






UNC Modification	At what stage is this document in the process?
<h1>UNC 0737:</h1> <h2>Transfer of NTS Entry Capacity from a Capacity Abandoned ASEP</h2>	<div style="display: flex; flex-direction: column; align-items: flex-start;"> <div style="border: 1px solid green; background-color: #00a651; color: white; padding: 5px; margin-bottom: 5px;">01 Modification</div> <div style="border: 1px solid blue; background-color: #e6f2ff; padding: 5px; margin-bottom: 5px;">02 Workgroup Report</div> <div style="border: 1px solid purple; background-color: #f3e5f5; padding: 5px; margin-bottom: 5px;">03 Draft Modification Report</div> <div style="border: 1px solid orange; background-color: #fff9c4; padding: 5px;">04 Final Modification Report</div> </div>
<p>Purpose of Modification:</p> <p>To enable the transfer of NTS Entry Capacity booked at “capacity abandoned” donor Aggregated System Entry Points (ASEPs) to alternative recipient ASEPs where there is unsold entry capacity at the recipient ASEPs.</p>	
	<p>The Proposer recommends that this Modification should be:</p> <ul style="list-style-type: none"> • Considered a material change and not subject to Self-Governance. • Assessed by a Workgroup. <p>This Modification will be presented by the Proposer to the Panel on 17 September 2020. The Panel will consider the Proposer’s recommendation and determine the appropriate route.</p>
	<p>High Impact:</p> <p>All parties that pay NTS Transportation Charges and/or have a connection to the NTS, and National Grid NTS.</p>
	<p>Medium Impact:</p> <p>N/A</p>
	<p>Low Impact:</p> <p>N/A</p>

Contents		
1	Summary	3
2	Governance	3
3	Why Change?	4
4	Code Specific Matters	5
5	Solution	5
6	Impacts & Other Considerations	10
7	Relevant Objectives	16
8	Implementation	18
9	Legal Text	18
10	Recommendations	18
Timetable		
The Proposer recommends the following timetable:		
Pre-Modification Discussion	06 August 2020 and 08 September 2020	 Any questions?
Modification considered by Panel	17 September 2020	Contact: Joint Office of Gas Transporters
Initial consideration by Workgroup	06 October 2020	 enquiries@gasgovernance.co.uk
Workgroup Report presented to Panel	17 December 2020	 0121 288 2107
Draft Modification Report issued for consultation	17 December 2020	Proposer: Ricky Hill, Centrica Energy Ltd
Consultation Close-out for representations	22 January 2021	 Ricky.Hill@centrica.com
Final Modification Report available for Panel	27 January 2021	 07789 579169
Modification Panel decision	18 February 2021	Transporter: National Grid NTS
		 colin.williams@nationalgrid.com
		 01926 655916 or 07785 451776
		Systems Provider: Xoserve
		 commercial.enquiries@xoserve.com
		Other Nick Wye
		 nick@waterswye.co.uk
		 07900 055144

1 Summary

What

The Proposal seeks to allow the transfer of sold NTS Entry Capacity at an “capacity abandoned” entry point (the donor entry point) to a recipient entry point where there remains unsold entry capacity at the nominated recipient entry point. Where the entry capacity booked at the donor entry point is classified as Existing Capacity¹ the protections afforded to this entry capacity remain post-transfer i.e. the contracted auction price is honoured and Transmission Services Entry Revenue Recovery Charges (RRC) are not applied.

Why

Entry Points may be capacity abandoned as planned upstream projects do not come to fruition or gas supplies have been exhausted or are no longer economic. Where entry capacity is held by Users at capacity abandoned entry points, it results in inefficient outcomes, with Users paying National Grid for capacity which will not be utilised (and thus paying for a service which is not required), restricting the release of capacity by National Grid at other entry points as it is required to fulfil obligations to support existing bookings. Ultimately, were a User(s) to default against payments for entry capacity holdings, National Grid may serve Termination Notices which would result in the socialisation of unpaid costs across other Users.

How

An entry point will be regarded as capacity abandoned where all entry capacity holdings at the entry point is offered up for transfer to an alternative entry point. All entry capacity bookings at the donor entry point must be offered for transfer within a designated transfer window. Where there are multiple Users with capacity bookings at the capacity abandoned ASEP, each User may request a transfer to alternative entry points. The Bacton IP ASEP is excluded from qualifying as a nominated recipient ASEP. The requested transfers will be subject to an Exchange Rate, calculated by National Grid and a transfer will only be permitted where the Exchange Rate does not exceed 3:1, with a minimum Rate of 1:1. A transfer will only be completed where there is sufficient unsold capacity at the donor ASEP to accommodate the transfer volume.

2 Governance

Justification for Authority Direction

This Modification is recommended to be sent to the Authority for direction as it is likely to have a material effect on transportation arrangements for shippers, upstream project investors and relevant consumers.

This Modification was presented as a pre-Modification at the Transmission Workstream held in August 2020 and at NTSCMF in September 2020.

Requested Next Steps

This Modification should be:

- Considered a material change and not subject to Self-Governance

¹ As defined in the UNC 0678A legal drafting Section B 2.2.2 <https://www.nationalgrid.com/uk/gas-transmission/document/128021/download>

- Assessed by a Workgroup.

3 Why Change?

Users acquire NTS Entry Capacity to ensure that gas can be supplied at the relevant ASEP up to the amount of the capacity holding. The booking of capacity ensures that the User will not incur System Entry Overrun Charges. Where there is insufficient unsold NTS Entry Capacity, a User will acquire forward capacity to secure additional, incremental capacity as part of the Planning and Advanced Reservation of Capacity Agreement (PARCA) process or via the release by National Grid of non-obligated capacity (or by entry capacity substitution). In this case, Users are required to book a defined volume of capacity for a minimum number of quarters as part of an Entry User Commitment.²

New ASEPs may be established to support gas supplies from new “upstream” projects³. In these circumstances, Users will forward book entry capacity to ensure access to the NTS is secured, to correspond with the commencement of gas supplies, as it would be highly unlikely that a project would be financeable without guarantee that gas can be delivered from, source to customer. The duration of the capacity bookings will depend upon the Entry User Commitment and/or the User’s risk assessments associated with “locking in” NTS access rights, alongside project plans and costs.

Entry capacity may be held by a User at an ASEP where a planned upstream project did not achieve completion, or an existing upstream project was discontinued. In both cases, entry capacity bookings are maintained and paid for without any prospect of gas being flowed. For the purposes of this Modification Proposal we have classified these ASEPs as “capacity abandoned ASEPs”. For the avoidance of doubt, a “capacity abandoned” ASEP for the purposes of this Modification refers to the transfer of NTS Entry Capacity away from the entry point and does not reflect the physical status of the entry point. The transfer of capacity does not require any further activities to be undertaken such as physical disconnection, or the removal of the ASEP from National Grid’s Transporter Licence (Special Condition 5F,27, Table 4B).

Although entry capacity is permitted to be transferred (traded) between ASEPs, in accordance with the Entry Capacity Trade & Transfer Methodology⁴, it is only permitted where all obligated entry capacity at the recipient ASEP has been sold. This restriction results in the following undesirable outcomes:

- a) Users who hold capacity at capacity abandoned ASEPs will continue to incur capacity costs with no prospect of flowing gas against their capacity bookings;
- b) National Grid will continue to receive revenue from Users for capacity bookings which cannot, or will not be used at capacity abandoned ASEPs;
- c) National Grid is required to make provisions to support supplies at the capacity abandoned ASEPs where entry capacity is booked. This is inefficient and leads to a sterilisation of NTS capacity, limiting the ability for National Grid to make additional capacity available elsewhere on the NTS;
- d) The inability to freely transfer capacity between ASEPs may inhibit new projects from connecting to the NTS where entry capacity is required to be bought in advance for an extended period. This is even more pertinent following the implementation of UNC Modification 0678A Amendments to Gas Transmission

² <https://www.nationalgrid.com/uk/gas-transmission/document/128001/download>

³ Upstream relates to any facility which delivers gas directly into the NTS

⁴ <https://www.nationalgrid.com/uk/gas-transmission/document/128021/download>

Charging Regime (Postage Stamp) which will result in significant increases in entry capacity costs at the majority of ASEPs;

- e) A User who holds entry capacity at the capacity abandoned ASEP may default on capacity payments and ultimately cease to be a User where National Grid gives a User a Termination Notice, in accordance with UNC TPD Section V 4.3. In such cases, the outstanding debts are socialised across all Users. Termination as a User may be an attractive option to a User which has no other interests beyond the holding of entry capacity at the capacity abandoned ASEP.

For the reasons stated above, it is in the interests of the User and all other Users that entry capacity which is held at a capacity abandoned ASEP should be transferrable to another ASEP, where the recipient ASEP has unsold obligated entry capacity.

4 Code Specific Matters

Reference Documents

EU Tariff Code (Regulation 2017/460)

<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32017R0460>

UNC Modification Proposal 0678A Ofgem Decision

<https://www.ofgem.gov.uk/publications-and-updates/amendments-gas-transmission-charging-regime-decision-and-final-impact-assessment-unc678abcdefghij>

The Entry Capacity Transfer and Trade Methodology Statement

<https://www.nationalgrid.com/uk/gas-transmission/document/128021/download>

Knowledge/Skills

None

5 Solution

A. Classification of donor ASEP as abandoned – Initial qualification criterion

1. User(s) may request the transfer of all entry capacity bookings at a single “donor” ASEP to one or more “recipient” ASEPs during a “Capacity Abandonment ASEP Transfer Window”, with the exception of the Bacton IP ASEP as a recipient ASEP. The window will be open for a period of 5 Business Days at the end of February each Gas Year and will be preceded by a Pre-Transfer Window notification 10 Business Days prior to the commencement of the “Capacity Abandonment ASEP Transfer Window”. Entry capacity will only be considered for transfer where all entry capacity bookings (User’s Fully Adjusted Available NTS Entry Capacity) by all Users held at the Donor Entry Point are subject to a transfer request. The earliest requested transfer date will be 01 April in the same Gas Year but can be made at any time thereafter where the transfer request stipulates an alternative date. Note that these dates may be changed for Calendar Year 2021 if the date of Ofgem’s direction does not permit adherence to the dates specified in this Proposal.
2. The process will be run each Gas Year. Where an ASEP has been subject to previous qualifications of capacity abandonments this does not preclude Users from booking entry capacity at these ASEPs. Likewise, the application for transfer is an annual process, meaning that an ASEP which previously

qualified as capacity abandoned can still be the subject of new transfer requests and subsequent classifications of capacity abandoned where capacity was booked at that ASEP at date after the transfer has been performed.⁵

- Where all Users of all capacity bookings over all durations at the donor ASEP submit a transfer request, the donor ASEP will be classified as Capacity Abandoned, which in turn will permit the transfer to be ratified, subject to other conditions being met.

For the avoidance of doubt an individual User must nominate a single recipient ASEP for the purposes of a transfer in relation to all capacity held at the donor ASEP, however, individual Users may request alternative recipient ASEPs.

Example 1:

User A and User B quarterly entry capacity bookings at the same donor ASEP

	Oct 22	Jan 23	April 23	July 23	Oct 23	Jan 24	April 24	July 24	Oct 24
User A	100	100	0	0	100	100	0	0	100
User B	0	0	50	50	0	0	50	50	50

Scenario 1

User A requests a transfer of all capacity holdings at the donor ASEP from 01 October 2022 to 31 December 2024 to a single recipient ASEP.

User B requests a transfer of all capacity holdings at the donor ASEP from 01 April 2023 to 31 December 2024 to a single recipient ASEP.

In this scenario all capacity bookings by all Users at the donor ASEP are requested to be transferred. The initial qualification criteria are met and the donor ASEP is classified as Capacity Abandoned, enabling the collective transfer requests to move to the next stage

Scenario 2

User A requests a transfer of all capacity holdings at the donor ASEP from 01 Oct 2022 to 31 December 2024 to a single recipient ASEP.

User B requests a transfer of all capacity holdings at the donor ASEP from 01 April 2024 to 31 December 2024 to a single recipient ASEP.

In this scenario only User A has requested the transfer of all of its capacity holdings. User B will retain capacity holdings at the ASEP from 01 April 2023 to 30 September 2023. The initial qualification criteria are not met and the ASEP is not classified as Capacity Abandoned and all transfer requests made by both Users will be rejected by National Grid.

B. Calculating the rate of exchange – secondary qualification criterion

- Where the requested transfer(s) meet the initial qualification criteria, National Grid will calculate the capacity Exchange Rates relevant to the identified donor and recipient ASEPs. The methodology applied

⁵ This ensures that where the entry point remains connected to the NTS it can still be accessed by Users in future. This results in the most efficient outcome where access to the NTS is not denied as a result of previous abandonment, thereby reducing costs of entry into the market, for example for new “upstream” facilities.

to calculate the exchange rates will be the same as that set out in the Entry Capacity Transfer and Trade Methodology Statement.⁶

- Where the Exchange Rate for a donor ASEP: recipient ASEP exceeds 3:1 then the transfer request will be rejected. The Exchange Rate used to calculate the volume of transferred capacity will also be subject to a floor, where the Exchange Rate calculated by National Grid is less than 1:1, National Grid will adopt an Exchange Rate of 1:1, Where more than one donor ASEP: recipient ASEP transfer has been requested, the transfer will be rejected only for those where the Exchange Rate exceeds 3:1.

Example 2:

User A and User B quarterly entry capacity bookings at the donor ASEP (initial qualification criteria met)

	Oct 22	Jan 23	April 23	July 23	Oct 23	Jan 24	April 24	July 24	Oct 24
User A	100	100	0	0	100	100	0	0	100
User B	0	0	50	50	0	0	50	50	50

In the table above, User A requests a transfer from the donor ASEP to recipient ASEP X and User B requests a transfer from the donor ASEP to recipient ASEP Y.

Where National Grid calculates Exchange Rates to be equal to or less than 3:1 for both requested transfers then the requests will be considered for transfer.

Where National Grid calculates an Exchange Rate which is less than or equal to 3:1 in relation to User A's transfer request, but greater than 3:1 in relation to User B transfer request then User B's transfer request will be rejected. User A's transfer request will be able to progress to the next stage.

C. Completing the transfer – final qualification criterion

- Where a requested transfer fulfils the initial and secondary qualification criteria, a final assessment will be carried out by National Grid. Applying the relevant Exchange Rate, where the total amount of capacity held in aggregate at the recipient ASEP does not exceed the obligated level of entry capacity at the donor ASEP, the transfer can be carried out. i.e. there is sufficient unsold capacity at the recipient ASEP to accommodate the transfer. The applicant User will be required to confirm if it would like the transfer to be executed, before the transfer is enacted. Such confirmation will be given with 5 Business Days of the transfer details being provided by National Grid to the User.
- Where this criterion is not met for one or more of the requested periods, then for those periods the transfer will not be permitted. For the avoidance of doubt, for all other qualifying periods the transfer(s) will be carried out.

Example 3:

⁶ <https://www.nationalgrid.com/uk/gas-transmission/document/128021/download>

Requested Transfer Volume with *sufficient* unsold capacity across all periods (assumes a 1:1 Exchange Rate)

	Oct 22	Jan 23	April 23	July 23	Oct 23	Jan 24	April 24	July 24	Oct 24
User A Donor ASEP holdings	100	100	0	0	100	100	0	0	100
Recipient ASEP X unsold obligated	200	150	300	300	200	100	300	300	100

In the example above, User A will be permitted to transfer all volumes of booked capacity at the donor ASEP to ASEP X

Example 4:

Requested Transfer Volume with *insufficient* unsold capacity across all periods (assumes a 1:1 Exchange Rate)

	Oct 22	Jan 23	April 23	July 23	Oct 23	Jan 24	April 24	July 24	Oct 24
User A Donor ASEP holdings	100	100	0	0	100	100	0	0	100
Recipient ASEP X unsold obligated	200	150	300	300	50	50	300	300	100

In this example, User A will be permitted to transfer all requested capacity for periods October 2022, January 2023 and October 2024. For periods October 2023 and January 2024 there is insufficient unsold capacity and as a result the full transfer for these periods will not be permitted. The amount to be transferred will be capped at the unsold amount of 50 units for these quarters.

D. Treatment of Existing Contracts

- Where the transferred capacity is classified as Existing Capacity, post transfer the capacity will continue to be classified as Existing Capacity and be subject to the same protections as allowed for, following implementation of UNC Modification 0678A - Amendments to Gas Transmission Charging Regime (Postage Stamp) i.e. the cost of the capacity will be maintained and any Entry Transmission Services Revenue Charges (RRC) will not be applied for the duration of the capacity holding. Where the exchange rate is not 1:1, the User liable to National Grid in relation to acquisition of Existing Capacity will remain liable for the full amount of the costs associated with the Existing Capacity holdings at the donor ASEP,

For example, where the User holds 100 units of Existing Capacity at the donor ASEP at a cost of £100 and the exchange rate applied for the transfer of capacity to the recipient ASEP is 2:1, the User will be allocated 50 units at the recipient ASEP, but remains liable for the full £100 associated with the original purchase of 100 units of Existing Capacity.

This arrangement ensures that the value of Existing Contracts is maintained, while permitting utilisation of the capacity at an alternative ASEP.

- In order to allow the transfer of Existing Capacity, a new definition of Existing Registered Holdings will need to be developed. Existing Registered Holdings will exist where such capacity has been subject to a transfer as set out in this Modification. As is the case under UNC Modification 0678A in relation to Existing Registered Holdings the Applicable Daily Rate for NTS Entry Capacity and the Entry Transmission Services Revenue Charges are not applied. The definition will reflect the User's Existing Available Holding at the donor ASEP and Entry Capacity charges will continue to apply to the User in accordance with the arrangements for Existing Capacity charges (including exemption from the Revenue Recovery Charge) following execution of the transfer.

Impacts and Considerations

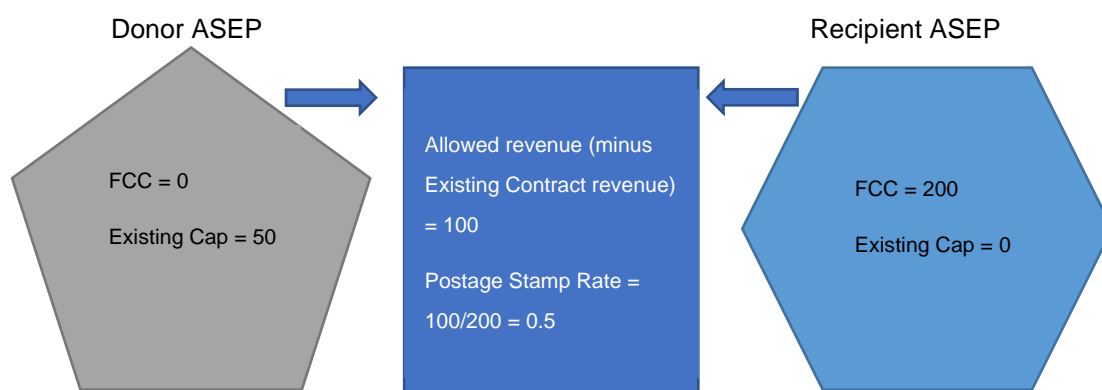
The transfer of capacity may have an impact on Entry Capacity Prices and/or the Revenue Recovery Charge (RRC) as per UNC Modification 0678A, in the event that the capacity subject to the transfer is classified as Existing Capacity. The impact, if any, is dependent upon whether the additional capacity transferred to the recipient ASEP displaces bookings which would otherwise have been made at that ASEP independent of the capacity transfer. If this was the case then the future bookings of capacity at the recipient ASEP would be replaced by capacity already acquired at the donor ASEP and subject to Existing Contract status resulting in a revenue under-recovery.

Where the first date of transfer will be enacted in a future Gas Year(s) beyond the Gas Year during which the application was submitted, and the transfer results in an outcome as detailed above, then future NTS Entry Capacity charges will reflect the impact on Forecasted Contracted Capacity (FCC). Where this is not the case and the first date of transfer will be in the same Gas Year as the application, then there could be impacts on the amount of revenue recovered during the Gas Year.

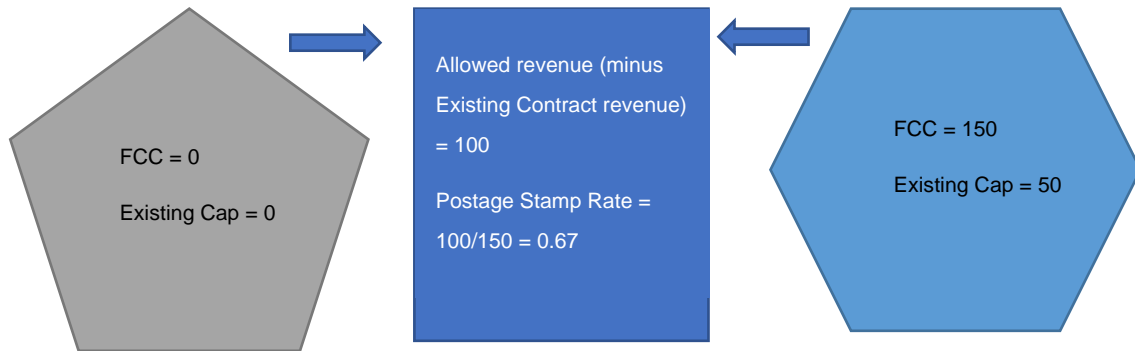
For example:

If 50 units of Existing Capacity are to be transferred from the donor ASEP to recipient, on a 1:1 basis, the total volume of Existing Contracts remains unchanged. Where the Forecasted Contracted Capacity (FCC) forecasts a future booking of 50 units at the recipient ASEP, this is displaced by the 50 units of transferred Existing Capacity. As a result, the FCC will be reduced by 50 units increasing the unit rate of entry capacity across the NTS. Diagram 1 shows the overall impacts on FCC and capacity unit rates.

Diagram 1: Potential Impact of transferring Existing Capacity between ASEPs



Post Transfer



If the transfer occurs during the same Gas Year as the application, then the revenue recovered from the recipient ASEP may be reduced as the forecast sale of entry capacity at the prevailing entry capacity price is displaced by the transferred capacity.

6 Impacts & Other Considerations

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

No

Consumer Impacts

The ability to transfer capacity from capacity abandoned entry points will enable investors in prospective upstream projects to acquire capacity in the NTS in the knowledge that it will have value in the event that the project fails to come to market. This will reduce the level of sunk costs, reducing project investment risk and should encourage investors to support more marginal projects. In turn, this will improve supply diversity and volumes, ultimately driving down the cost of gas to customers.

Where there is displacement of new capacity bookings due to the transfer of Existing Capacity from the donor point, the impact on customers will be immaterial. Typically, entry costs are not included in the calculation of a customer’s bill, only post-NBP transportation charges are passed through (in different ways). Entry charges are subsumed into the NBP price and as such changes to entry charges will tend be reflected in the NBP price. The impact of the NBP price as a result of this modification will be immaterial as the redistributive effects of capacity transfer⁷, as shown in Section 7 will be small. In particular, it is worth noting that were a capacity transfer to result in cheaper entry capacity being accessible at an entry point which provides the marginal supply of gas, theory would suggest that the NBP price would fall resulting in reduced bills to customers.

If a holder of entry capacity at an capacity abandoned entry point to default on payment with regard to their capacity bookings and if this were to subsequently result in User termination from the UNC, the outstanding costs will be shared across all Users, leading to increased costs for customers. The ability to transfer capacity will greatly reduce the possibility of User default as the capacity will confer commercial value to the User.

⁷ It should be noted that the overall level of revenue to be collected by National Grid via its TO charges (which includes Capacity and Revenue Recovery charges will remain unchanged, hence, the impacts of this Proposal will be limited to the distribution of TO costs across Users.

Cross Code Impacts

None

EU Code Impacts

Introduction

This Modification requires a change to the definitions of “Existing Registered Holding” and “Existing Available Holding” whereby where Existing Capacity is transferred from the donor ASEP to the recipient ASEP it maintains Existing Capacity status.

In terms of the application of an exchange rate, resulting in volumes of capacity being held at the recipient ASEP which are not equal to the volumes of Existing Capacity held at the donor ASEP, Article 35 does not stipulate a “fixing” of volumes, but only that the tariffs associated with the bookings are maintained. As this proposal extends the commitment by the transferee to continue to pay capacity costs equivalent to the costs (and therefore tariffs) of the Existing Contract, post-transfer, transfers of this nature are compliant. In general, the transfer of capacity is compliant with Art.35 of the EU Tariff Code in that it does not preclude the transfer of Existing Capacity rights from one entry point to another.

Proposer’s legal advice

Centrica sought a legal opinion to assess the compliance of UNC737 against the relevant European legislation. The specific questions related to whether ‘Existing Contracts’ are able to retain this status if they are transferred to another ASEP as envisaged under UNC737.

Our legal counsel reviewed the relevant sections of the European network code on harmonised transmission tariff structures for gas (NC TAR) ^[1], and the implementation document for the network code on harmonised transmission tariff structures for gas^[2]. The advice we received was that nothing in UNC737 runs counter to the main NC TAR provisions, and in particular Article 35, and therefore UNC737 should be considered compliant.

Below we discuss each element of Article 35 and explain why UNC737 is compliant:

Article 35 of NC TAR

“Existing contracts

1. *This Regulation shall not affect the levels of transmission tariffs resulting from contracts or capacity bookings concluded before 6 April 2017 where such contracts or capacity bookings foresee no change in the levels of the capacity- and/or commodity-based transmission tariffs except for indexation, if any.”*

This makes clear that any fixed tariffs agreed in contracts concluded before 6 April 2017 will not be affected by NC TAR and does not run counter to anything that UNC737 is proposing.

2. *“The contract provisions related to transmission tariffs and capacity bookings referred to in paragraph 1 shall not be renewed, prolonged or rolled over after their expiration date.”*

UNC737 does not propose to allow capacity holders to renew, prolong or roll over capacity after the expiration date. Therefore, it does not run counter to anything that UNC737 is proposing.

3. *“Before 6 May 2017, a transmission system operator shall send the contracts or the information on capacity bookings, if any, referred to in paragraph 1 to the national regulatory authority for information”.*

^[1] <https://www.entsog.eu/sites/default/files/entsog-migration/publications/CAM%20Network%20Code/2017/TAR%20NC.pdf>

^[2] https://www.entsog.eu/sites/default/files/2019-10/entsog_TAR_NC_2017_2nd_ed_update_1910_web.pdf

This was an obligation on TSOs to provide details of contracts to the National Regulator and not relevant to UNC737

NC TAR implementation document

ENTSOG has also published an implementation document that sits alongside NC TAR. It is non-binding and prepared for information and illustrative purposes but does provide some useful contexts in terms of how NC TAR should be implemented. It states that Existing Contracts must satisfy three criteria to qualify for Article 35. We discuss each one in turn.

“Type: only fixed price contracts or capacity bookings under such contracts qualify, not floating price contracts since their signatories foresaw future price changes”.

National Grid entry capacity contracts that were concluded before 6 April 2017 meet this definition and does not run counter to anything that UNC737 is proposing.

“Extent: only the transmission tariff level qualifies for exemption. In principle, the TAR NC will apply to fixed price contracts, but not to their transmission tariff level. Article 35 extends both to capacity- and to commodity-based transmission tariffs”.

This just makes clear that any fixed tariffs agreed in contracts concluded before 6 April 2017 will not be affected by NC TAR. It therefore does not run counter to anything that UNC737 is proposing.

“Time: the ‘existing’ fixed price contracts must have been concluded before the TAR NC entered into force. Qualifying contracts cannot be renewed or extended after their termination date”.

UNC737 does not propose to allow capacity holders to renew, prolong or roll over capacity after the expiration date. Therefore, this does not run counter to anything that UNC737 is proposing.

Central Systems Impacts

The Proposer anticipates that there will be impacts on Gemini and UK Link invoicing systems and these will be assessed as part of the overall development of this Modification.

Supporting Analysis

The Proposer is able to provide analysis related to a specific ASEP where it holds NTS Entry Capacity and were this Modification Proposal to be implemented venture to transfer its holdings to an alternative ASEP. The Proposer is not in a position to speculate on the status of Entry Capacity held at other ASEPs and “second guess” whether Users will proceed with seeking capacity transfers.

Centrica holds Existing Capacity at the Caythorpe ASEP. The ASEP was established to permit the flow of gas into the NTS from the planned Caythorpe storage facility. The facility has not been developed and as a result Centrica holds 90 GWh of NTS Entry Capacity over the period 1 Oct 2020 to 31 March 2025.

Scenario 1

The following analysis assumes that Existing Capacity is transferred during the period 1 April 2021 to 30 September 2021 (the remainder of the Gas Year during which the prevailing NTS Entry Capacity Reserve Price is known).

Transfer Request of 90 GWh/d from Caythorpe (donor) to Easington (recipient) for six months

Assuming an Exchange Rate of 1:1, table 1 shows a total of 16,470 GWh of Entry Capacity is transferred from Caythorpe to Easington.

Table 1: Quantities Transferred

Days	Month	Caythorpe	Easington	Total kWh
30	Apr-21	90,000,000	90,000,000	2,700,000,000
31	May-21	90,000,000	90,000,000	2,790,000,000
30	Jun-21	90,000,000	90,000,000	2,700,000,000
31	Jul-21	90,000,000	90,000,000	2,790,000,000
31	Aug-21	90,000,000	90,000,000	2,790,000,000
30	Sep-21	90,000,000	90,000,000	2,700,000,000
	Total			16,470,000,000

As described in this Modification, where transferred Existing Capacity “displaces” capacity which may have otherwise been sold at the prevailing entry capacity rate, then a cost to all Users will be generated. An estimate of the cost can be derived by comparing capacity already booked at the recipient ASEP (Easington) with the anticipated level of capacity booking over the relevant period.

Table 2 sets out the capacity bookings at Easington for the period April 2021 to Sept 2021 and for the purposes of establishing a forecast level of booking it is assumed that capacity bookings are equal to the average flows over each equivalent month during 2020.

Table 2: Estimating capacity bookings at Easington

	Obligated Sold 2021	Obligated Unsold 2021	Avg Flow 2020	Avg Flow - Oblig Sold
April	321,932,884	1,219,732,449	239,600,763	- 82,332,121
May	321,932,884	1,219,732,449	274,733,390	- 47,199,494
June	321,932,884	1,219,732,449	238,140,400	- 83,792,484
july	321,932,884	1,220,232,449	369,174,633	47,241,749
August	321,932,884	1,220,232,449	347,395,195	25,462,311
September	321,932,884	1,220,232,449	374,147,794	52,214,910

Table 2 shows that during April, May and June capacity already acquired at Easington exceeds forecast bookings (as bookings exceed flows). During the remaining three months additional capacity would be acquired to meet the excess anticipated flows. The last column in the table indicates that for the period April, May and June, there is no additional cost to Users as the 90 GWh/d of capacity transferred from Caythorpe is not required to satisfy flows.

Over the remaining three months a proportion of the 90 GWh/d of the transferred capacity would generate a cost for Users as the amounts shown in green displace volumes which would have otherwise been acquired at the prevailing price.

Table 3: Estimating the cost to all Users due to capacity booking displacement at Easington

Days	Month	Avg Flow - Oblig Sold	Total kWh Displaced	Cost @ Prevailing Price	Relative Cost
31	july	47,241,749	1,464,494,213	1,050,042	912,380
31	August	25,462,311	789,331,649	565,951	491,754
30	September	52,214,910	1,566,447,311	1,123,143	975,897
	Total			2,739,136	2,380,030

Table 3 estimates the cost to Users of capacity bookings displacement at Easington for the period 1 April to 30 September. Column 3 replicates the volumes shown in column 5 of table 2. Column 4 aggregates the daily bookings across the relevant months and represents the forecast total volume of Easington capacity displaced by the transfer. Column 5 determines a cost of the transfer using the prevailing Postage Stamp capacity rate of 0.0717 p/kWh/d. Using this approach, the total cost is £2,380,090. Column 6 reduces the figures in column 4 by adding back in the cost of the Existing Capacity, as it could be the case that if the User was terminated from the UNC, then these costs would have to be recovered from all Users. The cost estimate using this approach is £2,380,030.

If the User was unable to transfer its capacity and was terminated from the UNC, then further costs would be incurred by all Users.

Scenario 2

In order to examine a full year of costs, in this scenario we have assumed retrospective implementation of the proposal in order to analyse data between 1 October 2020 and 30 Sept 2021. This backward looking approach has been selected as it enable to application of a known reference price for entry capacity, that being the Postage Stamp Reserve Price applied for Gas Year 2020/21.

As before, it is assumed that all entry capacity held at the Caythorpe ASEP during this period is transferred to the Easington ASEP.

Transfer Request of 90 GWh/d from Caythorpe (donor) to Easington (recipient) for one year

Assuming an Exchange Rate of 1:1, table 1 shows a total of 32,940 GWh of Entry Capacity is transferred from Caythorpe to Easington.

Table 4: Quantities Transferred

Days	Month	Caythorpe	Easington	Total kWh
31	Oct-20	90,000,000	90,000,000	2,700,000,000
30	Nov-20	90,000,000	90,000,000	2,790,000,000
31	Dec-20	90,000,000	90,000,000	2,700,000,000
31	Jan-21	90,000,000	90,000,000	2,790,000,000
28	Feb-21	90,000,000	90,000,000	2,790,000,000
31	Mar-21	90,000,000	90,000,000	2,700,000,000
30	Apr-21	90,000,000	90,000,000	2,700,000,000
31	May-21	90,000,000	90,000,000	2,790,000,000
30	Jun-21	90,000,000	90,000,000	2,700,000,000
31	Jul-21	90,000,000	90,000,000	2,790,000,000
31	Aug-21	90,000,000	90,000,000	2,790,000,000
30	Sep-21	90,000,000	90,000,000	2,700,000,000
	Total			32,940,000,000

As described in this Modification, where transferred Existing Capacity “displaces” capacity which may have otherwise been sold at the prevailing entry capacity rate, then a cost to all Users will be generated. An estimate of the cost can be derived by comparing capacity already booked at the recipient ASEP (Easington) with the anticipated level of capacity booking over the relevant period.

Table 5 sets out the capacity bookings at Easington for the period Oct 2020 to Sept 2021 and for the purposes of establishing a forecast level of booking it is assumed that capacity bookings are equal to the average flows over each equivalent month during 2019/2020.

Table 5: Estimating capacity bookings at Easington

Days	Month	Obligated Sold 2021	Obligated Unsold 2021	Avg Flow 2019/20	Avg Flow - Oblig Sold
31	Oct-20	1,023,341,357	383,808,643	446,536,022	576,805,335
30	Nov-20	1,158,515,835	385,208,643	742,823,856	415,691,979
31	Dec-20	1,158,515,835	385,208,643	764,449,711	394,066,124
31	Jan-21	1,460,887,423	106,200,000	623,297,499	837,589,924
28	Feb-21	1,460,887,423	106,200,000	682,365,472	778,521,951
31	Mar-21	1,460,887,423	106,200,000	801,679,109	659,208,314
30	Apr-21	321,932,884	1,219,732,449	239,600,763	82,332,121
31	May-21	321,932,884	1,219,732,449	274,733,390	47,199,494
30	Jun-21	321,932,884	1,219,732,449	238,140,400	83,792,484
31	Jul-21	321,932,884	1,220,232,449	369,174,633	47,241,749
31	Aug-21	321,932,884	1,220,232,449	347,395,195	25,462,311
30	Sep-21	321,932,884	1,220,232,449	374,147,794	52,214,910

Table 5 shows that during October to June inclusive, capacity already acquired at Easington exceeds forecast bookings (as bookings exceed flows). During the remaining three months additional capacity would be acquired to meet the excess anticipated flows. The last column in the table indicates that for the period October to June there is no additional cost to Users as the 90 GWh/d of capacity transferred from Caythorpe is not required to satisfy flows.

Over the remaining three months a proportion of the 90 GWh/d of the transferred capacity would generate a cost for Users as the amounts shown in green displace volumes which would have otherwise been acquired at the prevailing price.

Table 6: Estimating the cost to all Users due to capacity booking displacement at Easington

Days	Month	Avg Flow - Oblig Sold	Total kWh Displaced	Cost @ Prevailing Price	Relative Cost
31	July	47,241,749	1,464,494,213	1,050,042	912,380
31	August	25,462,311	789,331,649	565,951	491,754
30	September	52,214,910	1,566,447,311	1,123,143	975,897
	Total			2,739,136	2,380,030

Table 6 estimates the cost to Users of capacity bookings displacement at Easington for the period 1 April to 30 September i.e. the same outcome as Scenario 1. Column 3 replicates the volumes shown in column 5 of table 2. Column 4 aggregates the daily bookings across the relevant months and represents the forecast total volume of Easington capacity displaced by the transfer. Column 5 determines a cost of the transfer using the prevailing Postage Stamp capacity rate of 0.0717 p/kWh/d. Using this approach, the total cost is £2,380,090. Column 6 reduces the figures in column 4 by adding back in the cost of the Existing Capacity, as it could be the case that if the User was terminated from the UNC, then these costs would have to be recovered from all Users. The cost estimate using this approach is £2,380,030.

If the User was unable to transfer its capacity and was terminated from the UNC, then further costs would be incurred by all Users.

Observations

Based on the analysis set out above, the impact under the two scenarios is the same, based on the ASEPs considered. The use of historical flows at the recipient ASEP provides a sensible basis for determining future bookings and is likely to be more accurate than employing the FCC attached to an ASEP. The FCC is an annual average capacity booking and unless manipulated to reflect seasonal changes in capacity bookings will produce an inaccurate representation of forecast bookings and resultant costs.

The analysis shows that costs would only be incurred where transferred capacity displaces capacity which might otherwise have been booked, however, this ignores the fact that shippers are able to carry out beach swaps, optimising system-wide Existing Contracts. Where this is the case the costs shown in this example could be eradicated.

It is also worth noting that were the transferred capacity to provide the (cost) conditions to attract flow through the ASEP and such flows constituted the marginal gas supply, the overall impact would be positive via a dampening of the NBP price.⁸

7 Relevant Objectives

Impact of the modification on the Relevant Objectives:	
Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	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.	None
d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	Positive
e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers.	None
f) Promotion of efficiency in the implementation and administration of the Code.	None
g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	None

The NTS is unconstrained with surplus capacity at nearly all entry points. Where capacity is held at an entry point which is no longer or has never been operational, this means that capacity is unutilised, while incurring charges for the holding User. Permitting the transfer of capacity bookings from a capacity abandoned entry point to an entry point where bookings are below obligated levels, means that capacity can be “moved” to locations where it is likely to be utilised, thereby optimising the use of the NTS. The effect of the transfer is akin to the process of substitution where unused, or in this case unwanted and unused capacity is reinstated and made accessible to the market at a location where it is required. The optimisation of capacity bookings in response to market need will result in a positive impact on Relevant Objective (a); more efficient and economic operation of the pipe-line system.

⁸ This is based on the assumption that the NBP price is determined by the marginal unit of gas supplied satisfying the marginal unit of demand and that entry costs are reflected in the NBP price.

Relevant Objective (d) is better facilitated as Users holding capacity at capacity abandoned entry points are not encumbered with costs for a service, they are unable to use. Through this Modification, a User is able to transfer capacity away from capacity abandoned entry points to entry points where the capacity will maintain value and either use the capacity for its own supply purposes or obtain income from the sale of the capacity to a third party. This provides Users with more flexibility around the use and location of capacity, particularly in an unconstrained network. It reflects the generic nature of the capacity product and ensures the market is able to locate capacity where it is required.

Creating a value for capacity at capacity abandoned entry points will also enhance security of supply, by reducing the downside risk associated with the booking of capacity to support potential upstream projects. Improved supply diversity and volumes will enhance competition in the downstream market.

Finally, the Modification will discourage User default and ultimately User termination from the UNC in the case that it is burdened with costs for holding unusable capacity. As the costs associated with capacity payment defaults are shared across all Users, this Modification improves shipper competition by reducing the likelihood of these costs being imposed more widely on the shipping community.

Impact of the modification on the Relevant Charging Methodology Objectives:	
Relevant Objective	Identified impact
a) Save in so far as paragraphs (aa) or (d) apply, that compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its transportation business;	Positive
aa) That, in so far as prices in respect of transportation arrangements are established by auction, either: <ul style="list-style-type: none"> (i) no reserve price is applied, or (ii) that reserve price is set at a level - <ul style="list-style-type: none"> (I) best calculated to promote efficiency and avoid undue preference in the supply of transportation services; and (II) best calculated to promote competition between gas suppliers and between gas shippers; 	None
b) That, so far as is consistent with sub-paragraph (a), the charging methodology properly takes account of developments in the transportation business;	None
c) That, so far as is consistent with sub-paragraphs (a) and (b), compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers; and	Positive
d) That the charging methodology reflects any alternative arrangements put in place in accordance with a determination made by the Secretary of State under paragraph 2A(a) of Standard Special Condition A27 (Disposal of Assets).	None
e) 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

The Modification better facilitates Charging Relevant Objective (a) as where NTS Entry Capacity is held at an ASEP where it will not be used, for reasons set out in this Modification, a User will continue to make a contribution to National Grid’s revenue where no service is required to be provided and therefore, no costs or minimal costs will be incurred by National Grid. The transfer of capacity from one such ASEP to another, where the Entry Capacity can be used by the transferring User ensures that National Grid will provide capacity services and as such the costs of the service are compensated by the capacity charges levied on the transferring User for the capacity held at that ASEP.

It follows that Charging Relevant Objective (c) is better facilitated as charges incurred by the User are more cost reflective inasmuch as they represent the standard charge for capacity services for entering gas into the NTS (as applied at all ASEPs) where capacity services are being provided by National Grid. The application of an exchange rate ensures that the integrity of the NTS is maintained, while crystallising the cost of Existing Capacity which is subject to a transfer ensures that the obligations entered into at the time of acquisition of Existing Capacity are maintained. In combination, cost reflectivity is enhanced and User obligations are preserved while permitting greater utilisation of the NTS and the wider benefits which this generates are consistent with promoting effective competition between gas shippers.

8 Implementation

It is proposed that this Modification is implemented at the earliest opportunity upon the direction of the Authority.

9 Legal Text

Text Commentary

To be provided.

Text

To be provided.

10 Recommendations

Proposer's Recommendation to the Panel

Panel is asked to

- Agree that Authority Direction should apply
- Refer this proposal to a Workgroup for assessment.