

Stage 02: Workgroup Report

0381:

Removal of the NTS Exit (Flat) Capacity “deemed application” process

What stage is this document in the process?



Implementation of this Modification Proposal would remove the automatic (deemed) application for Enduring NTS Exit (Flat) Capacity in Y+4 that is triggered from a Chargeable NTS Exit (Flat) Capacity Overrun.

The Proposer believes that the deemed application process is inappropriate, unjustified, has several disadvantages and should therefore be removed from the UNC/Enduring Exit Capacity regime.



The Workgroup recommends that this self-governance modification should now proceed to consultation



High Impact: n/a



Medium Impact: n/a



Low Impact:
Users (Shippers and DNOs) and National Grid NTS

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About this document:

The purpose of this report is make a recommendation to the Panel, to be held on [14 August][15 September] 2011, on whether Modification 0381 is sufficiently developed to proceed to consultation and to submit any further recommendations in respect of the definition and assessment of this self-governance modification.



3 Any questions?

5 Contact: Joint Office



7 enquiries@gasgo

8 vernance.co.uk

10



14 0121 623 2115

15 Proposer:

16 Simon Trivella (WWU)

17



simon@trivella@wwutilities.co.uk



07813 833174

Transporter:

Wales & West
Utilities Ltd



simon.trivella@wwutilities.co.uk



07813 833174

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1 Summary

Is this a Self-Governance Modification

The Modification Panel determined that this is a self-governance modification.

Why Change?

The NTS Exit (Flat) Capacity deemed application process is unnecessary, inappropriate and should not form part of the Enduring NTS Exit Capacity arrangements that will take effect from 1 October 2012.

Solution

The proposed solution is to amend UNC TPD Section B and the Exit Capacity Release Methodology Statement (ExCR) to remove the deemed application process. For clarity, this proposal would not change the arrangements for NTS Exit (Flat) Capacity Overrun Charges but would simply remove the automatic application for Enduring NTS Exit (Flat) Capacity (as currently provided for in UNC TPD Section B 3.2.25).

Impacts & Costs

It is believed that there would be little or no systems implications resulting from the implementation of this modification as it would be removing (or simply switching off) functionality within the central UK Link/Gemini system(s). [A cost estimate, or confirmation of no system impacts, will be required from Xoserve.]

Implementation

There is no fixed timescale for implementation proposed. As the Enduring Exit Capacity arrangements take effect from 1 October 2012 it would be desirable, but not essential, for an implementation date prior to 1 October 2012.

As self-governance procedures are proposed, implementation can be 16 business days after a Modification Panel decision to implement.

The Case for Change

The deemed application process is an unnecessary addition to the overrun regime. By creating an automatic application for Enduring NTS Exit (Flat) Capacity this could lead to NTS Exit (Flat) Capacity being allocated to a User at an NTS Exit Point where it is not required and:

- 1) result in a User (and potentially the end consumer) incurring NTS Exit (Flat) Capacity Charges for up to 4 years for capacity that they have no intention of utilising;
- 2) result in National Grid NTS carrying out system reinforcement / investment, and there being a subsequent revenue driver impact, in order to provide unnecessary capacity;
- 3) where spare NTS Exit (Flat) Capacity is allocated to a User, such Capacity will be sterilised as it is not required by that User but is not available to others that may have a need for it.

Implementation is therefore expected to better facilitate the achievement of Relevant Objectives a and d.

Recommendations

The Workgroup considers that the self-governance modification is sufficiently developed and should now proceed to consultation.

2 Why Change?

The NTS Exit (Flat) Capacity deemed application process is unnecessary, inappropriate and should not form part of the Enduring NTS Exit Capacity arrangements that will take effect from 1 October 2012.

The deemed application process was introduced into the UNC as part of the Implementation of Modification Proposal 0195AV ("Introduction of Enduring NTS Exit Capacity Arrangements") although it will not take effect until the Enduring NTS Exit Capacity arrangements are applicable on 1 October 2012.

Background

When a User (Shipper or DNO) takes a quantity of gas on any day at an NTS Exit Point that is greater than the NTS Exit (Flat) Capacity registered to them this is known as an overrun (or more formally as a Chargeable NTS Exit (Flat) Overrun).

Any such overrun will cause the User to incur a NTS Exit (Flat) Overrun charge. The charge is calculated for each day that an overrun occurs on and is calculated as the chargeable overrun quantity (kWh) multiplied by the greatest of:

- 1) 8 times the Capacity bid price for the day or the Applicable Daily Rate for the year; or
- 2) 1.1 times the highest offer price, forward price, or option exercise price paid by NTS in respect of any ECMA (Exit Constraint Management Actions) on the day; or
- 3) 8 times the highest reserve price under any invitation for the Day or Gas Year in which the Day falls.

The overrun regime is in place to act as a suitable incentive for User to apply for an appropriate amount of NTS Exit (Flat) Capacity.

The deemed application process is triggered when a User incurs an NTS Exit (Flat) Overrun Charge.

UNC TPD Section B 3.2.25 states:

Where a User incurs an NTS Exit (Flat) Capacity Overrun Charge (in respect of a Chargeable NTS Exit (Flat) Overrun in excess of 100,000 kWh) in any twelve (12) month period ending on 31 March ("relevant period") the User shall be deemed to have made an application pursuant to paragraph 3.2.3(a)(i) for Enduring Annual NTS Exit (Flat) Capacity, in respect of the NTS Exit Point at which the Chargeable NTS Exit (Flat) Overrun occurred, on the first day of the next following Annual Application Window, and for the purposes of paragraph 3.2.3(c) the application shall be for:

- (a) Gas Year Y+4; and*
- (b) an amount of Enduring NTS Exit (Flat) Capacity equal to the highest Chargeable NTS Exit (Flat) Overrun amount which the User incurred at the NTS Exit Point in the relevant period ("deemed application amount")*



Applicable UNC terms and references

Chargeable NTS Exit (Flat) Capacity Overruns are defined within UNC TPD Section B3.13.1.

NTS Exit (Flat) Capacity Overrun Charges are defined within UNC TPD Section B3.13.1 and are calculated in accordance with UNC TPD Section B3.13.3

and the further provisions of paragraph 3.2 shall apply in respect of any such application.

In plain English, this means that not only will a User incur an overrun charge, but the deemed application process will also take the User's highest daily overrun amount (kWh) in any year and treat it as an application for Enduring NTS Exit (Flat) Capacity for Gas Year Y+4. This deemed application would be subject to all relevant provisions within Section B and the NTS Exit Capacity Release Methodology Statement (the "ExCR").

The deemed application amount would also be subject to a User Commitment of 4 years, which would require the User to retain the NTS Exit (Flat) Capacity until Y+8 ((in accordance with and subject to the provisions within the ExCR).

Issue

The deemed application process is an unnecessary addition to the 'Overrun' regime described above. By creating an automatic application for Enduring NTS Exit (Flat) Capacity this could lead to NTS Exit (Flat) Capacity could be allocated to a User at an NTS Exit Point where it is not required and:

- 1) result in a User (and potentially the end consumer) incurring NTS Exit (Flat) Capacity Charges for up to 4 years for capacity that they have no intention of utilising;
- 2) result in National Grid NTS carrying out system reinforcement / investment, and a subsequent revenue driver, in order to provide unnecessary capacity;
- 3) where spare NTS Exit (Flat) Capacity is allocated to a User, such Capacity will be sterilised as it is not required by that User but and is then not available to others that may have a justified need for it.

3 Solution

Proposal

The proposed solution is to amend UNC TPD Section B and the NTS Exit Capacity Release Methodology Statement (ExCR) to remove the deemed application process. For clarity, this proposal would not change the arrangements for NTS Exit (Flat) Capacity Overrun Charges but would simply remove the automatic application for Enduring NTS Exit (Flat) Capacity (as currently provided for in UNC TPD Section B 3.2.25).

The issue of deemed applications was discussed at the Transmission Workgroup on 5 May 2011 and the Proposer provided the following presentation:

http://www.gasgovernance.co.uk/sites/default/files/NTS%20Exit%20Capacity%20Deemed%20Applications%20v1%202_0.ppt

Members of the Transmission Workgroup were generally supportive of this matter being progressed as a Modification Proposal.



Where can I find the NTS Exit Capacity Release Methodology Statement and related publications?

The ExCR and related documents can be found on the NG NTS website at:

<http://www.nationalgrid.com/uk/Gas/Charges/statements/transportation/IECR/>

4 Relevant Objectives



Why do we care about these relevant objectives, is it not obvious that this is a sensible thing to do without having to justify it against these measures?

Although it seems blindingly obvious that implementation of this Modification Proposal would bring benefits to the industry it is important that we look to see how it impacts on the relevant objectives, this is a key part of the UNC modification process.

It is a requirement of the Gas Transporter's licence that the UNC Modification Rules include these measures and this will also be used by the Modification Panel when evaluating the proposal.

Implementation will better facilitate the achievement of **Relevant Objectives a and d.**

Benefits against the Code Relevant Objectives	
Description of 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
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

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

The deemed application process could lead to a User having NTs Exit (Flat) Capacity allocated to them, which they do not require. This will lead to NG NTS being obligated to provide, and operate the system in such way to facilitate the provision of, such capacity even though it will never be utilised; in doing so this would be inefficient and uneconomic.

Implementation of this modification would reduce the likelihood of NTS Exit (Flat) Capacity being allocated to User's that do not require it, and hence avoid National Grid NTS having to develop and operate the system such that the capacity could be provided, and so facilitate continuation of the efficient and economic operation of the pipe-line system (therefore furthering achievement of this relevant objective).

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Achievement of relevant objective (d)(i)&(iii) “Securing of effective competition between relevant Shippers and relevant DN Operators”

Shippers and DN Operators (both as Users) would benefit from the implementation of the modification by avoiding the unnecessary allocation of NTS Exit (Flat) Capacity for Gas Years Y+4 to Y+8. Such an allocation of capacity would cause the relevant User to incur additional costs (by way of NTS Exit (Flat) Capacity Charges) that could have a detrimental financial impact upon their business. Where an overrun has occurred the Overrun Charge acts as a suitable one-off payment, and the additional costs incurred through the deemed application process could lead to a User being unable to compete effectively due to the financial burden placed upon them. Implementation of this proposal would remove this risk and would therefore further this relevant objective by securing effective competition between Users.

5 Impacts and Costs

Consideration of Wider Industry Impacts

No impact on wider industry impacts would occur through implementation of this modification.

System Implications

There would be little or no systems implications resulting from the implementation of this Modification Proposal as it would be removing (or simply switching off) functionality within the central UK Link / Gemini system(s). [A cost estimate, or confirmation of no system impacts, will be required from Xoserve.]

Costs

Indicative industry costs – User Pays

Classification of the Proposal as User Pays or not and justification for classification

This Modification Proposal should be considered as User Pays. If it is determined that there are no central system costs associated with this Modification Proposal then there will be no User Pays Services or Charges created (and effectively it will not be a User Pays Modification Proposal).

Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification

As this Modification Proposal relates to NTS Exit (Flat) Capacity and UNC TPD Section B, for the purposes of User Pays, DNOs are classified as Users and National Grid NTS is the only relevant Gas Transporter.

In accordance with the principles set out in the User Pays Guidance it is suggested that, if there are any central system costs, the proposed split of implementation costs is 50:50 between Users (Shippers and DNOs) and National Grid NTS.

Proposed charge(s) for application of Users Pays charges to Shippers

The 50% of charges applicable to Users would be based on the proportion of NTS Exit (Flat) Capacity registered to the User for 01 October 2012 on the date of Implementation (or the amount registered to the User on the date of Implementation if implementation is after 01 October 2012).

Shipper Users would be charged by way of User Pays Charges whereas DNO Users would pay Xoserve directly through the funding mechanism within the Agency Service Agreement (ASA).

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	<ul style="list-style-type: none">• Potential changes to the Gemini system although the Proposer does not believe that these will be significant. A cost estimate will be required from Xoserve.
Operational Processes	<ul style="list-style-type: none">• None
User Pays implications	<ul style="list-style-type: none">• Dependent on outcome of Xoserve cost analysis

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">• None
Contractual risks	<ul style="list-style-type: none">• Contractual risk may be reduced by implementation of this modification
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 implementation of this proposal by reducing the likelihood of having to operate the system in such a way as to provide capacity that is not required.
Development, capital and operating costs	<ul style="list-style-type: none"> See section above
Recovery of costs	<ul style="list-style-type: none"> User Pays may be applicable (subject to the outcome of a cost estimate)
Price regulation	<ul style="list-style-type: none"> None
Contractual risks	<ul style="list-style-type: none"> DNO's contractual risk may be reduced by implementation of this modification
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> None
Standards of service	<ul style="list-style-type: none"> 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 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 TPD Section B 3.2.25	Removal of deemed application provisions

Impact on UNC Related Documents and Other Referenced Documents	
Related Document	Potential impact
Exit Capacity Release Methodology Statement (TPD B3.2)	Removal of deemed application provisions
Network Entry Agreement (TPD I1.3)	n/a
Network Exit Agreement (Including Connected System Exit Points) (TPD J1.5.4)	n/a

Impact on UNC Related Documents and Other Referenced Documents	
Storage Connection Agreement (TPD R1.3.1)	n/a
UK Link Manual (TPD U1.4)	n/a
Network Code Operations Reporting Manual (TPD V12)	n/a
Network Code Validation Rules (TPD V12)	n/a
ECQ Methodology (TPD V12)	n/a
Measurement Error Notification Guidelines (TPD V12)	n/a
Energy Balancing Credit Rules (TPD X2.1)	n/a
Uniform Network Code Standards of Service (Various)	n/a

Impact on Core Industry Documents and other documents	
Document	Potential impact
Safety Case or other document under Gas Safety (Management) Regulations	n/a
Gas Transporter Licence	n/a

Other Impacts	
Item impacted	Potential impact
Security of Supply	n/a
Operation of the Total System	n/a
Industry fragmentation	n/a
Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties	n/a

6 Implementation

There is no fixed timescale for implementation proposed. As the Enduring Exit Capacity arrangements take effect from 01 October 2012 it would be desirable, but not essential, for an implementation date prior to 01 October 2012.

As self-governance procedures are proposed, implementation could be 16 business days after a Modification Panel decision to implement.

7 The Case for Change

None in addition to that identified above.

8 Legal Text

National Grid NTS have not yet provided text.

9 Recommendation

The Workgroup invites the Panel to:

- AGREE that Modification 0381 be submitted for consultation.