

COMMERCIAL BUSINESS RULES

Introduction of a Conditional Discount for Avoiding Inefficient Bypass of the NTS

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Document Revision History

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A. Introduction

1. These Business Rules describe the scope of, eligibility for, and calculation of, a Conditional Discount for Avoiding Inefficient Bypass of the NTS, which incorporates within the NTS Charging Methodology a conditional discount as a means of dis-incentivising inefficient bypass of the NTS.
2. These rules have been developed to form the solution for UNC Modification Proposal '*Introduction of a Conditional Discount for Avoiding Inefficient Bypass of the NTS*' (version 1.0). These rules do not constitute legal text.

B. Definitions

3. '**CDSP**' means the Central Data Services Provider;
4. '**Direct Connect**' or '**DC**' means an Exit Point from the National Transmission System (NTS) which does not comprise a Storage Connection Point or an Offtake to a Distribution Network;
5. '**Distance Matrix**' means the document owned and maintained by National Grid that specifies the straight-line distances in km (to an accuracy of one decimal place) between Entry Points and Exit Points on the National Transmission System;
6. '**Entry Point**' means an Aggregate System Entry Point as defined in the Uniform Network Code;
7. '**Exit Point**' means NTS Exit Point as defined in the Uniform Network Code;
8. '**Existing Contracts**' means capacity procured (for an Entry Point) prior to 6th April 2017 (for the avoidance of doubt, the capacity purchased may apply in respect of a day or days following this specified date). In respect of adjustments (including trades) to available Entry Capacity, where the adjustment is executed:
 - 8.1. up to and including 5th April 2017, the Capacity will be treated as Entry Capacity procured via Existing Contracts; or
 - 8.2. subsequent to the 5th April 2017, the Capacity will not be treated as Entry Capacity procured via Existing Contracts.
9. '**Firm Entitlement**' means, in the context of Entry capacity or Exit capacity, all Firm capacity (including any Existing Contracts) prior to adjustments for all Secondary Transactions;
10. '**Forecasted Contracted Capacity**' or '**FCC**' means the forecast capacity booked at an Entry Point or and Exit Point (for the forthcoming gas year) excluding Existing Contracts. The FCC for an Entry Point or an Exit Point will be equal to a forecast value determined by National Grid taking account of capacity booking trends observed at respective Entry Points and Exit Points as specified in the FCC Methodology.
11. '**Net Firm Entitlement**' means, Firm Entitlement adjusted for all Secondary Transactions and, for the avoidance of doubt, excluding all Interruptible Capacity;
12. '**PARCA**' means a Planning and Advanced Reservation of Capacity Agreement;
13. '**Premium Price**' means the difference between the allocated (final) price and the Reserve Price in the relevant auction or as specified in the relevant PARCA agreement;
14. '**Reserve Price**' means the price for a capacity product (p/kWh/d) following the application of any adjustments;

15. **'Secondary Transactions'** means:
- 15.1. 'acquiring' and 'disposing' capacity trades (System Capacity Transfer as per UNC TPD section 5.1);
 - 15.2. long term use it or lose it (withdrawal of capacity by National Grid as per UNC EID section B8);
 - 15.3. Congestion Management Procedure (CMP) surrender (Surrender as per UNC EID section B7);
 - 15.4. rolling monthly surrender (Surrendered NTS Entry Capacity as per UNC TPD section B2.3); and
 - 15.5. buybacks (Surrender of NTS Entry Capacity as per UNC TPD Section B2.10).

For the avoidance of doubt, Secondary Transactions do not include assignments (Capacity Assignment as per UNC TPD Section B6) nor EAFLEC decreases (Reduction of Enduring Annual NTS Exit (Flat) Capacity as per UNC TPD section B3.2).

16. **'Transmission Services Target Revenue'** means Transmission Owner (TO) revenue (as determined in the National Grid's Transporter Licence) minus revenue due in respect of NTS Metering activities and DN Pensions Deficit costs and including those charges in respect of NTS Capacity (but not including Overrun Charges) or the surrender of NTS Capacity classified as a component of SO allowed revenue. The Transmission Services Target Revenue will also be reduced by any known revenue associated to Existing Contracts.

C. Product Description and Alternative Charges

17. The Conditional Discount for Avoiding Inefficient Bypass of the NTS (**'Conditional Discount'**) is available, in respect of Firm Capacity only, for the relevant routes to derive a discount that will be applied to the standard Transmission Services Capacity Reserve Prices for Entry and Exit (the **'Discounted Reserve Price'**). A route comprises the combination of an Entry Point, an Exit Point and a User. Where the User elects to incur the Discounted Reserve Price, this will be payable in respect of the Entry Eligible Quantity (determined as per paragraph 35) and Exit Eligible Quantity (determined as per paragraph 36) of Transmission Service Entry Capacity and Exit Capacity respectively for the route.
18. The standard Transmission Services Capacity Reserve Prices for:
- 18.1. the relevant Entry Point will be payable for any Entry Capacity registered at the Entry Point in excess of the Entry Eligible Quantity; and
 - 18.2. the relevant Exit Point will be payable for any Exit Capacity registered at the Exit Point in excess of the Exit Eligible Quantity.
19. The Discounted Reserve Price in respect of Entry Capacity (DRP_{En}) is determined using the following formula:

$$DRP_{En} = RP_{En} \times \frac{100 - CD_r}{100}$$

where:

RP_{En} means the standard Reserve Price for firm Entry Capacity (in respect of the relevant Eligible Entry Capacity Tranche as defined in paragraph 35.3) as determined pursuant to the Charging Methodology.

CD_r means the percentage value of the Conditional Discount (rounded to the nearest whole number) for the relevant route determined as per paragraph 34.

20. The Discounted Reserve Price in respect of Exit Capacity (DRP_{Ex}) is determined using the following formula:

$$DRP_{Ex} = RP_{Ex} \times \frac{100 - CD_r}{100}$$

where:

RP_{Ex} means the standard Reserve Price for firm Exit Capacity (in respect of the relevant Eligible Exit Capacity Tranche as defined in paragraph 36.3) as determined pursuant to the NTS Charging Methodology.

CD_r means the percentage value of the Conditional Discount (rounded to the nearest whole number) for the relevant route determined as per paragraph 34.

21. The values DRP_{En} and DRP_{Ex} will be rounded to 10 decimal places where the relevant point is an Interconnection Point and 6 decimal places where the relevant point is not an Interconnection Point.
22. As the Conditional Discount represents a discount only to the Transmission Services Reserve Price for capacity, any Premium Price remains payable in full.
23. For the avoidance of doubt:
- 23.1. any capacity overrun charges will be calculated using the standard Transmission Services Capacity Reserve Prices for the relevant Entry Point or Exit Point; and
- 23.2. all other charges (where relevant) will remain payable including the General Non-Transmission Services Charges and any Transmission Services Revenue Recovery Charges.

Duration

24. The election to incur the Discounted Reserve Price (as a consequence of the application of the Conditional Discount) will be enduring until:
- 24.1. the relevant User makes a valid Dis-application in accordance with paragraph 46; or
- 24.2. the point at which the relevant User is no longer a Registered User at the specified Exit Point; or
- 24.3. a Periodic Review (undertaken as per paragraph 51) or recalculation undertaken as per paragraph 52 determines that the Conditional Discount (CD_r) for the relevant route is 0%.

Interaction with Charging Methodology

25. National Grid will forecast the extent of all Users elections to incur the Discounted Reserve Price for the forthcoming Gas Year. The net impact (of this forecast) on the aggregate amounts of Transmission Services Revenue which National Grid NTS estimates would be earned in the Gas Year will be taken into account (where practicable) when assessing the Entry Revenue Scaling Factor and Exit Revenue Scaling Factor for

the relevant Gas Year¹ otherwise will be taken into account in the determination of Transmission Services Revenue Recovery Charges for the relevant Gas Year.

D. Route Eligibility

26. Whereas one Eligible Entry Point (see paragraph 27) can be associated with more than one Eligible Exit Point (see paragraph 28), it is not permitted for a single User to associate more than one Eligible Entry Point to an individual Eligible Exit Point.

Entry Points

27. The following Entry Point types (as listed in National Grid's Transporter Licence, Special Condition 5F.27, Table 4B) are '**Eligible Entry Points**':
- 27.1. Beach Terminal;
 - 27.2. Biomethane Plant;
 - 27.3. Interconnection Point;
 - 27.4. LNG Importation Terminal; and
 - 27.5. Onshore Field

Exit Points

28. The following Exit Point types (as listed in National Grid's Transporter Licence, Special Condition 5G.31, Table 8) are '**Eligible Exit Points**':
- 28.1. DC ('Direct Connect'); and
 - 28.2. Interconnector.

E. Determination of Discount

29. The sequential steps detailed below are applied in order to derive the percentage point value of the Conditional Discount (the term CD_r as applied in paragraphs 19 and 20) for the relevant route.

Minimum and Maximum Allowed Discount

30. The minimum discount available at the Due Cross Subsidy Limitation (see paragraph 32) is 10%.
31. The Maximum Discount Available (MDA) for a straight-line distance of zero is 90%.

Due Cross Subsidy Limitation

32. The value, CSL, will be set at 28km. This figure will be reviewed in line with paragraph 51 to ensure it remains appropriate over time.

Route Specific Discount

33. The Provisional Conditional Discount (PCD_r) for the relevant route will be determined by application of the following formula:

¹ See Modification Proposal 0678A legal text: UNC TPD Section Y Part A-I paragraph 2.4.3

$$PCD_r = \left(\left(\frac{1}{IFERROR(e^{1.6094*(CSL-1)}, 1)} \right)^{SLD_r} \right) - \left(1 - \left(\frac{MDA}{100} \right) \right)$$

where:

CSL means the Due Cross Subsidy Limitation determined in accordance with paragraph 32; and

MDA means the Maximum Discount Available determined in accordance with paragraph 31.

SLD_r means the Route Straight-line Distance.

34. The Conditional Discount (CD_r) for the relevant route will be equal to the Provisional Conditional Discount (PCD_r) unless the Provisional Conditional Discount is less than 10% in which case the Conditional Discount will be equal to zero.

Eligible Quantities

35. The Entry Eligible Quantity (EQ_{En}) for which the Discounted Reserve Price applies will be determined per route, in respect of each day as follows:

$$EQ_{En} = \text{Min}(IEQ_{En}, AQ_{En})$$

where:

IEQ_{En} means the Initial Eligible Quantity at Entry determined in accordance with paragraph 35.1; and

AQ_{En} means the Apportionment Quantity at Entry determined in accordance with paragraph 35.2;

- 35.1. The Initial Eligible Quantity at Entry (IEQ_{En}) will be determined each day as follows:

$$IEQ_{En} = \text{Max}(0, (\text{Min}(CAP_{En}, CAP_{Ex}, A_{En}, A_{Ex}) - EC_{En}))$$

CAP_{En} means in respect of Entry capacity, the greater of zero (0) and the User's Net Firm Entitlement on the day at the Eligible Entry Point;

CAP_{Ex} means in respect of Exit capacity, the greater of zero (0) and the User's Net Firm Entitlement on the day at the Eligible Exit Point;

A_{En} means the User's gas flow entry allocation on the day at the Eligible Entry Point; and

A_{Ex} means the User's gas flow exit allocation on the day at the Eligible Exit Point; and

EC_{En} means the quantity of Entry Capacity procured via an Existing Contract.

- 35.2. The Apportionment Quantity at Entry (AQ_{En}) will be determined each day as follows:

$$AQ_{En} = \sum CTQ_{En}$$

where:

Σ means the sum of; and

CTQ_{En} means the quantity of capacity in an Eligible Entry Capacity Tranche at Quantity Holder level as defined in paragraph 35.3;

- 35.3. An Eligible Entry Capacity Tranche means an Entry Capacity allocation procured or assigned in a single event at a known, uniform price that is not interruptible capacity nor Existing Contract Capacity and is not transacted via Secondary Transactions.
36. The Exit Eligible Quantity (EQ_{Ex}) for which the Discounted Reserve Price applies will be determined in respect of each day as follows:

$$EQ_{Ex} = \text{Min}(IEQ_{Ex}, AQ_{Ex})$$

where:

IEQ_{Ex} means the Initial Eligible Quantity at Exit determined in accordance with paragraph 36.1; and

AQ_{Ex} means the Apportionment Quantity at Exit determined in accordance with paragraph 36.2.

- 36.1. The Initial Eligible Quantity at Exit (IEQ_{Ex}) will be determined each day as follows:

$$IEQ_{Ex} = \text{Min}(CAP_{En}, CAP_{Ex}, A_{En}, A_{Ex})$$

CAP_{En} means in respect of Entry capacity, the greater of zero (0) and the User's Net Firm Entitlement on the day at the Eligible Entry Point;

CAP_{Ex} means in respect of Exit capacity, the greater of zero (0) and the User's Net Firm Entitlement on the day at the Eligible Exit Point;

A_{En} means the User's gas flow entry allocation on the day at the Eligible Entry Point; and

A_{Ex} means the User's gas flow exit allocation on the day at the Eligible Exit Point.

- 36.2. The Apportionment Quantity at Exit (AQ_{Ex}) will be determined each day as follows:

$$AQ_{Ex} = \Sigma CTQ_{Ex}$$

where:

Σ means the sum of; and

CTQ_{Ex} means the quantity of capacity in an Eligible Exit Capacity Tranche at Quantity Holder level as defined in paragraph 36.3.

- 36.3. An Eligible Exit Capacity Tranche means Exit Capacity allocation procured or assigned in a single event at a known, uniform price that is not interruptible capacity and is not transacted via Secondary Transactions.

37. Where a User specifies a single Entry Point as the relevant Entry Point for more than one route (i.e. in respect of more than one Exit Point):
 - 37.1. the Entry Capacity (CAP_{En}) for the relevant route will be equal to the User's Entry Capacity at the ASEP pro-rated on the basis of the Exit Capacity quantity as a proportion of the aggregate of the Exit Capacity quantities (for which the Entry Point is the relevant Entry Point for the nominated routes);
 - 37.2. the quantity of Entry Capacity procured via an Existing Contract (EC_{En}) for the relevant route will be equal to the User's Entry Capacity procured via an Existing Contract at the ASEP pro-rated on the basis of the Exit Capacity quantity as a proportion of the aggregate of the Exit Capacity quantities (for which the Entry Point is the relevant Entry Point for the nominated routes); and
 - 37.3. the Entry Allocation (A_{En}) for the relevant route will be equal to the User's Entry Allocation at the ASEP pro-rated on the basis of the Exit Allocation quantity as a proportion of the aggregate of the Exit Allocation quantities (for which the Entry Point is the relevant Entry Point for the nominated routes).
 - 37.4. the Apportionment Quantity (AQ_{En}) for the relevant route will be equal to the User's Apportionment Quantity pro-rated on the basis of the Exit Capacity quantity as a proportion of the aggregate of the Exit Capacity quantities (for which the Entry Point is the relevant Entry Point for the nominated routes);
38. For the purposes of determining the apportionment of:
 - 38.1. Entry Eligible Quantity between Eligible Entry Capacity Tranches, the Eligible Entry Quantity will be pro-rated on the basis of the Eligible Entry Capacity Tranche capacity quantity as a proportion of the aggregate of the Eligible Entry Capacity Tranche capacity quantities; and
 - 38.2. Exit Eligible Quantity between Eligible Exit Capacity Tranches (that may have been procured at different unit rates i.e. p/Kwh/d), the Eligible Exit Quantity will be pro-rated on the basis of the Eligible Exit Capacity Tranche capacity quantity as a proportion of the aggregate of the Eligible Exit Capacity Tranche capacity quantities.

F. Application and Dis-application Process

39. A User can elect to incur the Discounted Reserve Price by making a valid Application to the CDSP via the Supply Point Nomination and Confirmation process (or the equivalent notification for Interconnection Points).
40. A valid Application in respect of a route must:
 - 40.1. specify one Eligible Entry Point and one Eligible Exit Point;
 - 40.2. have a Route Straight-line Distance (SLD) that is within the Due Cross Subsidy Limitation (as per paragraph 32);
 - 40.3. not specify a route already nominated by the applicant User previously within the Gas Year; and
 - 40.4. not specify an alternate Entry Point where the Exit Point has already had a valid Application within the Gas Year from that applicant User.
41. The Application will be validated against the criteria in paragraph 40 and a response will be issued to the User by the CDSP within two Supply Point Systems Business Days of receipt of the Application. This response will either be:

- 41.1. rejection of the Application (specifying a reason); or
 - 41.2. notice of referral of the Application to National Grid; or
 - 41.3. a Supply Point Offer (or the equivalent notification for Interconnection Points) quoting a Conditional Discount value for the relevant route which will be valid for a period of six-months from the date of the Supply Point Offer.
42. Where a valid Application is referred to National Grid (as per paragraph 41.2), a response will be issued to the User by the CDSP following the CDSP's receipt of the response to the referral from National Grid. This response will be that specified in either paragraph 41.1 or paragraph 41.3.
 43. The User is entitled to dispute the Route Straight-line Distance utilised by National Grid to determine the Conditional Discount by submitting a new Application with an alternative six-figure grid reference for the Eligible Exit Point with supporting evidence. The CDSP will respond accordingly in line with paragraph 41.
 44. User acceptance of a Supply Point Offer (or the equivalent notification for Interconnection Points) issued in response to a valid Application must be submitted via Supply Point Confirmation (or the equivalent notification for Interconnection Points). It must specify a requested Effective Date which is between five and thirty Supply Point Systems Business Days after the date of receipt of the Supply Point Offer (or the equivalent notification for Interconnection Points).
 45. Once a Supply Point Confirmation (or the equivalent notification for Interconnection Points) has been accepted, the Conditional Discount becomes active on the Effective Date.
 46. A User which has elected to incur the Discounted Reserve Price may withdraw this election by making a valid Dis-application to the CDSP via the Supply Point Nomination, Confirmation or Supply Point Amendment process (or the equivalent notification for Interconnection Points). From the effective date of this withdrawal, the standard Transmission Services Capacity Reserve Price will become payable.
 47. A valid Dis-application must specify a requested withdrawal date which is between five and thirty Supply Point Systems Business Days following the date of receipt the Dis-application.
 48. In making a Dis-application, the User acknowledges and accepts that withdrawal of the election for the relevant route will prevent (within the same Gas Year):
 - 48.1. re-application for the same route; and
 - 48.2. an application for a new route based on the same Exit Point with an alternative Entry Point.
 49. The Dis-application will be validated against the criteria in paragraph 47 and a response will be issued to the User by the CDSP within two Supply Point Systems Business Days of receipt of the Dis-application. This response will either be rejection of the Dis-application (specifying a reason) or confirmation of the withdrawal date.
 50. For the avoidance of doubt, a route, the combination of Entry Point, Exit Point and User, can only be elected once per Gas Year. A User may apply, and withdraw within-year, but would not be permitted to reapply for the same route unless the requested effective date is in the following Gas Year.

G. Periodic Review and Price Change Notification

51. National Grid will undertake a Periodic Review of the Conditional Discount mechanism to:
 - 51.1. assess all new and existing Entry Points and Exit Points based on updated information, point classifications, new points and updated FCC values;
 - 51.2. assess whether any Entry Points or Exit Points are no longer Eligible due to changes in site type or status;
 - 51.3. assess the suitability of the Due Cross Subsidy Limitation (CSL_y)
52. National Grid will recalculate Conditional Discounts annually and issue a Price Change Notification to the relevant Users (by 1 August) specifying the updated Conditional Discount value and, where appropriate, advise Users of routes which no longer qualify for a Conditional Discount. In respect of the latter, the relevant Users election for the Conditional Discount will be automatically removed with effect from 1st October (with a notice to this effect issued to the User by the second Supply Point Systems Business Day prior to this date).
53. The recalculation referred to in paragraph 52 will take place prior to 1st May each year.
54. The CDSP will issue an annual reminder to the relevant Users that the Conditional Discount will continue to apply in following Gas Year unless a valid Dis-application is submitted by the User.

H. Implementation (including transition)

55. Implementation of Modification Proposal 0678A will terminate all existing NTS Optional Commodity Rate arrangements at the end of Gas Day prior to the Earliest Charge Commencement Date, accordingly:
 - 55.1. notification of the termination of the existing NTS Optional Commodity Rate arrangements will be provided to all relevant Users as soon as reasonably practicable following publication of Ofgem's final decision to implement Modification Proposal 0678A (the '**Modification Direction Date**');
 - 55.2. where, following the Modification Direction Date, a User elects to incur the NTS Optional Commodity Rate, National Grid NTS will inform the User, as soon as reasonably practicable after this election, that such election will lapse on the Earliest Charge Commencement Date; and
 - 55.3. for the avoidance of doubt, any existing NTS Optional Commodity Charge nomination by a User, pursuant to TPD Section G (as in force prior to implementation of Modification Proposal 0678A) shall lapse and have no effect on, and from, the Earliest Charge Commencement Date.
56. The first day from which the Discounted Reserve Price can be levied is the first day from which new charges (applied pursuant to implementation of UNC Modification 0678A and subject to direction to implement this Modification) are applied (the '**Earliest Charge Commencement Date**').
57. Implementation of the new UNC rules regarding the Conditional Discount will take effect in time to allow for the following to be completed ahead of the Earliest Charge Commencement Date:
 - 57.1. publication of the Transportation Statement for the first Gas Year (or part of such); and

- 57.2. the processing of Applications for the Discounted Reserve Price (providing sufficient notice for the Discounted Reserve Price to be levied from the Earliest Charge Commencement Date).

I. Invoicing

58. Capacity Charges levied at the Discounted Reserve Price will be invoiced and payable in accordance with UNC TPD Section S.