










Modification	At what stage is this document in the process?
<h1>0597:</h1> <h2>Rules for the release of incremental capacity at Interconnection Points</h2>	<div style="display: flex; flex-direction: column; gap: 5px;"> <div style="border: 1px solid green; background-color: #00a651; color: white; padding: 2px 5px; display: inline-block;">01 Modification</div> <div style="border: 1px solid blue; padding: 2px 5px; display: inline-block;">02 Workgroup Report</div> <div style="border: 1px solid purple; padding: 2px 5px; display: inline-block;">03 Draft Modification Report</div> <div style="border: 1px solid orange; padding: 2px 5px; display: inline-block;">04 Final Modification Report</div> </div>
<p>Purpose of Modification: To provide a process for acquiring incremental capacity at Interconnection Points that is compliant with the amended EU CAM Code.</p>	
	<p>The Proposer recommends that this modification should be assessed by a Workgroup. This modification will be presented by the Proposer to the Panel on 20 October 2016. The Panel will consider the Proposer's recommendation and determine the appropriate route.</p>
	<p>High Impact: National Grid Gas Transmission; Users.</p>
	<p>Medium Impact: -</p>
	<p>Low Impact: -</p>

Contents		 Any questions?
1	Summary	3
2	Governance	3
3	Why Change?	4
4	Code Specific Matters	4
5	Solution	4
6	Impacts & Other Considerations	5
7	Relevant Objectives	12
8	Implementation	12
9	Legal Text	13
10	Recommendations	13
Timetable		 0121 288 2107
The Proposer recommends the following timetable:		Proposer: Malcolm Montgomery
Initial consideration by Workgroup	14 November 2016	 enquiries@gasgovernance.co.uk
Workgroup Report presented to Panel	19 January 2017 (short notice)	 malcolm.montgomery@nationalgrid.com
Draft Modification Report issued for consultation	19 January 2017	 01926 653991
Consultation Close-out for representations	09 February 2017	
Final Modification Report available for Panel	10 February 2017	
Modification Panel decision	16 February 2017	

1 Summary

What

Following the introduction of EU network code 984/2013 on Capacity Allocation Mechanisms (CAM) into the Uniform Network Code (UNC) - via Modification 500 - there is no current process for releasing and acquiring incremental capacity at Interconnection Points (IPs). This Modification will introduce a framework and rules into the UNC to enable the release of incremental capacity at IPs.

The Modification is based on the 15th September version of CAM that has not yet been approved via comitology. Due to the short time available prior to implementation in April 2017, it is necessary to proceed on the basis of the current legal text of CAM and amend following completion of comitology.

Why

The EU CAM code is currently being amended to introduce a process for acquiring incremental capacity at IPs. This process shall be reflected in the GB network codes to ensure compliance, and to provide clarity on how the EU wide process fits in with the existing GB commercial framework.

How

The Solution proposed here provides the framework and rules to enable the incremental process to take place. The process consists of the following stages:

- Demand assessment. Rules will be added to clarify how industry can signal interest in incremental capacity to National Grid.
- Design. Following an expression of demand for incremental capacity, then National Grid shall conduct technical studies to evaluate how the capacity can be delivered. National Grid, and adjacent TSOs, shall jointly consult industry on its proposals.
- Regulator approval. Following the industry consultation then National Grid, and adjacent TSOs, shall finalise and submit a project proposal to the Regulator(s). The framework for acquiring the Regulator's approval for the project proposal shall be added to the UNC.
- Allocation. The framework for the allocation mechanism will be added to the UNC. Note: It is National Grid's intent that the allocation mechanism is based, as far as possible, on the existing Planning and Advanced Reservation of Capacity Agreement (PARCA) phase 2 process.

2 Governance

Justification for Authority Direction

This modification is recommended to be sent to the Authority for direction. Introducing an effective process for releasing incremental capacity at IPs may have a material effect on competition in the shipping and transportation of gas, as well as the security of supply for GB if additional entry capacity is released. There will also be differences between rules at IPs and non-IPs for releasing incremental capacity, and so it may be appropriate for these differences to be considered by the Authority.

Requested Next Steps

This modification should:

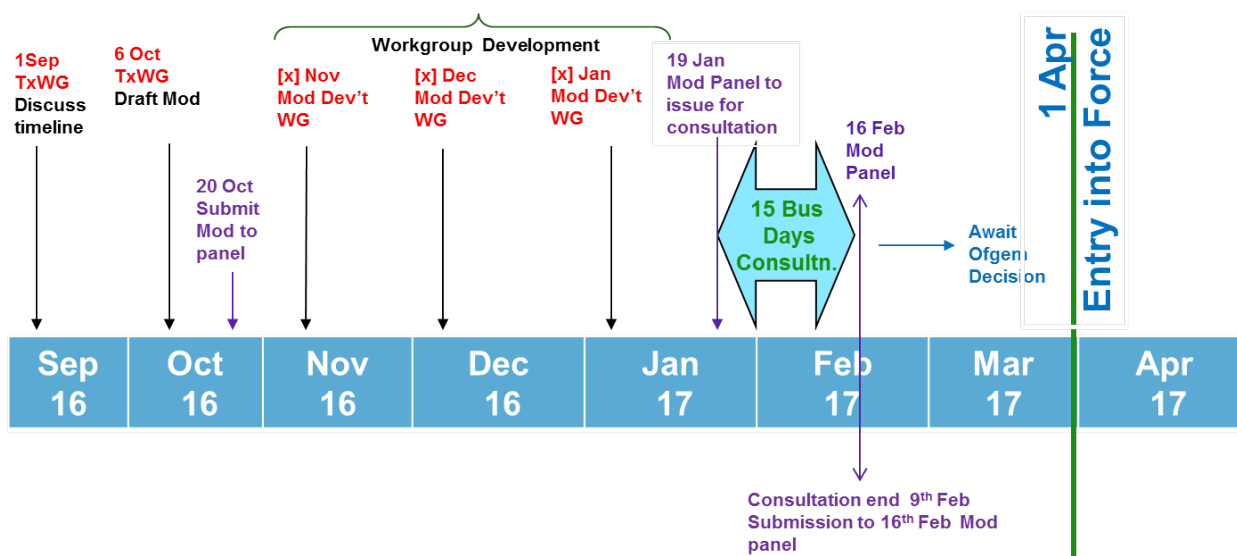
- be subject to Authority Direction

- be assessed by a Workgroup

The process for releasing incremental capacity is quite a substantive one, therefore would benefit from industry discussion, review and comment.

3 Why Change?

The EU CAM code is currently being amended to introduce a process for acquiring incremental capacity at IPs. This process shall be reflected in the GB network codes to provide clarity on how the EU wide process fits in with the existing GB commercial framework. In the event National Grid were to implement the CAM rules without a corresponding UNC modification then there would be a lack of transparency and clarity around the process.



4 Code Specific Matters

Reference Documents

The amended CAM code can be found here:

<http://www.gasgovernance.co.uk/sites/default/files/EU%20CAM%20post-Gas%20Committee%2013%20Oct%2016.pdf>

The original CAM Code can be found here:

<http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32013R0984>

The National Grid website describing the PARCA framework and process can be found here:

<http://www2.nationalgrid.com/UK/Services/Gas-transmission-connections/PARCA-Framework/>

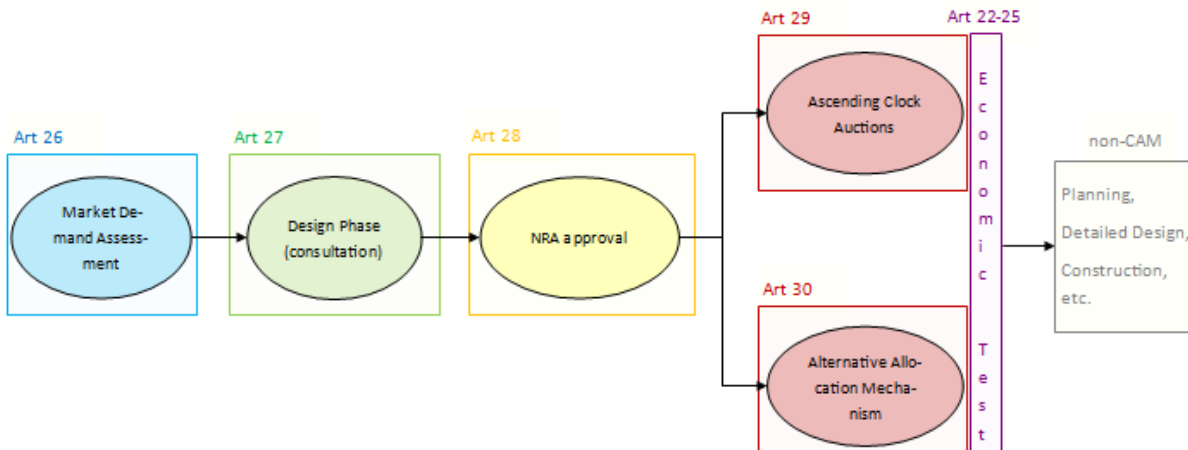
Knowledge/Skills

An understanding of the original EU CAM code, the European Interconnector Document within the UNC (notably section B), and the current GB PARCA process would be beneficial.

5 Solution

Overview (for information only)

The overview below has been added for information purposes to set the context for the sections that follow.



The market demand assessment covers how the market will signal to Transmission System Operators (TSOs) a potential need for capacity at IPs beyond the unsold technical capacity available.

The project design covers technical studies and a TSO led public consultation on the proposed incremental project.

National Regulatory Authorities (NRA) approval covers the finalisation of the Project Proposal followed by a NRA decision on whether the project goes ahead.

The allocation mechanism can be via the standard Annual Yearly Auctions at IPs, or an alternative mechanism can be proposed under the Project Proposal.

Any allocation or reservation of capacity will be subject to an economic test.

CAM does not cover rules for gaining planning consent or for construction however, these naturally remain a necessary part of the process for creating incremental capacity.

End of 'For Information'.

Demand Assessment

1. Biennial Process

- 1.1. The market will be able to submit demand indications to National Grid for a window of 8 weeks, starting from the moment the Annual Yearly auction opens.
- 1.2. The first demand indication window will take place in 2017 and subsequently must take place at least in odd numbered years.
- 1.3. As an exception to paragraph 1.1, the demand assessment window in 2017 will commence from the entry into force of the amended CAM code.
- 1.4. Any interested party can submit a demand indication (i.e. party does not need to be a User).
- 1.5. Demand indications are non-binding and shall include the following information:
 - 1.5.1. the two or more adjacent entry-exit systems between which demand for incremental capacity is expressed and the requested direction;
 - 1.5.2. The gas years for which a demand for incremental capacity is expressed;
 - 1.5.3. The amount of capacity demanded between the respective entry-exit systems in each gas year (a range is permitted);

- 1.5.4. Information on non-binding demand indications which were or will be submitted to other transmission system operators, in case such indications are linked to each other, such as demand for capacities at several related IPs;
- 1.5.5. Whether the demand expressed is subject to any of the following conditions:
 - 1.5.5.1. Demand is linked to demand at other interconnection points.
 - 1.5.5.2. Demand is linked to demand expressed across a number of different years.
 - 1.5.5.3. Demand is linked to a specific or minimum acceptable quantity.
- 1.5.6. Contact details for the party.
- 1.6. National Grid will confirm receipt of a demand indication within 2 business days.
- 1.7. Demand indications will be included in the demand assessment report where they are considered to be competent by NG.
- 1.8. If a demand indication is received late (i.e. after the window shuts), then refer to paragraph 2.3.
- 1.9. National Grid shall respond to demand indications within 16 weeks of the start of the Annual Yearly auction, or in the case of late demand indications within 8 weeks after receiving it.
- 1.10. The response shall provide at least the following information:
 - 1.10.1. Confirmation that the demand indication is competent (as per paragraph 1.10 below).
 - 1.10.2. Confirmation that the demand indication will be considered in the ongoing demand assessment;
 - 1.10.3. Confirmation, and justification, of which demand assessment report the indicated demand will be assessed in, if not in 1.9.2.
- 1.11. NG will consider a demand indication to be competent where:
 - 1.11.1. All the information required under 1.4 has been correctly and fully submitted.
 - 1.11.2. The relevant fee has been paid and is available to National Grid in cleared funds.
- 1.12. A demand assessment report will be produced and published within 16 weeks of the start of the Annual Yearly auction.
- 1.13. The demand assessment report shall take into account the following criteria:
 - 1.13.1. whether the Community-wide Ten Year Network Development Plan (TYNDP) identifies a physical capacity gap whereby a specific region is undersupplied in a reasonable peak scenario and where offering incremental capacity at the IP in question could close the gap; or a national NDP identifies a concrete and sustained physical transport requirement;
 - 1.13.2. whether no yearly standard capacity product linking two adjacent entry-exit systems is available in the annual yearly capacity auction for the year in which incremental capacity could be offered for the first time and in the three subsequent years, because all the capacity has been contracted;
 - 1.13.3. whether network users submitted non-binding demand indications requesting incremental capacity for a sustained number of years and all other economically efficient means for maximising the availability of existing capacity are exhausted;
- 1.14. The market demand assessment report shall include at least the following:
 - 1.14.1. a conclusion on whether to initiate an incremental capacity project (i.e. whether to proceed to the design phase);
 - 1.14.2. the aggregated non-binding demand indications received during the latest demand indication window;
 - 1.14.3. the aggregated non-binding demand indications that were received before the latest demand indication window was opened, and have been rolled forward to be considered at this time;
 - 1.14.4. The aggregated non-binding demand indications that were received after the latest demand indication window shut, but will still be considered at this time;
 - 1.14.5. An assessment of the expected amount, direction and duration of demand for incremental capacity at the common interconnection points with each adjacent entry-exit system or interconnectors.
 - 1.14.6. a conclusion on whether, for which interconnection points and for which expected demand level, technical studies for incremental capacity projects will be conducted;
 - 1.14.7. provisional timelines for the incremental capacity project, technical studies and the consultation described in the design phase;
 - 1.14.8. what fees, if any, will be applied;

- 1.14.9. the types and, where available, the aggregated size of conditional demand indications received.
- 1.15. National Grid shall follow the standard templates for the demand assessment reports as provided by ENTSOG.
- 1.16. National Grid shall publish point(s) of contact for the project, and keep this up to date as the project progresses.

2. Ad-hoc (open season) Process

- 2.1. A demand indication can be submitted by a party at any time outside the biennial demand assessment process. The information provided will be as per paragraph 1.4.
- 2.2. Upon receiving a demand indication then NG will confirm receipt to the relevant party within 2 business days.
- 2.3. If a demand indication is received outside the biennial demand assessment window, then National Grid shall, in order of preference:
 - 2.3.1. Where possible accept the demand indication (subject to competency) and incorporate the demand into any existing incremental project at the IP; or
 - 2.3.2. Open an ad-hoc demand assessment window, subject to agreement from other relevant TSOs and subject to 2.4;
 - 2.3.3. Inform the applicant when its demand can be considered if not 2.3.1 or 2.3.2, and provide justification why it cannot be considered under 2.3.1 or 2.3.2.
- 2.4. NG may open an ad-hoc demand indication window provided that the economic test can be completed prior to the start of the next biennial demand assessment.
- 2.5. Ad-hoc demand indications will be checked for competency in line with paragraph 1.10.
 - 2.5.1. An ad-hoc demand indication window will be opened for 8 weeks, unless otherwise specified by NG.
- 2.6. The ad-hoc window will open by no later than the latter of:
 - 2.6.1. 5 business days after the initial competent ad-hoc demand indication is received.
 - 2.6.2. The earliest time acceptable to other relevant TSOs (that have been identified as relevant through the demand indication(s));
- 2.7. Within 8 weeks of the closure off the ad-hoc demand indication window then National Grid will produce an ad-hoc demand assessment report.
- 2.8. The content of the ad-hoc demand assessment report will be the same as for the biennial demand assessment report i.e. requirements as per paragraphs 1.12 and 1.13.

Design Phase

3. Joint Consultation

- 3.1. National Grid and the adjacent TSO(s) shall conduct a joint consultation on its proposals to deliver incremental capacity and this shall take place by no later than 12 weeks from the start of the design phase (the design phase starts as soon as the demand assessment report is published).
- 3.2. The duration of the consultation shall be no less than 1 month and no greater than 2 months, and this shall be clearly specified in the consultation when it is issued.
- 3.3. The consultation shall cover at least the following elements:
 - 3.3.1. A description of the incremental capacity project, including a cost estimate;
 - 3.3.2. The offer levels (for bundled capacity products) at the IP;
 - 3.3.3. The proposed allocation mechanism, including justification if an alternative allocation mechanism is proposed;
 - 3.3.4. Provisional timelines of the incremental capacity project;
 - 3.3.5. General rules and conditions that a party must accept to participate and access capacity in the binding capacity allocation phase of the incremental capacity process, including any

- collateral to be provided and how possible delays in the provision of capacity or the event of a disruption to the project are dealt with contractually;
- 3.3.6. Where a fixed price approach¹ is followed then the elements IND and RP, as defined in the Tariffs code, will be provided;
- 3.3.6.1. IND is the chosen index;
- 3.3.6.2. RP is the risk premium to be applied.
- 3.3.7. The f-factor² (as defined in the CAM code);
- 3.3.8. Any additional demand indications received after the demand indication window shut;
- 3.3.9. Whether the incremental capacity is likely to result in a sustained, significant decrease in the utilisation of other non-depreciated gas infrastructure in the same and adjacent entry-exit systems or along the same gas transport route.

Regulator Approval

4. Project Proposal

- 4.1 Following completion of the consultation, National Grid and the adjacent TSO(s) shall prepare a project proposal for submission to the relevant National Regulatory Authorities (NRAs) and for publishing.
- 4.2 Subject to adjacent TSO agreement, the responses to the consultation shall be published alongside the project proposal, unless they have been marked as confidential by the responder.
- 4.3 The project proposal shall be submitted to the NRAs by no later than the latter of:
- 4.3.1 3 months following the end of the consultation;
- 4.3.2 The earliest time acceptable to the other relevant TSOs.
- 4.4 The project proposal shall include, at least, the following information:
- 4.4.1 All offer levels, reflecting the range of expected demand for incremental capacity at the relevant IP;
- 4.4.2 The general rules and conditions that a User must accept to participate and access capacity in the binding capacity allocation phase of the incremental capacity process, including any collateral to be provided by network users and how possible delays in the provision of capacity or the event of a disruption to the project are dealt with contractually;
- 4.4.3 Timelines of the incremental capacity project, including any changes since the consultation, and measures to prevent delays and minimise the impact of delays;
- 4.4.4 The parameters to be used in the economic test:
- 4.4.4.1 The present value of binding commitments of network users for contracting capacity is derived from the following parameters:
- 4.4.4.1.1 estimated reference price;
- 4.4.4.1.2 potential auction premium;
- 4.4.4.1.3 mandatory minimum premium.
- 4.4.4.2 The present value of the estimated increase in the allowed revenue of National Grid;
- 4.4.4.3 The f-factor (as defined in the CAM code).
- 4.4.5 Whether an exceptionally extended horizon for contracting capacity for an additional period of up to 5 years beyond the allocation of up to 15 years after the start of operational use may be required.
- 4.4.6 The proposed alternative allocation mechanism and its justification, including the conditional commitments allowed under such a mechanism.

¹ For information: In accordance with the Tariffs code (Chapter 6), then a floating or a fixed price approach may be adopted for the determination of the reserve price. This may be the subject of a future modification raised in Mar/Apr

² For information: The f-factor is one of the parameters used in the economic test. The method for completing the economic test will be contained within the Capacity Release Methodology statements for both entry and exit capacity. These methodology statements will be updated and consulted upon in 2017, prior to being submitted to Ofgem for approval.

- 4.4.7 Where a fixed price approach is followed for the incremental capacity project, the following elements (described in Tariffs code):
- 4.4.7.1 The applicable price for a gas year at the time when the product is auctioned;
 - 4.4.7.2 The chosen index (IND);
 - 4.4.7.3 The risk premium applied (RP).

5 Joint Notice

- 5.1. Upon publication of the NRAs' decision on the incremental project, then National Grid and the adjacent TSO(s) shall prepare and publish, jointly, a notice with at least the following information:
- 5.1.1. The information contained in the project proposal;
 - 5.1.2. The contract(s) relating to the capacity offered;
 - 5.1.3. The actual costs incurred by National Grid in completing the design work and whether there is any corresponding adjustment in the demand indication fee;
 - 5.1.4. Whether there is a need for reinforcement works.
- 5.2. NG shall be under no obligation to issue a contract to a party who did not submit an accepted and competent demand indication.
- 5.3. The joint notice shall be published by no later than 2 months before the offer of incremental capacity in the annual yearly auction. Following publication of the joint notice then the project will move to the allocation phase, which will be either the standard allocation mechanism or the alternative allocation mechanism as per the approved Project Proposal.

Allocation

6. Alternative Mechanism

- 6.1. The project proposal shall state the proposed allocation approach (being auctions or an alternative mechanism). The rules for allocation via the alternative allocation mechanism will be contained within the project proposal (as required by paragraph 4.3) for NRA approval on a case by case basis.

For information only – it is National Grid's intent to propose the use of the existing PARCA phase 2 methodology in the project proposal for any incremental projects. This means the capacity will be reserved via a PARCA contract alongside a security deposit. The PARCA contract will contain all the information regarding the Reservation Date, Allocation Date, Security Requirements, Termination, Demonstration, User Nomination etc. The following amendments to the process should be noted:

- There is currently a 28 day reservation period prior to the start of PARCA phase 2 to submit a binding commitment. NG shall open an equivalent window under CAM, following the publishing of the Joint Notice, but the 28 days may be varied by National Grid in order to align with other relevant TSOs, and in order to avoid overlap with any other existing auction or application processes affecting the relevant gas years.
- Conditional commitments may be made e.g. a commitment at Bacton/Moffat may be linked to a commitment at other EU IPs.
- The economic test will be amended in line with the requirements of CAM.
- No requirement to run an ad-hoc QSEC auction (as regular one will naturally take place within time).
- Where capacity is allocated on both sides of an IP through the CAM incremental process, then it shall be recorded as bundled capacity by NG.

End of 'For Information'.

Other

7. Demand Indication Fee

- 7.1. A fee will be required to achieve competency and will be payable by each party submitting a demand indication.
- 7.2. The fee will replace the PARCA Application Fee, but shall be equivalent in value to it.
- 7.3. The fee will be returned in full to the party if:
 - 7.3.1. An incremental project is not initiated following publication of the demand assessment report;
 - 7.3.2. The economic test for an incremental project is positive.
- 7.4. Conversely the fee will be retained by National Grid if the economic test is negative. For the avoidance of doubt this includes where parties submit nil submissions into the economic test.
- 7.5. Where a fee is retained by National Grid then it will be reconciled against actual costs incurred, between the publication of the demand assessment report and the publication of the Joint Notice, by National Grid in progressing the incremental project.

8. Security Amount

- 8.1. The PARCA security amount calculation should be amended so that the weighted average price of capacity (for entry and for exit) takes account of IP capacity sales via CAM auctions. The calculation should be amended as follows:
 - 8.1.1. For entry capacity 'PSAen':
 - 8.1.1.1. For the purposes of determining 'EntryRegCap_i', the capacity booked at an IP in the IP Annual Yearly and IP Annual Quarterly auctions should be included.
 - 8.1.1.2. For the purposes of determining 'EntryPrice_i' the prevailing reserve price for the Annual Yearly and Annual Quarterly auctions should be used where the point is an IP.
 - 8.1.2. For Exit capacity 'PSAex':
 - 8.1.2.1. For the purposes of determining 'ExitRegCap_j', the capacity booked at an IP should include Annual Yearly and Annual Quarterly capacity products.

~~8.2. The amendment should take place from the start of the 17/18 gas year.~~

9. Impact on other long term allocation processes

- 9.1. The binding application phase of the CAM incremental process lasts from the start of the reservation period to the completion of the economic test (at which stage capacity is reserved).
- 9.2. If the binding application phase overlaps with another long term allocation process (QSEC for entry capacity, or the July window for exit capacity, or the Annual Yearly auction for IP capacity) then it shall be necessary to decide upfront which process the unsold capacity (including substitutable capacity) is available in.
 - 9.2.1. If the binding application phase begins while there is another long term process under way³ then the unsold capacity (including substitutable capacity) will already have been made available in the other process, and therefore is not available to be reserved.
 - 9.2.2. If the binding application phase begins while there is no other long term process under way, however it is not resolved (i.e. the economic test is not complete) by the time the other process starts, then unsold capacity shall not be submitted into the other long term process if it has been identified as substitutable capacity for the IP project.

³ For entry then 'under way' means from the QSEC invitation letter to the allocation of QSEC. For exit then 'under way' means from the July window notification letter to the 30th Sep.

6 Impacts & Other Considerations

Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

No impact identified.

Consumer Impacts

Slightly positive. There has been no process for releasing incremental capacity at Interconnection Points since the introduction of the original EU CAM code in Nov 2015. These rules will facilitate the release of incremental capacity to the GB market which in turn could increase gas supplies to GB, facilitate competition and so be of benefit to consumers.

Cross Code Impacts

None identified.

EU Code Impacts

This UNC modification proposal demonstrates how GB will comply with the incremental part of the amended EU CAM code. There are also some links into the Tariffs code, and these have been flagged as such in the solution.

Central Systems Impacts

These will be investigated as part of the Workgroup assessment. Any change to systems identified through this Modification is anticipated to be dealt with, and funded, through National Grid's EU Phase 4 project.

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

7 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.	None
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 furthers relevant objective g) Compliance with the Regulation...because it introduces an incremental process which reflects the amendment to EU CAM network code (Regulation 984/2013).

8 Implementation

No implementation timescales are proposed.

The European Commission has specified that this Regulation should come into effect on 1st April 2017, however the demand assessment phase begins on the entry into force date which is anticipated to be in late March. The Authority decision should take account of these timelines.

9 Legal Text

Text Commentary

~~To be provided during the Workgroup process~~ [See separate document.](#)

Text

~~To be provided during the Workgroup process~~ [See separate documents:](#)

- [New EID Section E;](#)
- [Amendment to TPD Section B;](#)
- [Amendment to TPD Section Y.](#)

10 Recommendations

Proposer's Recommendation to Panel

- Refer this proposal to a Workgroup for assessment.