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| **UNC Workgroup Report** | | At what stage is this document in the process? |
| UNC 0701:  Aligning Capacity booking under the UNC and arrangements set out in relevant NExAs | |  |
| **Purpose of Modification:**To improve visibility where a consumer has entered into a bi-lateral Network Exit Agreement (NExA) with the relevant Transporter, and to link capacity increases with the NExA so that the allowed capacity does not exceed the capacity as agreed in the NExA | | |
| Description: Description: YES_GREEN | The Workgroup recommends that this modification should not be subject to self-governance  The Panel will consider this Workgroup Report on **16 April 2020**. The Panel will consider the recommendations and determine the appropriate next steps.  **CHECK DATES** | |
| Description: Description: High_Impact | High Impact:  Transporters, Shippers and Consumers | |
| Description: Description: Low_Impact | Medium Impact: | |
| Description: Description: Medium_Impact | Low Impact: | |

***Guidance on the use of this Template****:*

*Please complete all sections unless specifically marked for the Code Administrator.*

*Green italic text is provided as guidance and should be removed before submission.*

*The Code Administrator is available to help and support the drafting of any modifications, including guidance on completion of this template and the wider modification process. Contact:* [*enquiries@gasgovernance.co.uk*](mailto:enquiries@gasgovernance.co.uk) *or 0121 288 2107.*

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| Contents  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 8  8 Implementation 9  9 Legal Text 9  10 Recommendations 9  Timetable   |  |  | | --- | --- | | **Modification timetable:** | | | Initial consideration by Workgroup | 22 August 2019 | | Workgroup Report presented to Panel | 16 April 2020 | | Draft Modification Report issued for consultation | 17 April 2020 | | Consultation Close-out for representations | 07 May 2020 | | Final Modification Report available for Panel | 12 May 2020 | | Modification Panel decision | 21 May 2020 |   **REVISE DATES IF WGR AGREED** | **Any questions?** |
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Summary

#### What

There is no process to ensure that the daily capacity allowed in a NExA (which is a contract between the site operator and the Transporter) and that allowed by the UNC (which is contract between the Relevant Shipper and the relevant Transporter) are aligned. This can result in discrepancies where Provisional Maximum Supply Point Capacity (PMSOQ) can ratchet above the value the consumer is allowed to use under a NExA.

For information, key differences between this proposal and proposal 0696 (Addressing inequities between Capacity booking under the UNC and arrangements set out in relevant NExAs) are:

1. It contains no retrospective element.
2. Visibility of the existence of a NExA will be introduced into industry central systems
3. Where a NExA exists and states maximum daily capacity, the Supply Point Capacity is to be capped in line with this, with the effect that PMSOQ is not increased above the NExA value. Where there is no maximum daily capacity, this will be calculated as 24 times the Supply Point Offtake Rate (SHQ)
4. It includes all Supply Points on DN networks with solutions for both Daily Metered (Class 1 and 2) supply points, and non-daily metered (Class 3 and 4) supply points

#### Why

This change will ensure that System capacity is consistent with that allowed by the NExA where one is in place. Where a NExA is not in place then the current processes will apply.

#### How

It is proposed that capacity deemed or requested under the UNC cannot exceed that allowed by the NExA, without a referral to the Network.

This process would apply, post faster switching, to both CSS and non-CSS DN connected Supply Points.

Governance

#### Justification for Authority Direction

As the proposal has a material impact on the Transportation arrangements for Shippers and relevant consumers, it should, we believe, be subject to **Authority Direction**.

#### Requested Next Steps

This modification should:

* be considered a material change and not subject to self-governance
* be assessed by a Workgroup

**CONFIRM GOVERNANCE AT WORKGROUP**

Why Change?

**Issue**

There is no process to ensure that the Supply Point Capacity (Often referred to as “SOQ”) and Supply Point Offtake Rate (often referred to as “SHQ”) allowed in a NExA (which is a contract between the site operator and the Transporter) and that allowed by the UNC (which is contract between the Relevant Shipper and the relevant Transporter) are aligned. This can result in discrepancies where the Shipper books more capacity on the System than the customer is allowed to use in accordance with the NExA. Conversely, the Supply Point Ratchet process may allow Shippers to ratchet up Supply Point Capacity to greater than that allowed by the NExA.

The potential existence of NExAs is well known in the industry however the existence of NExAs are not flagged in central systems so the specific existence of one is not instantly visible when using central systems interfaces (e.g. Data Enquiry Service (DES)). Where previously NExAs were predominantly used for very large sites or sites mandated in UNC they are now increasingly used for smaller but intermittent or unpredictable within-day consumption sites, for example power generation plants, some of which may be Class 3 or 4 Supply Points. This lack of transparency throughout the life of the NExA is what we are wanting to address.

Code Specific Matters

#### Reference Documents

A sample of a Northern Gas Networks Site Specific NExA is attached. This is provided with the caveat that there are multiple types of NExAs and these, and the content, can differ between DNs, and is therefore attached for general information purposes only.

#### Knowledge/Skills

Solution

It is proposed that any new or change in requested daily capacity or hourly flow for Supply Meter Points, (excluding NTS Supply Points), requested under the UNC should not exceed the value stated in the NExA, nor should the PMSOQ exceed the value stated in the NExA. Where a site ratchets then the DM Supply Point Capacity cannot ratchet above that listed in a NExA should one exist.

In line with existing code TPD G 5.5.3 any application for increase in Capacity that exceeds the PMSOQ will create a Supply Point Nomination referral to the relevant Transporter.

For Class 1 and 2 Supply Points: Any requests for new or change in requested System capacity made by the Shipper shall not, where a relevant NExA exists, exceed either the DM Supply Point Capacity (SOQ) or the Supply Point Offtake Rate (“SHQ”) set out in the NEXA. Where there is only an SHQ value in the NExA the SOQ value will be taken as a calculation of 24 times the SHQ value quoted in the NExA.

Impacts & Other Considerations

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

None

#### Consumer Impacts

Impacts consumers who are party to NExA arrangements and wish to amend their capacity requirements.

#### Cross Code Impacts

There should be no known impacts on other Codes.

**CAN WE CLARIFY THE IGT ASPECT?**

#### EU Code Impacts

None

#### Central Systems Impacts

To support the implementation of this Proposal, a ROM Request has been provided by the CDSP which sets out the key requirements that require systemisation and the associated implementation costs & timeline.

The full ROM document can be found here: [Change Reference Number: 5094](https://gasgov-my.sharepoint.com/:w:/g/personal/alan_raper_gasgovernance_co_uk/EaC9qSmklgtOqgKdIQvfMQsBXLSacI77VYJ2XGuNQVadCQ)

For all site Classes, the CDSP would need to enhance the existing DES information and provide additional functionality to assist with the management and processing of capacity and offtake rate changes at NExA sites:

The following high-level requirements have been assessed as part of the system changes required to implement the proposal:

1. Enhance what is currently held in UK Link against NExA sites to include:

a. NExA SOQ

b. NExA SHQ

c. Maintain a history of NExA effective to and from date (inclusive of future dates)

2. Conduct a data migration for every NExA site to add the additional NExA information to UK Link (and subsequently DES). For every NExA site, we will be required to check that the current PMSOQ is lower than or equal to the NExA SOQ value and correct the PMSOQ for any NExA sites which have a greater PMSOQ than the provided NExA SOQ value. To correct it, we must set the PMSOQ at the NExA SOQ.

3. New or enhanced screen to load and update the new NExA information in UK Link. Please note this screen will be for internal use only and the update will be made by Xoserve internal business users

4. Enhance what is currently displayed in DES against the Network Exit Agreement Indicator. Adding new values to DES; NExA SOQ, NExA SHQ and the NExA effective to and from date. These data items would need be populated where the NExA flag in DES is Y and should be fed from the information we hold in UK Link against the NExA site.

5. The PMSOQ for Class 1 and 2 sites will not be able to exceed the Supply Point Capacity (SOQ) quoted in the NExA. The PMSOQ should be capped at the NExA SOQ, (it should not be able to increase above the NExA SOQ)

6. For Class 1 and 2 sites, any requests to change existing System capacity made by the Shipper shall not, where a relevant NExA exists, exceed the DM Supply Point Capacity (SOQ) and the Supply Point Offtake Rate (SHQ) set out in the NExA.

a. For any Product Class which has a valid NExA in place (which is recorded in UK Link) and where a Shipper requests a change to existing Capacity, this must always be subject to the Supply Point Nomination referral and sent to the relevant Transporter

The only validation on a Nomination will be checking if there is a NExA in place and referring it to the relevant Transporter

Analysis suggests this automatic referral for any site which has a NExA is current system logic.

b. Where the Transporter approves the Capacity request at Nomination referral, when the Nomination is Confirmed by the Shipper (can be up to 6 months from the Nomination acceptance), the CDSP must validate the date in the Confirmation for the Capacity request against the NExA information to accept or reject. If the effective of the Confirmation is not within the effective date set out within the NExA, the Confirmation will be rejected

7. For a Class 1 and 2 Supply Points the System Capacity shall not ratchet above the daily offtake rate set out in the NExA.

a. If a site with a relevant NExA ratchets above the NExA SOQ, the booked SOQ should not increase to the ratchetted value (above the NExA SOQ) but the ratchet charge should still be applied.

Analysis suggests that this is current system logic, such that if requirement 5 is met and the PMSOQ can never exceed the NExA SOQ.

8. For Class 3 and 4 Supply Points: Create a process by which the relevant Transporter is notified of any SOQ changes as part of Rolling AQ which come within a defined % of the SOQ set out in the NExA.

a. Changes required to DDP Dashboards for DNs to include the additional NExA fields

b. Prompt functionality in Birst tool required to send emails to relevant Transporters to notify them of Class 3 and 4 sites which come under this criterion

Note: This requirement does not require assessment by the Minor Enhancements Team as it will be delivered by the Data Office.

While discussing these requirements during the Workgroup, it was suggested that a point of clarification be added to explain that the functioning of the ratchet mechanism, and the application of ratchet charging rules would be unaffected by implementation of this proposal.

Additionally, there would need to be a one-off exercise to clear all existing NExA flags in the system and to load all details above for all existing NExAs, as advised by the Transporters.

#### Workgroup Impact Assessment

The Workgroup has met seven times to refine the proposed rules and text to give effect to 3 principal aspects of the interaction of NExAs and the prevailing business rules in the UNC. These factors can be summarised as follows:

1. to provide increased visibility of the existence of NExA Supply Points and the associated offtake parameters by populating the NExA flag in DES and ensuring the corresponding data fields are complete and accurate,
2. to establish the maximum capacity in the NExA as maximum bookable under the provisions of the UNC: and,
3. where a capacity increase is triggered under the provisions of the UNC, and the associated NExA has a future dated capacity increase included in a NExA, to ensure that any capacity increases are limited by date & quantity to the values set-out in the NExA.

There was a consensus in the Workgroup that in these specific areas of the UNC would benefit from additional clarity, in terms of the primacy of NExA conditions over general conditions set out in the UNC, and improved information flows resulting from the DES changes would add clarity for Users and consumers alike.

Given there have been instances where Shippers have experienced issues in relation to the interaction of offtake arrangements, where a NExA has constrained offtake parameters, and the UNC has permitted these values to be exceeded, tying system capacity and NExA values together was generally viewed as a positive measure.

In terms of discussion points, the principle item of debate related to establishing a Maximum Supply Point Capacity, (SOQ), for NExA Supply Points where only an offtake rate, (OR), is specified. The rule to establish the SOQ based on 24 x OR gave rise to some concern from some participants that the derivation was over simplified and not fully reflective of the Supply Point’ s offtake characteristics. The rule has been incorporated into the legal text. It was noted that a way to avoid the application of “24 x OR” rule would be to ensure that NExAs, have as a matter of course, specify a Maximum Supply Point Capacity set out in relevant NExA.

In an early version of the proposal, Class 3 & Class 4 Supply Points were treated as special cases where the AQ would be capped at a value linked to the offtake rate set-out in the relevant NExA. After Workgroup discussion it was agreed that the link between AQ and offtake rate was too tenuous, and the associated business rule was withdrawn.

**CHECK THE WORKGROUP AGREES**

**Rough Order of Magnitude (ROM) Assessment**

The following cost statements have been extracted from ROM: [Change Reference Number: 5094](https://gasgov-my.sharepoint.com/:w:/g/personal/alan_raper_gasgovernance_co_uk/EaC9qSmklgtOqgKdIQvfMQsBXLSacI77VYJ2XGuNQVadCQ)

* An enduring solution for the UK Link changes will cost at least **£66,000**, but probably not more than **£115,500** to implement.
* In relation to the DDP change specifically, (requirement 8), an enduring solution will cost at least **£18,000** but probably not more than **£35,000** to implement.
* Note, the DDP cost is **not included** in the UK Link cost.

Relevant Objectives

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| Impact of the modification on the Relevant Objectives: | |
| Relevant Objective |  |
| a) Efficient and economic operation of the pipe-line system. | Positive |
| 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. | Positive |
| 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. | Positive |
| 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. | None |

Ensuring that where a NExA exists is linked to capacity increases will protect the integrity of each Transporter’s pipeline, aiding in preventing sites from booking system capacity over the level stated in the NExA,

We feel this modification would further both Relevant Objectives a) and c) in this respect. We are not specifically referring to one specific Licence obligation as the economical and efficient operation of the pipeline, is a principle throughout the Licence

We also believe this modification would positively impact Relevant Objective f), by giving visibility where a NExA exists thereby enhancing the requirements relating to NExAs under UNC TPD Section J5.2.

**CONFIRM**

Implementation

To deliver this proposal effectively, both UK-LINK, (to assist with the processing of requested changes to offtake parameters), and DES, (to assist with the visibility of information relating to NExA Supply Points,) would need to be modified. Such that they are required, amendments to DES screens would be authorised through Data Services Contract Management Committee governance.

The timeline for implementing these changes and systemising the requirements specified in the ROM is approximately 20 weeks, although it should also be noted that implementation would need to be included in a “major” UK-Link release. In parallel, the modification to Data Discovery Platform would require 11 weeks of development.

Consequently, it is proposed that should an Authority Direction to Implement be received within a reasonable timescale, it is possible that this proposal could be implemented as part of an early major release in 2021, (based on the current view of change horizon), which would tie into the period when capacity and offtake rates are most relevant to the operation of the network,

It should also be noted that the data currently held on UK-Link in relation to NExA Supply Points would need to be ascertained and cleansed through a coordinated activity, initiated by transporters but conjunction with the relevant Users and Consumers, to validate offtake parameters.

However, it is proposed that this data cleansing activity, could be undertaken in advance of the period required for Authority Decision and systems modification, as to do so would be a ‘no regrets’ activity. As such the network related data improvement activities are not a constraining factor in terms of implementation.

**CHECK VALIDITY OF STATEMENT**

Legal Text

**Legal Text has been provided by Northern Gas Networks and publish alongside this report and linked below.**

#### Text Commentary

The proposed amendments to TPD B and G shall expand the existing definitions for Ratchetted Supply Point Capacity (Ratchetted SOQ), Maximum Supply Point Capacity (Max SOQ), Maximum Supply Point Offtake Rate (Max SHQ) and Provisional Maximum SOQ (PMSOQ) to include where a DM Supply Point has a Network Exit Agreement (NExA) in place. The amendments shall also ensure appropriate restrictions are in place so that a site’s SOQ or SHQ cannot increase above the maximum value stated in the NExA.

**CONFIRM**

#### Text

The legal text for the Proposal can be found here: [Modification Proposal 0701: Legal Text](https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/book/2020-02/UNC%200701%20legal%20text%20V1%20NGN.pdf?TT_PgTSvfj_e_Snr6niHfkywEEqstTrP=)

**The Workgroup has considered the legal text and is satisfied that it meets the intent of the Solution**.

**CONFIRM**

Recommendations

#### Workgroup’s Recommendation to Panel

The Workgroup asks Panel to agree that this modification should proceed to consultation.