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| UNC Workgroup Report | | At what stage is this document in the process? |
| UNC 0752:  Introduction of Weekly NTS Entry Capacity Auctions | |  |
| **Purpose of Modification:**  To introduce Weekly NTS Entry Capacity Auctions to allow for more economic and efficient capacity bookings. | | |
| 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 15 April 2021. The Panel will consider the recommendations and determine the appropriate next steps. | |
| Description: Description: High_Impact | High Impact:  None | |
| Description: Description: Low_Impact | Medium Impact:  National Grid NTS | |
| Description: Description: Medium_Impact | Low Impact:  Shippers | |

***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? 3  4 Code Specific Matters 6  5 Solution 6  6 Impacts & Other Considerations 6  7 Relevant Objectives 7  8 Implementation 8  9 Legal Text 8  10 Recommendations 8  Timetable   |  |  | | --- | --- | | **Modification timetable:** | | | Initial consideration by Workgroup | 02 February 2021 | | Workgroup Report presented to Panel | 15 April 2021 | | Draft Modification Report issued for consultation | 16 April 2021 | | Consultation Close-out for representations | 10 May 2021 | | Final Modification Report available for Panel | 12 May 2021 | | Modification Panel decision | 20 May 2021 | |  |  | |  |  | | **Any questions?** |
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Summary

#### What

Under the “ticket to ride” principle that underpins the GB capacity regime, Shippers are required to book a unit of National Transmission System (NTS) Entry Capacity (via one of the auctions prescribed within Uniform Network Code (UNC) Transporter Principals Document (TPD) Section B) for every unit of gas entered onto the NTS.

Under the current arrangements, only monthly or quarterly products are available outside of the daily product which restricts Shippers ability to book capacity efficiently where they:

1. cannot rely on the Daily System Entry Capacity auctions because of the potential withholding of capacity by National Grid because of a constraint; or
2. want to purchase capacity ahead of the Gas Day for planning purposes.

#### Why

Any inefficient capacity bookings made by Shippers not only unnecessarily increase their overall cost of acquiring capacity but also restrict the amount of capacity available at the daily auctions for other Shippers.

The cost associated with these inefficient bookings has recently been increased by the implementation of UNC Modification 0678A - Amendments to Gas Transmission Charging Regime (Postage Stamp), which removed the commodity charge element (only payable on flows) and at all Entry Points increases the reserve price applicable to any capacity bookings.

#### How

This Modification seeks to implement a Weekly NTS Entry Capacity auction which allows Shippers an additional opportunity to book capacity more efficiently, outside of the current Monthly, Daily and Daily Interruptible products.

This proposed Weekly NTS Entry Capacity auction will run independently of the current NTS Entry Capacity auctions and is not intended to have any adverse impacts on the current auctions.

Governance

#### Justification for Self-Governance

Application of Self-Governance is sought because the changes proposed are unlikely to have an adverse effect on competition in the shipping, transportation or supply of gas conveyed through pipes or any commercial activities connected with the shipping, transportation or supply of gas conveyed through pipes.

The Modification is unlikely to discriminate between different classes of parties to the UNC or Gas Shippers due to the changes having the same impact on UNC parties as per the current rules for NTS Entry Capacity Auctions.

#### Requested Next Steps

This Modification should:

* be considered a non-material change and subject to Self-Governance.
* be assessed by a Workgroup.

Why Change?

#### Introduction

NTS Entry Capacity is required to be purchased[[1]](#footnote-2) to allow a Shipper to enter gas onto the NTS and is made available through various NTS Entry Capacity auctions, which are prescribed within UNC TPD Section B2 (summarised within Table 1).

Following the implementation of UNC Modification 0678A[[2]](#footnote-3), which changed the charging methodology associated with NTS Capacity, it is widely acknowledged that Shippers are now incentivised to book capacity more efficiently, whereby their capacity bookings will better reflect their anticipated gas flows.

Currently, only quarterly, monthly, and daily NTS Entry Capacity products are available, which is not necessarily reflective of how gas is traded and subsequently flowed onto the NTS, especially for flexible assets such as LNG Terminals and Storage. Therefore, if a Shipper has expected gas flows which are not rateable across a quarterly or monthly strip, they are required to rely on either the Daily System Capacity auction or book capacity in the Quarterly / Monthly System Capacity auctions, which leads to additional costs of acquiring NTS Entry Capacity versus that which should be required.

Table 1: Summary of NTS Entry Capacity Auctions

|  |  |  |  |
| --- | --- | --- | --- |
| **Capacity Product** | **Product** | **Timeline** | **Capacity offered** |
| Quarterly (QSEC) | Flat quarterly strips | Q+2 to Q+64 | * 90% of Obligated Baseline minus sold Firm NTS Entry Capacity |
| Annual Monthly (AMSEC) | Flat monthly strips | M+2 to M+20 | * Obligated baseline minus solid Firm NTS Entry Capacity |
| Monthly (RMTNTSEC) | Flat monthly strips | M+1 | * Obligated baseline minus sold Firm NTS Entry Capacity |
| Daily (DSEC) | Daily | D+1 / D | * Obligated baseline minus sold Firm NTS Entry Capacity * Quantity may be withheld should NGG foresee a capacity constraint |
| Daily Interruptible (DISE) | Daily | D+1 / D | * Use It or Lose It quantity |

#### Daily (DSEC) and Monthly (MSEC) System Entry Capacity Auctions

Whilst the DSEC Auction allows for capacity to be booked at the day ahead or within-day stage, thus allowing capacity to be booked efficiently to reflect flows, National Grid may withhold capacity from sale at the relevant Aggregated System Entry Point (ASEP) should it foresee a capacity constraint occurring[[3]](#footnote-4). We understand that National Grid does not in the ordinary course notify the market of any potential scale backs ahead of time.

Whilst withholding NTS capacity for unplanned maintenance and outages is naturally unpredictable, constraints can occur because of planned maintenance on the NTS. National Grid publishes the indicative flow capabilities for all NTS Entry Points within their Maintenance Plans; however, these are aggregated to a monthly figure, despite the reductions potentially only being for a single day. This low level of granularity makes it very difficult to rely on the DSEC auctions for certain Entry Points that have significant amounts of planned maintenance. It is worth noting that there are no commercial remedies available from National Grid for a constraint where capacity has not been purchased.

Figure 1 shows the indicative summer flow capability levels at Milford Haven ASEP because of planned maintenance contained with the Summer Maintenance plans between 2015 and 2020 (inclusive). The maintenance plan shows significant levels of capability reductions at Milford Haven ASEP versus the baseline in numerous months over multiple years, therefore highlighting the uncertainties of relying on DSEC Auctions and the potential risk of capacity being withheld as a result.

Figure 1

Source: National Grid Summer Maintenance Plans; 2015 to 2020

As a result, Shippers at those NTS Entry Points which are at risk of having DSEC withheld are likely to be pushed to rely on the MSEC auctions to ensure the capacity is acquired. Whilst this may be acceptable for a Shipper which has a monthly rateable send out, it is not attractive for Shippers at flexible assets, such as LNG Terminals, where gas can be traded outside of monthly strips and may result in inefficient and excessive capacity bookings which reduce both the competitiveness and attractiveness of the relevant Entry Points. In addition, there is a risk that having a reliance on MSEC auctions will lead to a reduction in flexibility at these Entry Points, due to the high cost of buying additional Entry Capacity to accommodate any flexibility which would increase the unit cost of delivering a therm of gas at those Entry Points.

#### Implications

To mitigate against the inefficient booking and increased costs of acquiring NTS Entry Capacity at the MSEC auction, this Modification seeks to supplement UNC TPD Section B2 by introducing a new Weekly NTS Entry Capacity auction. This would:

1. Allow Shippers to book capacity more accurately to reflect their flows onto the NTS; and
2. Increase the amount of DSEC capacity made available.

This product would be available to all NTS Entry Points which within the scope of the current NTS Entry Capacity auctions as prescribed within UNC TPD Section B2.

There are no resultant impacts on the current NTS Entry Capacity auctions contained within UNC.

Code Specific Matters

#### Reference Documents

UNC TPD Section B: <https://www.gasgovernance.co.uk/sites/default/files/ggf/page/2020-12/4%20TPD%20Section%20B%20-%20System%20Use%20%26%20Capacity_0.pdf>

Entry Capacity Release Methodology Statement: <https://www.gasgovernance.co.uk/sites/default/files/ggf/page/2020-12/4%20TPD%20Section%20B%20-%20System%20Use%20%26%20Capacity_0.pdf>

National Grid Summer Maintenance Plans (landing page): <https://www.nationalgrid.com/uk/gas-transmission/data-and-operations/maintenance>

National Grid Gas Transmission Capacity Guidelines document: <https://www.nationalgrid.com/sites/default/files/documents/45759-Capacity%20Guidance%20Doc_v1_0-140616.pdf>

#### Knowledge/Skills

No additional knowledge or skills required.

Solution

For this Modification to be implemented the provisions for a Weekly NTS Entry Capacity Auction would need to be included within UNC TPD Section B, including:

* The capacity available at the Weekly NTS Entry Capacity auction is:
* Unsold NTS Entry Capacity (if any); plus
* Incremental NTS Entry Capacity (if any).
* The Weekly NTS Entry Capacity auction would take place between 08:00 and 17:00 at D-10 (where D is the first gas day of the weekly period, being a Monday).
* The Weekly NTS Entry Capacity would be allocated by D-9. For the avoidance of doubt, this allocation needs to be completed before the opening of the DSEC window at D-7.
* Where a weekly period crosses two Gas Years, then the prevailing price on each relevant day will be used. For example, week commencing 27th September 2021 crosses the 2020/21 and 2021/22 Gas Year. In this example, 27th, 28th, 29th and 30th September would be charged at the 2020/21 reserve price whilst the 1st, 2nd and 3rd October would be charged at the 2021/22 reserve price.
* For the avoidance of doubt, the same reserve prices will be applied as for other products,upon implementation the prevailing Reserve Price and a Duration Multiplier of one (1) ( as defined prescribed within the UNC TPD Section Y for the current NTS Auctions) will be applied to the Weekly NTS Entry Capacity Auctions.
* For the avoidance of doubt, the amendments to the UNC as proposed in this Modification shall not be applicable to interconnection points (“IPs”). The revised CAM Regulation (as retained in UK law in accordance with the European Union (Withdrawal) Act 2018 and amended by the Gas (Security of Supply and Network Codes) (Amendment) (EU Exit) Regulations 2019) governs the offering of capacity products at UK IPs. A weekly capacity product is not envisaged by the CAM Regulation. In order to permit the offering at IPs of weekly capacity products, the CAM Regulation would need to be amended, which would be a legislative process; authorising the offering of this new product at IPs is beyond the permitted scope of the UNC and therefore would not be achievable through a modification to the UNC.  While the Modification may therefore result in differences between capacity products offered at IPs and non-IP entry, this is reflective of the extent of the amendments that can be made by way of UNC amendment.

Impacts & Other Considerations

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

No Significant Code Review or significant industry change will be impacted by this Modification.

#### Cross Code Impacts

None identified.

#### EU Code Impacts

None

#### Central Systems Impacts

It is anticipated that there will be System Impacts in the implementation of a Weekly NTS Entry Capacity Auction.

#### Workgroup Impact Assessment

04 March 2021

TAR NC[[4]](#footnote-5) compliance

National Grid has an obligation to publish prices in May. Workgroup Participants wished to understand the effect of this Modification on this year’s prices (TAR NC Art. 29).

The Proposer believed that National Grid has decided to publish all prices at the same time – prior to the Interconnector auctions. He believed this is not obligated in TAR NC, so for example domestic prices could be published separately to the interconnector prices. Introduction of this new product as a result of this Modification should not impact the timing of publication of prices. The Modification should not impact the FCC.

National Grid requested that this timing aspect should be included within the solution.

The Ofgem representative at Workgroup was asked if they had a view on this aspect. Their response was to potentially consider offline liaison with the Proposer and potentially in between Workgroups.

A week spanning two Gas Years

National Grid requested clarification from the Proposer for any week which spans two Gas Years - what would be the price effect and there was a request for this be clarified in the solution of the Modification.

Three options were outlined by the Proposer:

1. Suspend any auction that spans 2 Gas Years
2. Take the price from the preceding Gas Year (this appeared to be preferred as a pragmatic approach)
3. Have pricing split for that week according to which Gas Year each day is in.

The Proposer preferred whichever has simplest system aspects.

Is the calculation done on a daily basis in the system? (Action on NG)

HR (Xoserve) Charges are calculated based on the transaction period. (E.g. monthly price x number of days in that month).

This may lend itself to Option 2.

Interruptible Capacity effect

In terms of ‘Use-It-Or-Lose-It’ capacity, also known as ‘UIOLI’, National Grid confirmed that the amount of interruptible capacity available for release is not limited; the quantity of capacity not used is part of the determination as to how much interruptible capacity can be released.

*A Workgroup Participant noted that with some bookings moving away from quarterly capacity bookings to weekly bookings, this Modification may reduce the amount of Interruptible capacity available (through the effect on UIOLI - an anti-hoarding mechanism). With the interruptible discount this means that there could be less capacity available at this discounted rate. (Jen Randall may send additional/alternative words) Effect on Relevant Objective d)? (is this a general comment rather than under ROs?)*

Governance

01 April 2021

Workgroup Participants considered whether the Modification should be subject to Self Governance…

#### Consumer Impacts

The Proposer’s view is that implementing a Weekly NTS Entry Capacity Auction is likely to reduce the cost of delivering gas onto the NTS by allowing Shippers to book capacity more efficiently. This has the potential to improve the attractiveness of GB for imported gas, therefore providing Security of Supply benefits for consumers.

Workgroup completed the following table on 04 March 2021:

|  |  |  |
| --- | --- | --- |
| Consumer Impact Assessment(Workgroup assessment of proposer initial view or subsequent information) | | |
| Criteria | Extent of Impact | |
| Which Consumer groups are affected? | Potentially all consumers could be impacted. | |
| What costs or benefits will pass through to them? | More efficient bookings lead to lower costs to bring gas onto the system, and this should lead to lower prices at the NBP. In turn this should mean a price benefit for consumers, assuming the savings are passed through (which will depend somewhat on the contracts in place). | |
| When will these costs/benefits impact upon consumers? | Upon implementation of the Modification. | |
| Are there any other Consumer Impacts? | Increased benefit to Security of Supply from more favourable conditions for LNG Entry into the GB market. | |
| ***General Market Assumptions as at December 2016*** *(to underpin the Costs analysis)* | | |
| *Number of Domestic consumers* | | *21 million* |
| *Number of non-domestic consumers <73,200 kWh/annum* | | *500,000* |
| *Number of consumers between 73,200 and 732,000 kWh/annum* | | *250,000* |
| *Number of very large consumers >732,000 kWh/annum* | | *26,000* |

**Rough Order of Magnitude (ROM) Assessment** *(Cost estimate from CDSP)*

#### Cost estimate from CDSP where the Modification relates to a change to a CDSP Service Document

Insert text here

***OR***

|  |  |
| --- | --- |
| **Rough Order of Magnitude (ROM) Assessment** *(Workgroup assessment of costs)* | |
| Cost estimate from CDSP | Insert text here |
| Insert Subheading here | Insert text here |

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 |

Proposer consideration of Relevant Objectives

**Relevant Objective a)**

This proposal furthers Relevant Objective (a) as implementing a Weekly NTS Entry Capacity auction will provide Shippers with an additional opportunity to efficiently purchase capacity that better reflects their anticipated gas flows. This will enable National Grid NTS to commercially plan, operate and manage the NTS, therefore facilitating the efficient and economic operation of the NTS.

**Relevant Objective d)**

This proposal furthers Relevant Objective (d) by allowing Shippers to book NTS Entry Capacity that better reflects their anticipated gas flows (versus the current RMTNTSEC auction). This will reduce the cost of acquiring unwanted NTS Entry Capacity, especially for flexible assets (such as LNG terminals and Storage) and provide security of supply benefits. In turn, reducing the unit cost of supply at those Entry Points which are currently purchasing monthly products will facilitate competition among Shippers and potentially reduce the cost of gas to consumers. The implementation of a Weekly NTS Entry Capacity product also increase the capacity available at DSEC.

Workgroup Consideration of Relevant Objectives

**Relevant Objective a)**

Several Workgroup Participants agreed with the Proposer.

Other Workgroup Participants voiced concern in terms of a negative impact on Relevant Objective a).

**Relevant Objective d)**

A Workgroup Participant noted that with some bookings moving away from quarterly capacity bookings to weekly bookings, this Modification may reduce the amount of Interruptible capacity available (through the effect on UIOLI - an anti-hoarding mechanism). With the interruptible discount this means that there could be less capacity available at this discounted rate. (Jen Randall may send additional/alternative words) Effect on Relevant Objective d)? (is this a general comment rather than under ROs?)

Another Workgroup participant believed that the effect on Interruptible capacity above is largely irrelevant, noting that moving to more firm bookings is positive overall for Relevant Objective d). A move to more profiled bookings is a positive step away from potential hoarding.

A Workgroup Participant noted that the changes may impact revenue to National Grid which could have an impact on competition (Relevant Objective d).

The Proposer responded that the behavioural changes to bookings are difficult to predict and there could be increases or decreases in revenue associated with this. The Modification is looking to ensure Users can book at a level which better reflects their actual requirements.

Implementation

As self-governance procedures are proposed, implementation could be sixteen business days after a Modification Panel decision to implement, subject to no Appeal being raised.

Legal Text

#### Text Commentary

To be provided by Transporters.

#### Text

To be provided by Transporters.

Recommendations

#### Workgroup’s Recommendation to Panel

The Workgroup asks Panel to agree that:

* This modification should proceed to consultation.
* This proposal requires further assessment and should be returned to Workgroup.

1. Where a Shipper’s flow exceeds their entry capacity entitlement, they will become subject to overrun charges as per UNC TPD Section B2.12 [↑](#footnote-ref-2)
2. <https://www.gasgovernance.co.uk/0678> [↑](#footnote-ref-3)
3. As per Paragraph 73 of the Entry Capacity Release Methodology Statement: <https://www.nationalgrid.com/uk/gas-transmission/document/128001/download> [↑](#footnote-ref-4)
4. <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32017R0460> [↑](#footnote-ref-5)