.*

## 2 Why Change?

An issue has been identified with respect to the calculation of the NTS Optional Commodity Rate (“NTS Shorthaul”) after the introduction of exit reform on 1 October 2012.

Currently, the NTS Optional Commodity Rate at NTS Exit Points is calculated using the following equation...

$$1203 \times [(SOQ)^{-0.834}] \times D + 363 \times (SOQ)^{-0.654} \text{ (p/kWh)}$$

...where SOQ (Standard Off-take Quantity) is a capacity related element at the NTS Exit Point.

The capacity of the Specified Exit Point is referred to in UNC TDIIC 9.5.5(c) and determined, for Supply Meter Points and Shared Supply Meter Points, in accordance with UNC TPD G5.4.1 & G5.4.4 and is the Shipper(s) nomination/booking as provided in the Supply Point Administration process. For NTS Connected System Exit Points (NTS CSEPs), the capacity is defined in UNC TDIIC 9.5.5(c)(iv) as the maximum aggregate amount of gas that it is feasible for National Grid NTS to make available for offtake at the Connected System Exit Point in a period of 24 hours.

With the introduction of NTS exit reform on 1 October 2012, the capacity of the Specified Exit Point is defined in UNC TPD Section B3.12.10(b) as the sum of the Baseline NTS Exit (Flat) Capacity and Baseline NTS Exit (Flexibility) Capacity. The definition equates to the obligated level in the Enduring Exit Period as defined under National Grid’s NTS Licence.

There are a number of sites that have obligated levels of zero in the Enduring Exit Period, however a value of zero cannot be used in the tariff equation as it would mathematically give a rate effectively equal to infinity and hence be undefined.

## 3 Solution

For NTS Exit Points, it is proposed that the capacity of the Specified Exit Point, defined in UNC TPD Section B3.12.10(b), be re-defined as the Maximum NTS Exit Point Offtake Rate ("MNEPOR") converted to kWh/day. For NTS Exit Points in respect of an interconnector which has no physical capability to offtake gas from the NTS, the capacity of the Specified Exit Point will be defined as an amount (where positive) determined as the instantaneous rate of flow into the NTS (in kWh/hour) which the Transporter determines to be the maximum instantaneous rate at which it is feasible to input gas into the NTS at the relevant System Entry Point, converted to kWh/day.

## 4 Relevant Objectives

Impact of the modification on the <b>Relevant Objectives: c, d and f</b>	
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.	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.	Positive
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

### Efficient discharge of the licensee's obligations

Implementation would remove the possibility of an equation in the charging methodology being undefined as a result of zero as the divisor. Ensuring that, while remaining cost reflective, the charging methodology is workable and generates defined charges ensures efficient discharge of the licence obligations to maintain an appropriate charging methodology.

### Securing effective competition

The use of MNEPOR as the capacity of the Specified Exit Point would provide a visible and transparent number with which to calculate the NTS Optional Commodity Rate, and enable Users to elect the NTS Optional Commodity Rate in respect of sites where it would otherwise be undefined after the introduction of NTS exit reform. Ensuring that the option is available helps to avoid undue discrimination and provide the same opportunity to Users to adopt the tariff. Since the tariff is set to be cost reflective, ensuring it is available would be expected to improve the allocation of costs between Users. Implementation of this modification would therefore support the securing of effective competition between relevant shippers.

## **Promotion of efficiency in the implementation and administration of the Code**

Implementation would remove the possibility of an equation (NTS Optional Commodity tariff) in the UNC being undefined as a result of zero as the divisor. Introducing a practical solution promotes efficiency in the implementation and administration of the Code.

## 5 Impacts and Costs

### Consideration of Wider Industry Impacts

No wider industry impacts have been identified.

### Costs

Indicative industry costs – User Pays	
Classification of the modification as User Pays or not and justification for classification	
No systems changes are required to implement this modification and no User Pays service would be introduced nor amended and hence this is not a User Pays Modification.	
Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification	
n/a	
Proposed charge(s) for application of Users Pays charges to Shippers	
n/a	
Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from Xoserve	
n/a	

### Impacts

Impact on Transporters' Systems and Process	
Transporters' System/Process	Potential impact
UK Link	<ul style="list-style-type: none"> <li>None</li> </ul>
Operational Processes	<ul style="list-style-type: none"> <li>Changes to internal manual price setting process</li> </ul>
User Pays implications	<ul style="list-style-type: none"> <li>None</li> </ul>

Impact on Users	
Area of Users' business	Potential impact
Administrative and operational	<ul style="list-style-type: none"> <li>None</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>None</li> </ul>



## 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 Users	
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>None</li> </ul>
Development, capital and operating costs	<ul style="list-style-type: none"> <li>None</li> </ul>
Recovery of costs	<ul style="list-style-type: none"> <li>None</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>Positive</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 B	<ul style="list-style-type: none"> <li>For NTS Optional Commodity Rate setting from 1<sup>st</sup> October 2012, the definition of the capacity of the Specified Exit Point will be redefined.</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>

Impact on UNC Related Documents and Other Referenced Documents	
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	• Positive

National Grid NTS has identified that no further analysis, development or ongoing costs incurred as a result of implementing this modification, with only minor changes to NTS manual processes being necessary. This is not a User Pays modification.

British Gas Trading pointed out that some charging volatility would be experienced.

E.ON believed that the costs to Shipper Users of not implementing this proposal is the more pertinent question in this case, since affected Users would no longer be able to make use of the Optional Commodity charge, thereby imposing significant, unavoidable costs. This would be bad for competition and an unreasonable burden on Users who have previously elected to be on the short-haul tariff.

## 6 Implementation

While no implementation timescale is proposed, National Grid NTS is required to publish charges two months prior to their application, such that a decision prior to 01 August would be beneficial. Implementation by 01 October 2012 would ensure that the optional tariff will be available from 1 October to exit points where the existing calculation would not otherwise allow this.

In E.ON's view implementation should be as soon as possible to avoid the significant problems that not implementing before 1st October 2012 would cause, whilst RWE Npower also believe that the methodology should be in place before 1st October 2012.

ScottishPower observed that allowing for this change being linked to the changes in the exit regime that will take effect on 1 October 2012 it would be appropriate to implement this change to align with that date.

## 7 The Case for Change

In addition to the impacts recorded elsewhere in this report, implementation of this modification would enable Users to elect the NTS Optional Commodity Rate in circumstances where it would otherwise be undefined after the introduction of NTS Exit Reform. A key objective of the NTS Optional Commodity rate is to dis-incentivise inefficient by-pass of the NTS, with the tariff being set at a level that is intended to generate efficient signals regarding whether or not by-pass is economically justified. Avoiding inefficient bypass avoid resources being used inefficiently and, as such, implementation offers the potential to have a positive benefit for the GB economy as a whole.

## 8 Legal Text

### Text

In response to a request from Ofgem, National Grid NTS has provided the following legal text.

*Amend UNC TPD Section B, Paragraph 3.12.10 as follows:*

3.12.10 For the purposes of paragraphs 3.12.9 to 3.12.14 (inclusive), the capacity of the Specified Exit Point shall be the Supply Point Capacity, provided:

- (a) in the case of an LDZ Supply Point the capacity shall be determined in accordance with Section G5.4.1, except:
  - (i) for an LDZ Firm Supply Point the capacity shall be the sum of the DM Supply Point Capacity and the NDM Supply Point Capacity that the User is registered as holding from time to time in accordance with paragraphs 4.2 and 4.3 respectively;
  - (ii) for a LDZ Shared Supply Point the capacity shall be determined in accordance with Section G1.7.14;
  - (iii) for an LDZ CSEP the capacity shall be determined in accordance with paragraph 4.5.2;
- (b) in the case of an NTS Exit Point the capacity shall be equal to 24 times the Maximum NTS Exit Point Offtake Rate, except: sum of the Baseline NTS Exit (Flat) Capacity and the NTS Exit (Flexibility) Capacity
  - (i) for an NTS Exit Point in respect of a pipeline interconnector having no physical exit capability which is both a Connected Offtake System and a Connected Delivery Facility, the capacity shall be equal to 24 times the amount (where positive) determined as the instantaneous rate (in kWh/Hour) which the Transporter determines to be the maximum instantaneous rate at which it is feasible to deliver gas to the NTS at the System Entry Point associated with such Connected Delivery Facility.

## 9 Consultation Responses

Representations were received from the following parties:

Company/Organisation Name	Support Implementation or not?
British Gas	Support
E.ON UK	Support
National Grid NTS	Support
RWE Npower	Support
ScottishPower	Support

Of the 5 representations received, implementation was unanimously supported.

### Summary Comments

British Gas observed that the modification recognises that changes to the exit regime from October 2012, stemming from the implementation of Modification 0195AV, mean that a specific term – SOQ – will become undefined. No relevant value will therefore be capable of being used in the shorthaul formula, rendering the shorthaul methodology unworkable. It is therefore evident that change needs to be made in order to retain a functioning shorthaul methodology and that National Grid's proposed approach is both logical and reasonable.

RWE Npower noted that the impacts are modestly positive against the Code Relevant Objectives for this specific modification and derive mainly from implementing a workable charging methodology. The principal benefit is the continued availability of the Optional Commodity tariff.

ScottishPower recognises the value of the optional commodity tariff and the benefits that it brings to individual users. They also acknowledge that it has advantages for the development of a more integrated transportation network in that it avoids the likelihood of piecemeal pipeline construction by individual users where that may otherwise be more economic than paying the full commodity tariff. Thus, users are incentivised to utilise the NTS resulting in greater overall efficiencies. Allowing for how the tariff is currently structured and the applicable formula applied, these advantages would be lost in some instances when the reformed exit regime comes into force in October 2012. As such the implementation of this modification would preserve these benefits and ensure that the tariff remained an option for as wide and consistent an application as possible.

British Gas expressed its disappointment in noting that application of the proposed methodology will lead to changes in charges at certain exit points at a time when users are, in many cases, already facing significant charging volatility, particularly in exit capacity charges, the exit TO Commodity charge and the entry TO commodity charge.

ScottishPower noted that, during discussions, National Grid had indicated that there would be little or no impact on shippers who currently utilised this tariff. It would have been of value to have had any such impact more expressly stated, although remaining mindful of commercial sensitivities, together with an appropriate confirmation that those shippers affected had been made aware of the extent of any potential impact.

## 10 Panel Discussions

The Panel Chair summarised that in October 2012, when the Exit Reform changes becomes effective, the existing formula for calculating the optional NTS commodity tariff may, in some case, become undefined. This is because the divisor can be zero. This modification aims to avoid this by specifying a divisor that will, in all cases, be positive.

Members noted that implementation would remove the possibility of an equation being undefined as a result of zero as the divisor. Ensuring that, while remaining cost reflective, the NTS charging methodology is workable and generates defined charges ensures efficient discharge of the licensees obligations to maintain an appropriate charging methodology.

Members recognised that the use of MNEPOR as the capacity of the Specified Exit Point would provide a visible and transparent number with which to calculate the NTS Optional Commodity Rate, and enable Users to elect the NTS Optional Commodity Rate in respect of sites where it would otherwise be undefined after the introduction of NTS exit reform. Ensuring that the option is available helps to avoid undue discrimination and provide the same opportunity to Users to adopt the tariff. Since the tariff is set to be cost reflective, ensuring it is available would be expected to improve the allocation of costs between Users. Implementation of this modification would therefore support the securing of effective competition between relevant shippers.

Members also noted that, by removing the possibility of an equation (NTS Optional Commodity tariff) in the UNC being undefined as a result of zero as the divisor, implementation of the modification would be consistent with promoting efficiency in the implementation and administration of the Code.

Members then voted unanimously in favour of recommending implementation of Modification 0419.

## 11 Recommendation

### Panel Recommendation

Having considered the 0419 Modification Report, the Panel recommends:

- that proposed Modification 0419 should be made.