Joint Office of Gas Transporters

UNC Request Workgroup Report	At what stage is this document in the process?
# UNC 0705R: ## NTS Capacity Access Review	01 Request 02 Workgroup Report 03 Final Modification Report

Purpose of Request:

To review the principles and establish long-term strategy for the NTS capacity access regime. Ensuring the regime is appropriate for commercial behaviours experienced today, simplified and adaptable whilst being consistent with relevant obligations. To make recommendations for change and addressing short-term problems in accordance with the long-term ambition.

	The Workgroup recommends that the Panel now consider this report.
	High Impact: GB gas market participants, National Grid NTS, Ofgem
	Medium Impact: None
	Low Impact: None

Joint Office of Gas Transporters

Contents

About this document:

This report will be presented to the Panel on 15 October 2020.

The Panel will consider whether to agree with Workgroup that

- Request 0705R should be returned for further assessment for a recommendation of a further 12 months and
- An ~~-~~Interim Workgroup Report will ~~should~~ be submitted for consideration at the April 2021 Panel.

Any questions?

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1 Request

Why is the Request being made?

The current entry and exit capacity arrangements for Users to access the NTS were built on the foundations of an expanding gas transmission network. Historically, incremental capacity signals from long-term auctions would trigger investment on the NTS. Today, this environment has changed and we are not experiencing the capacity signals requiring expansion of the network we were 10 years ago[1]. Therefore, this Request is being raised to review the principles of the capacity access arrangements to ensure they are aligned to future needs of our customers and allow optimal development of the NTS.

This review will commence at a strategic level, looking at the long-term ambition for the NTS capacity access regime, including ensuring the regime is appropriate for commercial behaviours being experienced today, simplified and adaptable whilst being consistent with European obligations. Specific short-term problems identified by customers will be addressed consistently with the long-term ambition.

Scope

To review the principles of the NTS capacity access regime, understanding issues and developing a long-term strategy. Making recommendations for change and addressing short-term problems in accordance with the long-term ambition.

1. Long-term Ambition

- A capacity regime which is;
  - appropriate for commercial behaviours being experienced today
  - simplified
  - adaptable for the impact of ongoing industry change (e.g. Charging Review, Energy Codes Review, Baselines Review) and future developments of the gas network (e.g. hydrogen future)
  - consistent with obligations at an European level (e.g. European Codes)

2. Short-term Problems

A	Substitution	Is the process and the associated timescales appropriate? (Lead times, Ofgem approval, treatment of decommissioned sites)	Are the processes for making capacity available where it needs to be effective?	Governance
A	Retainers	Are retainers still required with the introduction of PARCA?		
A	Trade and Transfer	Any issues?		
A	Zonal	Possible alternative solution to substitution and transfer		
B	Over-run charges	Are Over-run charges appropriate and incentivising "right" behaviour?	Are arrangements for utilisation of capacity appropriate?	UNC / Methodology
C	PARCA	Appropriateness of fees Embedding and extending the "PARCA light process" embedded with CLoCC.	Are there any issues with the PARCA process? Is there an appetite for further review of PARCA?	
D	User Commitment	Are the levels of User Commitment appropriate? *Potential links with PARCA and substitution*	Are the arrangements for the varying types of User Commitment appropriate?	Are the rules contained in the right place?
E	Capacity Products	Any new products required or redundant products? *Including additional auctions (e.g. duration); conditional products (e.g. temperature)*	Are there any new or redundant products or processes?	
E	Auctions / Applications	Any new processes, redundant processes or refined processes?		
F	Flex	Dependent on outcome of network capability work	Is the existing flex product appropriate for Tx?	

[1] https://www.ofgem.gov.uk/system/files/docs/2018/12/riio-gt2_sector_annex_0.pdf Page 54

Impacts & Costs

The key impacts of this Request are currently considered to be:

- Possible changes to systems and business processes required to implement new capacity access arrangements
- Potential changes to governance documents (UNC and Gas Transporter Licence) to reflect amended capacity access arrangements
- Possible increase in Competition, Security of Supply and the efficient use of the total system due to improved arrangements for accessing NTS capacity.
- Any improvements to transportation arrangements should result in net benefit to consumers.

Recommendations

The objective of this Request is to explore the long-term needs of the capacity access regime and how short-term problems can be resolved in accordance with the future ambition. This Request should be issued to Workgroup for consideration.

2 Impacts and Costs

Consideration of Wider Industry Impacts

Possible wider industry impacts and costs of the output of the Request are highlights below. However, until more detail is worked through, specific impacts cannot be identified.

Impacts

Commented [RJ1]: Included impacts of this Request whilst also recognising that specific code Modifications will fall out of this Request with their own specific impacts but they will be identified in their own Mods

Impact on Central Systems and Process	
Central System/Process	
UK Link	• None identified
Operational Processes	• Work streams identified are likely to have an impact on Transporter Operational Processes (e.g. potential amendments to the Substitution and PARCA processes)

Impact on Users	
Area of Users' business	
Administrative and operational	• Changes may be implemented which impact Users operational process, for example the introduction of a within day off-peak / interruptible capacity product would provide Users with more product diversity which they may want to adapt operational processes to utilise
Development, capital and operating costs	• Work streams included in this Request could result in lower costs for Users (e.g. optimising their capacity bookings through the availability of additional products, or changes to User Commitment requirements)
Contractual risks	• None identified
Legislative, regulatory and contractual	• Review of the substitution methodology may introduce

Impact on Users	
obligations and relationships	contractual changes (for example, removal of applicant confidentiality as part of PARCA)

Impact on Transporters	
Area of Transporters' business	
System operation	• Various changes being considered as part of this Request may have an impact on Transporters' system operation (for example, the development of new capacity products)
Development, capital and operating costs	• None identified
Recovery of costs	• There are areas being considered in this Request which may impact the recovery of Transporter costs (e.g. a discounted within day product could impact the method by which the Transporter collects its allowed Revenue).
Price regulation	• None identified
Contractual risks	• None identified
Legislative, regulatory and contractual obligations and relationships	• There may be changes to the PARCA process impacting contractual obligations
Standards of service	• None identified

Impact on Code Administration	
Area of Code Administration	None identified.
Modification Rules	•
UNC Committees	•
General administration	•
DSC Committees	•

Impact on Code	
Code section	Potential impact
TPD Section B	• The focus of the review is on capacity processes and therefore likely to have future impacts either directly through this Request or through "spin-off" modifications to implement specific changes (i.e. UNC Modification 0716 "Revision of the Overrun Multipler".

Impact on UNC Related Documents and Other Referenced Documents	
Related Document	None identified

Impact on UNC Related Documents and Other Referenced Documents	
Network Entry Agreement (TPD I1.3)	•
General	None identified.
Legal Text Guidance Document	•
UNC Modification Proposals – Guidance for Proposers	•
Self Governance Guidance	•
TPD	None identified.
Network Code Operations Reporting Manual (TPD V12)	•
UNC Data Dictionary	•
AQ Validation Rules (TPD V12)	•
AUGE Framework Document	•
Customer Settlement Error Claims Process	•
Demand Estimation Methodology	•
Energy Balancing Credit Rules (TPD X2.1)	•
Energy Settlement Performance Assurance Regime	•
Guidelines to optimise the use of AQ amendment system capacity	•
Guidelines for Sub-Deduct Arrangements (Prime and Sub-deduct Meter Points)	•
LDZ Shrinkage Adjustment Methodology	•
Performance Assurance Report Register	•
Shares Supply Meter Points Guide and Procedures	•
Shipper Communications in Incidents of CO Poisoning, Gas Fire/Explosions and Local Gas Supply Emergency	•
Standards of Service Query Management Operational Guidelines	•
Network Code Validation Rules	•
OAD	None identified.
Measurement Error Notification Guidelines	•

Impact on UNC Related Documents and Other Referenced Documents	
(TPD V12)	
EID	None identified
Moffat Designated Arrangements	•
IGTAD	None identified.
DSC / CDSP	None identified
Change Management Procedures	•
Contract Management Procedures	•
Credit Policy	•
Credit Rules	• None identified
UK Link Manual	• None identified

Impact on Core Industry Documents and other documents	
Document	Potential impact
Safety Case or other document under Gas Safety (Management) Regulations	• None identified
Gas Transporter Licence	• Changes to areas such as substitution governance would require a Licence change. There may also be the requirement for methodology changes (ECR and ExCR for User Commitment changes)

Other Impacts	
Item impacted	Potential impact
Security of Supply	• Changes to processes could affect security of supply by affecting the attractiveness of the GB market.
Operation of the Total System	• Changes on the exit side of the regime could result in impact on the operation of the Total Gas System (e.g. NTS and DN's)
Industry fragmentation	• None identified
Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties	• Changes identified could reduce shipper's costs which may be passed onto end consumers
	•
	•

3 Terms of Reference

Topics for Discussion

- Agree “Scope” of Capacity Access Review
- Understand the future long-term ambition for a capacity regime
- “No regrets” solutions to meet short-term problems consistent with the long-term strategy.
- Development of Solution (including business rules if appropriate)
- Assessment of potential impacts of the Request
- Assessment of implementation costs of any solution identified during the Request

Outputs

Produce a Workgroup Report for submission to the Modification Panel, containing the assessment and recommendations of the Workgroup including a draft modification(s) where appropriate.

Composition of Workgroup

The Workgroup is open to any party that wishes to attend or participate.

A Workgroup meeting will be quorate provided at least two Transporter and two User representatives are present.

Meeting Arrangements

Meetings will be administered by the Joint Office and conducted in accordance with the Code Administration Code of Practice.

4 Request Workgroup Assessment

Request Update October 2020

The following paragraph is designed to update the reader as to what has happened in the time that 0705R has been under consideration at Workgroup.

Request 0705R NTS Capacity Access Review was raised on 17 October 2019 and has been actively discussed at the Transmission Workgroup meetings and National Grid have conducted offline meetings with key stakeholders. An interim presentation was presented at the March 2020 UNC panel, providing an update. This update covered the following areas

- Scope of Review
- Long-Term Strategy including Consultation feedback
- Short-Term Issues (Grouped by Workstreams (detailed below)

  The short-term problems, which formed the initial scope of the Request, have been refined following the conclusion of a consultation in January 2020. As a result, the following work streams are currently in flight under the umbrella of 0705R NTS Capacity Access Review, more detail is provided on each of these work-streams in this section.

- Overrun Charges
- Entry User Commitment
- Exit User Commitment
- Substitution
- Secondary Capacity Assignments
- Capacity product development

The approach for the first year of the Request has been to focus on immediate problems being faced by industry (including some capacity consequences of the soon to be implemented UNC Modification 0678A) in October 2020. This approach has inevitably meant making adjustments to the existing regimes. If sanctioned by Panel, the proposal would be in Year 2 of the Capacity Access Review to look at the reform required from a principles basis outlined in the 'Future Work and Timescales' section below.

Overrun Charges

Consequentially to the introduction of UNC Modification 0678A 'Amendments to Gas Transmission Charging Regime' a significant increase in the average Overrun Charge for both Entry and Exit was foreseen due to reserve prices increasing from 1st October 2020. A solution was put forward by National Grid (UNC Modification 0716 – 'Revision of Overrun Charge Multiplier') to lower the level of Overrun charges by reducing the Overrun multiplier from x8 to x3 for Entry and from x8 to x6 for Exit. It was developed on the principle that these multipliers would maintain the status quo in terms of revenue created by Overruns, therefore maintaining the same incentive on Users to book capacity according to their flows meaning there would be no worsening of capacity booking behavior could be assumed. An alternative Modification 0716A was developed which introduced the multiplier of 1.1 on both Entry and Exit points. ~~Both proposals are currently with Ofgem for a decision in a hope of one being implemented in line with the new charging regime on 1st October 2020 System testing for implementation of either proposal has been complete.~~ Ofgem's UNC Notice of implementation on 18th September implemented Modification 0716 – Revision of Overrun Charge Multiplier with effect from 1st October 2020 and also issued a notice of non-implementation for Modification 0716A. Ofgem noted that Modification 0716 suggestion to review the overruns following the experience of how UNC 0678A impacts user behaviour was welcomed

Entry User Commitment

This work stream is about amending the current Entry User Commitment baseline capacity requirement to trigger Substitution and Obligated Funded Incremental capacity. Industry suggested that the baseline capacity requirements were too onerous, could prevent access to the market and could sterilise capacity which is not required. In response, National Grid have proposed an amendment to the baseline capacity commitment required to trigger substitution and obligated funded incremental to reduce this from 16 quarters to 4 quarters in a 32-quarter period. This change requires an amendment to the Entry Capacity Release methodology statement which National Grid are currently progressing.

Exit User Commitment

For Exit User Commitment, the Enduring Annual NTS Exit capacity product allows users to book capacity between 4 and 6 years ahead of the gas day. Users then remain the registered User in respect of any Enduring Annual NTS Exit Capacity for 4 years from the date the increased capacity allocation becomes effective (unless paid off early if indicative prices are different to reserve prices). Users have identified the difficulty faced in forecasting capacity requirements 4 years ahead and then not being able to release any capacity which is subsequently no longer required due to User Commitment requirements. This could lead to overbooking and sterilisation of that capacity. Conversely, Users can not increase their capacity bookings without resetting the User Commitment period. The alternative would be to buy capacity in the annual auction but this creates a risk of the capacity at the exit point that the User is active at, being used to fulfil a substitution request. This is particularly pertinent for Distribution Networks who have 1 in 20 demand obligations to meet and are the predominant Users of Enduring capacity.

Users indicated that a "quick fix" would be desirable in this area to reduce the level of User Commitment prior to the next Enduring Annual Application window in July 2021.Therefore, this work-stream is looking at amending Exit User Commitment requirements for capacity within baseline purchased through the Enduring Annual NTS Exit application. ~~.~~ ~~H~~However, National Grid are concerned that a reduction to User Commitment may lead to inefficient network planning, substitution and investment decisions being made and may adversely impact the operation of the network. National Grid and Distribution Networks (predominant advocate for the change) are working closely together to quantify benefits, assess related risks and analyse different options as potential solutions. After several discussions, National Grid is currently going through internal processes to make a decision on which option National Grid can support before communicating this to Transmission Workgroup.

NGN, SGN ~~and~~ WWU ~~DN networks~~ were strongly of the view that there should be no Exit User Commitment for Enduring Capacity bookings below baseline where no investment is required. Their view was that NG has an obligation to provide this capacity and if the baseline capacity is not available then this is due to a commercial decision by NG and that DNs should not have to pay NG's decision not to meet their obligations.

NGN's, SGN's and WWU's views were that ~~w~~When exit capacity charges reflected the marginal cost of providing capacity and demand was increasing, User Commitment may have, in the round, been a rough way for recovering costs of reinforcing the NTS even though a case by case assessment as used by DNs would have been more accurate. From 1st October 2020 NTS charges no longer try and reflect the cost of providing capacity and demand on the NTS is generally declining meaning that reinforcement is less likely to be required. The blanket application of a four-year User Commitment requirement cannot be defended in relation to providing Economical connections to the NTS in relation to NG's obligations under section 9 of the Gas Act"

National Grid recognise that User Commitment is not solely required for investment purposes or to enable NG to fulfil our obligations to meet baseline capacity requirements. Moreover, User Commitment is required for Users to provide an ongoing level of commitment to that capacity, be that baseline or incremental. National Grid requires that commitment to baseline capacity as network management decisions are based on levels of capacity committed to which could be undermined if no commitment is provided."

Commented [RJ2]: Changes here mainly relate to Action 0912 to provide further clarity on the drivers for amending Exit UC

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Substitution

Feedback relating to the substitution process was received as a part of the consultation in January 2020. It was highlighted that when substitution is triggered as part of the auctions (QSEC and EAFLEC), no notice is given to the industry to be able to respond; when substitution is triggered through the PARCA (Planning and Advanced Reservation of Capacity Agreement) process. Whilst a notice is provided. this notice is not specific enough in terms of geographical location which results in capacity being used to fulfil the substitution requirement when it may have still been required by the party active at the donor point, albeit not booked. This could result in Users not being able to access capacity in the shorter-term auctions that they require (for example, in the case of DN's to book capacity according to their 1 in 20 obligations for security of supply purposes).

This work-stream has looked at whether a "quick fix" could be found. One option considered was to provide "first refusal" to a User active at the identified donor point. Although this option was supported by industry, National Grid could not support this due to the risk of a perpetual cycle of analysis which this created. Furthermore, National Grid thought this could undermine the principle of capacity being a competitive product (a concept which warrants a review in its own right). Further options being assessed in this work-stream include channelling all Entry and Exit capacity signals to be met by substitution via the PARCA process as this would provide notice of the signal to industry and removing the confidentiality around the PARCA project location. Options are being considered by Transmission Workgroup. Next steps are to continue to investigate some further possible options (i.e. the removal of confidentiality of PARCA applications). Following this, workgroup will be asked to make a decision in November 2020 as to which, if any option(s) would be worthwhile pursuing in the immediate future or whether this is a topic which should be considered alongside the development of the principles of the exit regime.

Secondary Capacity Assignments

The secondary capacity work stream has only recently been incorporated into the Capacity Access Review and is still in it's infancy. Born out of a discussion within the NTS Charging Methodology Forum, this topic has been explored in a number of informal workgroups, within which industry have established a set of requirements which have been drawn together in a scoping document.

National Grid are supportive of the general theme of the requirements, a desire to develop the existing Exit Assignments process and introduce the concept of Assignments to the Entry market. At this stage, there are no firm timelines and no decisions have been made on what, if anything, would be included in any potential modification. National Grid are in the process of internally considering each of the industry requirements established in the scoping document before making any further steps towards a modification and more formal workgroup development. National Grid will then return to Transmission Workgroup with a position on which industry requirements in this area, can be supported. Industries preferred implementation timescale of October 2021 is recognised by National Grid.

Capacity Product Development

In this work stream, the potential for two new capacity products are being developed. Firstly, development of a shorter-term exit product which enables Users greater flexibility to interact with the electricity market. Secondly a within day off-peak / interruptible product. The later stems from changes

being introduced as a result of UNC Modification 0678A where there is a discount of 10% from reserve prices for the current day ahead off-peak / interruptible product. Users would like to have the flexibility to book this product, and therefore receive this discount, within day.

National Grid's belief is that this would undermine the current within-day firm product, particularly due to the relatively low levels of scaleback seen historically of the off-peak / interruptible day ahead product. This would essentially mean that some User's would effectively be getting a pseudo firm product as a discounted price which would have an impact on wider Users charges. National Grid has considered options relating to reducing the quantity of capacity available for this product, however, no suitable solution has been found which wouldn't undermine the existing within-day firm product. Therefore, National Grid's attention will be on developing a shorter term flexible product as requested by industry.

This work stream will also develop options around a shorter-term flexible product to allow Users to respond swiftly to rapid changes within the electricity market. As illustrated on the timeline below, it is hoped that an option can be found to meet the requirements of Industry and National Grid by the end of the calendar year. NGN's and WWU's views were that this flexibility needs to be made available to DNs so they can provide the same flexibility to electricity generators connected on their networks.

Review of the Exit Regime

Throughout 0705R NTS Capacity Access Review discussions, NG have committed to reviewing the exit capacity regime in its entirety. This ~~will~~ review will include a high-level consideration of more general, principles based questions around the Exit regime such as;

- What does the exit capacity regime need to deliver to which industry participants?
- What are the principles that need to underpin the exit regime? This is including, but not limited to understanding whether different rules or their interpretation is due given the needs of different market participants explored as part of the first question.
- How does the regime need to change to facilitate this?

This will combine with more specific consideration of particular elements of the regime. Work carried out to date under 0705R NTS Capacity Access Review, has begun this process. As outlined in the paragraphs above this has included;

- Consideration of the User Commitment requirements
- Substitution process and methodology
- PARCA arrangements
- Capacity product developments

Further development of these specific areas (along with consideration of the impacts of the Enhanced Obligation Framework, how the facilitation of information exchange is better facilitated and reviewing the flex and pressure processes currently available for DN's), combined with the resolution of the higher-level general principles questions, will enable National Grid and Industry to understand what further, possibly more fundamental, solutions may be required.

As shown in the timeline below, it is anticipated that changes can be identified by May 2021 with their implementation after that. Leading up to that will be developing an understanding of the needs of

different exit industry participants by November 2020. The aim would then be to identify and agree the principles that should underpin a future regime by January 2021.

Long term regime

The Long-Term review is focusing on the development of the Capacity Access Regime out to 2030 and is being conducted as a joint project alongside the Gas Markets Action Plan (GMaP), Balancing Regime Review https://futureofgas.uk/balancing/. This collaboration seeks to establish economic and efficient market mechanisms to facilitate the transition to a low carbon energy system over the next 10 years. The four largest likely physical changes to the energy networks over this period have been outlined in order to assess the requirements of a new regime.

These are:

- increased reliance on renewable power generation
- large volumes of biogas entering both the GDNs and the NTS
- small volumes of hydrogen being blended into the NTS and regional difference in energy use beginning to emerge across the networks.

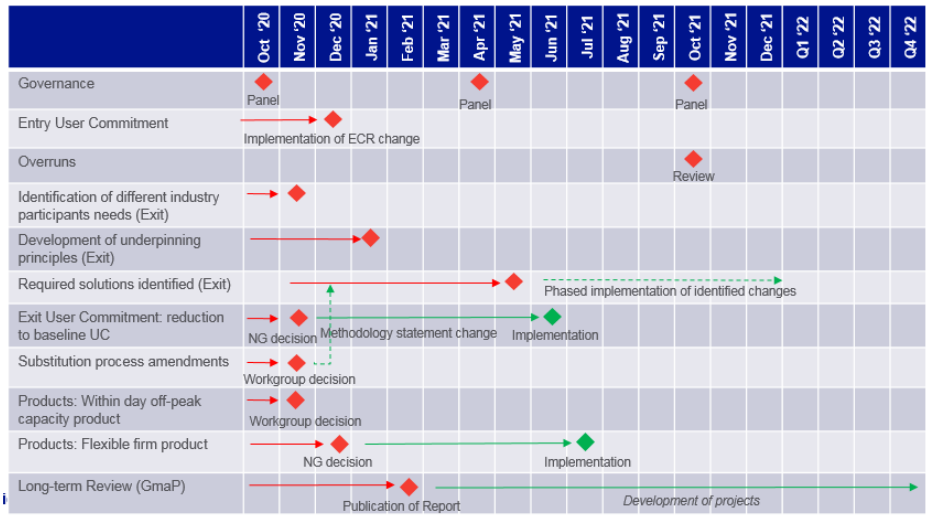
An external work group has been established to consult on the project and there will be extensive industry engagement conducted throughout. The project is expected to run for 6 months and will output initial recommendations and areas for further development.

Future work and timescales

As illustrated in the paragraphs above and the timeline below, some of the work streams in flight are expected to continue past October 2020. Furthermore, to date, the work considered under the Capacity Access Review has been more reactive to current problems with the existing capacity regime. Often these have required changes to be implemented in short timescales which has meant more immediate fixes to existing frameworks being considered. Over the next 12 months, however, a more principles based approach will be taken alongside the work carried out on the detail of specific elements of the regime to develop more fundamental changes to the regime if required.

Additionally, it is expected that the work being carried out as part of the GMaP work will generate further work streams to be included as part of the Capacity Access Review as markets develop to meet decarbonization targets.

Red = firm commitment Green = dependent on decision point



5 Recommendations

Workgroup's Recommendation to Panel

The Workgroup asks Panel to agree that:

- Request 0705R NTS Capacity Access Review should be extended for a further year to enable the following;
- work streams currently in flight to complete,
- a more principles-based view to be taken, particularly of the Exit regime, to develop more fundamental changes to the regime if required
- consider and then incorporate~~implement~~ the work-plan for development of the Capacity Access Regime once produced through the GMaP project
- An interim Workgroup Report will~~should~~ be submitted for consideration on~~at or~~ before the April 2021 Panel with a Final Report in October 2021~~.~~