

Stage 01: Modification

0426

Amendment to the NTS System Entry Overrun Charge.

At what stage is this document in the process?

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

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.



The Proposer recommends that this UNC Modification should proceed to Workgroup for assessment.



High Impact:



Medium Impact:
National Grid NTS and Users



Low Impact:

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About this document:

This document is a Modification, which will be presented by the Proposer to the Panel on 17 May 2012. The Panel will consider the Proposer's recommendation, and agree whether this UNC Modification should be referred to a Workgroup for assessment.



3 **Any questions?**

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1 Summary

Is this a Self-Governance Modification

National Grid NTS believes that this modification is not a Self-Governance modification as the proposed change potentially has a material impact on System Users and a direct bearing on System Entry Overrun Charges which are a key aspect of the ticket to ride principle of the regime.

Why Change?

The purpose of the NTS Entry Capacity Overrun mechanism is to place an incentive on Users to purchase NTS Entry Capacity consistent with their entry flow requirements. A System Entry Overrun Charge may be generated where a User inputs more gas onto the National Transmission System (NTS) at an Aggregated System Entry Point (ASEP) than they hold NTS Entry Capacity rights for at that same ASEP.

Under certain scenarios, it is possible for a User to generate an entry overrun quantity and receive a zero or no Overrun Charge. Currently 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.

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.

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Impacts & Costs

The impact of the modification would be as follows:

That where a User overruns an overrun charge is generated and that charge will not be zero

Costs :

- National Grid NTS has raised a Rough Order Of Magnitude (ROM) and Xoserve have confirmed that this UNC Modification will result in changes to the Gemini system and therefore is a change/addition to the services provided by xoserve. As such National Grid NTS have raised this Modification as a User Pays Modification.
- The User Pays Service that is being proposed in this UNC Modification is to remove the potential occurrence whereby a User may incur a NTS System Entry Overrun quantity and either a zero or no System Entry Overrun Charge is generated. National Grid NTS believe that this change may provide benefit for both Shippers and National Grid NTS. This Modification apportions costs as Transporters 50% / Shippers 50% split.
- The ROM costs, as provided by Xoserve, are expected to be at least **£94k** minimum, but probably not more than **£111k**

Implementation

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

The Case for Change

The System Entry Overrun Charge should encourage Users, in all instances, to book a sufficient quantity of NTS Entry Capacity to cover their gas flow requirements maintaining the "ticket to ride" principle.

Implementation is expected to better facilitate the achievement of:

- Relevant Objective A11.1. (a) "the efficient and economic operation of the pipeline system" . This Modification will encourage Users to provide more accurate information to National Grid NTS regarding Users intended use of the NTS and as such facilitate the operation of the system more efficiently.
- Relevant Objective A11.1 (d) (i) "the securing of effective competition (i) between relevant Shippers". This Modification will, by removing the potential for a zero or no overrun charge to occur, encourage Users to book their full capacity requirements which may both encourage further competition in purchasing capacity at and across ASEPs.

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Recommendations

National Grid NTS recommends that this modification should be sent to a Workgroup for assessment.

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2 Why Change?



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.

Currently where a User delivers gas onto the System over a Gas Day at an ASEP which is in excess of their aggregate Available NTS Entry Capacity the User incurs a System Entry Overrun Charge. This System Entry Overrun Charge is to encourage Users to purchase NTS Entry Capacity consistent with their flow requirement, this principle is known as "ticket to ride".

An entry overrun quantity as determined under UNC 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 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 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.

National Grid NTS also believes that instances 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 (UNC Modification 0352), where only Interruptible NTS Entry Capacity is offered with a zero reserve price. As part of the UNC Modification 0352 process National grid NTS noted that this issue was raised by both Industry and Ofgem, furthermore National Grid NTS signalled during the UNC Modification 0352 process that we would seek to address this issue.

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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.	Yes
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.	No
c) Efficient discharge of the licensee's obligations.	No
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.	Yes (i)
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.	No
f) Promotion of efficiency in the implementation and administration of the Code	No
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	No

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

National Grid NTS considers that this modification, if implemented, would improve the operation of the System. By encouraging Users to book their capacity requirements, better information may be provided to National Grid NTS regarding Users' intended use of the National Transmission System and enable National Grid NTS to plan the operation of the System accordingly benefitting National Grid NTS and Users.

Achievement of relevant objective (d) (i) "Securing of effective competition between relevant Shippers"

Creating more appropriate incentives to encourage customers to procure sufficient NTS Entry Capacity to cover their Entry gas flow would encourage the booking of NTS Entry Capacity and therefore facilitate the development of effective competition in booking NTS Entry Capacity across the System

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5 Impacts and Costs

Wider Industry Impacts

None identified.

Costs

Indicative industry costs – User Pays
<p>Classification of the modification as User Pays or not and justification for classification</p> <p>National Grid NTS has raised this Modification as User Pays. This modification benefits both National Grid NTS and Users by improving the operation of the System and effective competition between Users.</p> <p>National Grid NTS have raised a Rough Order Of Magnitude (ROM) and Xoserve have confirmed that this UNC Modification will result in changes to the Gemini system with estimated costs between £94k and £111k.</p>
<p>Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification</p> <p>This UNC Modification benefits both National Grid NTS and Users by improving the operation of the System and effective competition between Users, as noted earlier</p> <p>This Modification apportions the costs as:</p> <p>50% Shipper Users 50% Transporters</p> <p>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)</p>
<p>Proposed charge(s) for application of Users Pays charges to Shippers</p> <p>These charges will be one off charges invoiced as soon as possible following the implementation of the of the System functionality.</p>
<p>Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from Xoserve</p> <p>To be confirmed</p>

Impacts

Impact on Transporters' Systems and Process	
Transporters' System/Process	Potential impact
UK Link	<ul style="list-style-type: none"> System Changes of up to £111k are identified
Operational Processes	<ul style="list-style-type: none"> None
User Pays implications	<ul style="list-style-type: none"> As above

Impact on Users	
Area of Users' business	Potential impact
Administrative and operational	<ul style="list-style-type: none"> None
Development, capital and operating costs	<ul style="list-style-type: none"> If overrun incurred Users may incur an increased Overrun Charge
Contractual risks	<ul style="list-style-type: none"> None
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> None

Impact on Transporters	
Area of Transporters' business	Potential impact
System operation	<ul style="list-style-type: none"> National Grid NTS may benefit from this UNC Modification
Development, capital and operating costs	<ul style="list-style-type: none"> National Grid NTS believes that this UNC Modification, if implemented will have cost implications with regards to the System.
Recovery of costs	<ul style="list-style-type: none"> 50% Transporters / 50% Shippers proposed.
Price regulation	<ul style="list-style-type: none"> None
Contractual risks	<ul style="list-style-type: none"> None
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> None
Standards of service	<ul style="list-style-type: none"> None

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

Impact on Code	
Code section	Potential impact
UNC Section B 2.12.3	Addition of a further price 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)	<ul style="list-style-type: none"> • None
Network Exit Agreement (Including Connected System Exit Points) (TPD J1.5.4)	<ul style="list-style-type: none"> • None
Storage Connection Agreement (TPD R1.3.1)	<ul style="list-style-type: none"> • None
UK Link Manual (TPD U1.4)	<ul style="list-style-type: none"> • None
Network Code Operations Reporting Manual (TPD V12)	<ul style="list-style-type: none"> • None
Network Code Validation Rules (TPD V12)	<ul style="list-style-type: none"> • None
ECQ Methodology (TPD V12)	<ul style="list-style-type: none"> • None
Measurement Error Notification Guidelines (TPD V12)	<ul style="list-style-type: none"> • None
Energy Balancing Credit Rules (TPD X2.1)	<ul style="list-style-type: none"> • None
Uniform Network Code Standards of Service (Various)	<ul style="list-style-type: none"> • None

Impact on Core Industry Documents and other documents	
Document	Potential impact

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

Other Impacts	
Item impacted	Potential impact
Security of Supply	<ul style="list-style-type: none"> • None
Operation of the Total System	<ul style="list-style-type: none"> • National Grid NTS feel this UNC Modification better facilitates the operation of the Total System
Industry fragmentation	<ul style="list-style-type: none"> • None
Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties	<ul style="list-style-type: none"> • None

6 Implementation

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

7 The Case for Change

None further to that identified above.

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8 Legal Text

Suggested Text

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 an 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.

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9 Recommendation



The Proposer invites the Panel to:

- DETERMINE that Modification 0426 progress to Workgroup

Issue to Workgroup

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