Stage 01: Modification

At what stage is this document in the process?

01 Modification

02 Workgroup Report

03 Draft Modification Report

04 Final Modification Report

0541:

Removal of uncontrollable UNC charges at ASEPs which include sub-terminals operating on a 06:00 to 06:00 Gas Day via an ex-ante quantity adjustment.

Removal of uncontrollable UNC charges incurred by shippers allocated 0500 to 0500 Gas Day User Daily Quantity Inputs at ASEP's which include sub-terminals operating on a 0600 to 0600 Gas Day. This is achieved through adjustment of the Entry Point Daily Quantity and thereby each User's User Daily Quantity Input.

The Proposer recommends that this modification should be:

- assessed by a Workgroup.

High Impact: Shippers

Medium Impact: None

Low Impact: None

Contents

About this document:

This modification will be presented by the Proposer to the Panel on 16 July 2015.

The Panel will consider the Proposer's recommendation and agree whether this modification should be:

- referred to a Workgroup for assessment.

The Proposer recommends the following timetable:

Initial consideration by Workgroup	06 August 2015
Workgroup Report presented to Panel	07 August 2015
Draft Modification Report issued for consultation	20 August 2015
Consultation Close-out for representations	11 September 2015
Final Modification Report presented to Panel	15 September 2015
UNC Modification Panel recommendation	17 September 2015

Any questions?

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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 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 is due to be implemented 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 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.

Without this Modification National Grid NTS would 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 would need to allocate that quantity between Users based on 0600 hours to 0600 hours Claim numbers. There would 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").

Users at GMT Terminals would likely incur on every Day NTS Daily Imbalance Charges and Scheduling Charges and potentially 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

Amending each User's User Daily Quantity Input, at a GMT Terminal, so no Time Shift Mismatches are created.

This would mean that no Time Shift Charges would arise and would avoid 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

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

The proposal ensures that those UNC charges would be levied on Users at GMT Terminals 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 not applied. Users would have no control over these "Time Shift Mismatches" and would be 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 would face unwarranted costs, which would be redistributed to all Users via neutrality charges, for example. In combination, these outcomes would 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 on 01 October 2015, the date on which the gas Day will change 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 additional 0600 hours to 0600 hours flow data.

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 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 is due to be implemented 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 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.

Without this modification National Grid NTS would 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 would need to allocate that quantity between Users based on 0600 hours to 0600 hours Claim numbers. There would 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 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 hours to 0500 hours basis and on 0600 hours to 0600 hours basis if required.

Even following such intervention, 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

Amending each User's User Daily Quantity Input, at a GMT Terminal, so no Time Shift Mismatches are created.

This would mean that no Time Shift Charges would arise and would avoid 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, Uniform Network Code 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.

National Grid NTS should have access to hourly metering at all GMT Terminals and can therefore calculate the aggregate quantities off taken on a 0600 hours to 0600 hours basis. Alternatively the Claims Validation Agent can provide the 0600 hours to 0600 hours sub terminal meter reading as well as the User's UDQIs.

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

TPD Section A - System Classification

Add concept of "**Associated GMT Day**" to General Terms, being the period starting at 0600 hours on the Day and ending at 0600 hours on the next Day.

Add a new TPD Section A 5 introducing concept of a "**GMT System Entry Point**", being a System Entry Point connected to facilities using an Associated GMT Day.

TPD Section E - Daily Quantities, Imbalances and Reconciliation

Add a new Section E 1.4.4 to provide that for GMT System Entry Points, the "**Entry Point Daily Quantity Delivered**" for the Day is the aggregate quantity of gas delivered to the Total System on the Associated GMT Day at that GMT System Entry Point.

Section E 1.4.1 should then be expressed to be subject to Section E 1.4.4.

TPD Section C – Nominations and Renominations

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

Reconciliation

If this modification is not in force for 01 October 2015, National Grid NTS to run a reconciliation process from the date of implementation of the modification back to 01 October 2015 to reimburse Users for Time Shift Charges incurred by the Users in the period from 01 October 2015.

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 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.	Positive

This modification ensures that those UNC charges which would be levied on Users at GMT Terminals 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 not applied. 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 all 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 limited costs associated with the central systems fix to implement this modification. The costs will arise from the need to obtain the additional 0600 hours to 0600 hours flow data.

No implementation timescales are proposed, however as the UNC gas Day will change to 0500 hours to 0500 hours on 01 October 2015, implementation of this modification should be on this date, or as soon as possible thereafter. If implementation is post 01 October 2015 then a reconciliation of the relevant charges will be applied as set out in the business rules in Section 3 above.

6 Impacts

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 additional 0600 hours to 0600 hours flow data.

Pre EU Systems Change Implementation

Ideally, this modification will be implemented prior to the Systems Change, however, if this is not feasible then 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.

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.