

UNC Modification Proposal 0761: National Grid actions from Workgroup 2 (6th May 2021)

Action 501

Action	National Grid (PL) to evaluate the compliance with Gas Act Section 6A and consider the exceptions.
Response	<p>The following activities require a licence under the Gas Act (s.5(1)):</p> <ul style="list-style-type: none"> • gas transportation; • gas interconnector operator; • shipping of gas; • supply of gas; • provision of smart meters. <p>To undertake any of the listed activities without a licence is an offence. S6A of the Gas Act allows the Secretary of State to grant or revoke exemptions for the requirement for persons to hold the licences required by s.5(1) (that is, a transporter licence, interconnector licence, supply licence, shipper licence or licence for the provision of smart meters). As storage is not an activity requiring a license under s.5(1), the exemption regime set out in s.6A does not apply in the current situation.</p> <p>S. 7ZA(1) states that the Secretary of State may grant licences authorising the participation in the operation of an interconnector. Under s. 7ZA(2) it prohibits the grant of an interconnector licence to a person that holds a transportation licence granted under s.7 of the Act or a gas supply or shipping licence, granted under s.7A of the Act.</p> <p>Summary</p> <p>The Gas Act has prohibitions on what operators of gas interconnectors may do – for example, they may not be licensed as a transporter or a shipper or supplier.</p> <p>The Gas Act does not prohibit the holder of an interconnector licence from participating in the operation of a storage facility.</p>

Action 502 / 503

Action	<p>0502: National Grid (PL) to confirm why the scope of the Modification is limited to bi-directional physical flows.</p> <p>0503: National Grid (PL) to consider if restricting the service to physical gas flows would be discriminatory.</p>
Response	<p>The definition of Storage Facility in the UNC (TPD R1.2.1(a)(iii)) describes a facility where “...gas is offtaken from the Total System...” and “...stored gas...” is subsequently “...delivered to the Total System”. National Grid’s interpretation is that gas ‘offtaken’ and ‘delivered’ refers to <u>physical</u> delivery as described in TPD Section J and I.</p> <p>Whilst recognising that concurrent operation of both conventional ‘interconnector transportation’ and ‘interconnector storage’ functions may enable the operator of</p>

	<p>such functions to limit physical flows to a 'net' volume in the relevant flow direction, the operator nevertheless has <i>capability</i> to physically flow (and measure the volumes of such) in both directions. This enables the correct volumes of gas to be flowed and metered even if there are zero transportation flow volumes on a particular day.</p> <p>In principle, this aspect is no different to a conventional Storage Facility which is only required to flow a net volume in the relevant direction where on a day (for example) one User wishes to withdraw 10 units of gas from storage whilst a different User wishes to inject 20 units of gas into storage. In this case the storage operator is only required to physically inject 10 units of gas into its facility.</p> <p>Extension of the applicability of the proposed arrangements to Interconnectors who can only offer 'virtual' reverse flow does not align with the definition of Storage Facility in respect of physical flows. Further, such a facility would be unable to physically respond to the commercial needs of its customers if there are zero transportation volumes on a given day and the net storage flows are required in the 'virtual' (non-physical) direction. Hence we propose limiting the arrangements to Interconnectors with capability to physically flow in both directions.</p>
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Action [additional action]

Action	Additional justification is required for capping SCQ _d (discounted storage capacity quantity) at the storage allocation as this is different treatment of capacity at 'stand-alone' storage points.
Response	<p>In our presentation material for Workgroup 0761 on 6th May 2021 we set out the rationale for limitation of the discountable capacity quantity to the quantity of capacity <i>utilised</i> for storage purpose. This was principally due to the risk we have identified that there is a commercial incentive for Users to procure additional 'surplus' IO storage capacity if the aggregate cost of this, and the discounted National Grid IP capacity, is less than the cost of any residual <i>un-discounted</i> IP capacity.</p> <p>Whilst we recognise this approach is different to the arrangements at other points on the Total System, such points are 'single purpose' whereas the proposed arrangements need to operate as intended in respect of this first 'dual purpose' point/s on the Total System. Given this, we believe that the differences in approach is appropriate in light of the specific commercial risk we have identified, which is unique to the proposed dual-purpose point. We note that any such residual capacity would be available for transportation (non-storage) purposes and is therefore justifiably priced at the non-discounted capacity charge. This is also consistent with the principle that Transportation remains the primary purpose of an Interconnector offering a supplementary storage service.</p> <p>Given the short-term nature of the additional Storage Service proposed by IOs, it is unlikely that system users would book capacity at the IP that was ultimately not utilised. The decision to book and utilise the additional Storage would likely be synonymous therefore the actual risk of a system user being charged the un-discounted charges for IP capacity that was intended for Storage is believed to be very low.</p>

As we have set out in our Proposal, at a Storage (only) Facilities there is no potential alternative use of that capacity (i.e. non-storage) and therefore there is no risk that unused capacity will be used for a 'non-discountable' purpose. This is not the case with Interconnectors with additional storage capability where the risk is present. We believe this flexibility warrants the variation in treatment to ensure no utilisation of unused discounted storage capacity for transportation and to prevent unused capacity at the Interconnection Point attracting the storage related NTS charges.

We believe this risk is similar in principle to the risk identified by Ofgem in its Impact Assessment (and reflected in its final decision) in respect of Modification Proposal 0728C ('Introduction of a Capacity Discount to Avoid Inefficient Bypass of the NTS') where the risk of the application of a discount to a transportation route, other than one which qualifies for such a discount, was discriminatory. In this case we consider that in absence of a cap equal to the quantity of gas allocated to storage there is a risk capacity other than that intended for storage use will obtain a discount.

Annex 1:

The Gas Act 1986

PART I

GAS SUPPLY

5 Prohibition on unlicensed activities

- (1) Subject to section 6A below and Schedule 2A to this Act, a person who—
- (a) otherwise than by means of a gas interconnector conveys gas through pipes to any premises, or to a pipe-line system operated by a **gas transporter**;
 - (aa) participates in the operation of a **gas interconnector**;
 - (b) **supplies** to any premises gas which has been conveyed to those premises through pipes;
 - (c) **arranges with a gas transporter** [*shipper*] for gas to be introduced into, conveyed by means of or taken out of a pipe-line system operated by that transporter; or
 - (d) provides a **smart meter communication service**,
- shall be guilty of an offence unless he is authorised to do so by a licence.

6A Exemptions from prohibition.

- (1) The Secretary of State may, by order grant exemption from paragraph (a), (aa), (b), (c) or (d) of section 5(1) above—
- (a) either to a person or to persons of a class;
 - (b) either generally or to such extent as may be specified in the order; and
 - (c) either unconditionally or subject to such conditions as may be so specified

7ZA Licences for operation of gas interconnectors

- (1) Subject to subsection (2), the Authority may grant a licence authorising any person to participate in the operation of a gas interconnector.
- (2) A licence shall not be granted under this section to a person who is the holder of a licence under section 7 or 7A. [*7: Gas Transporter; 7A Gas Supplier and Gas Shippers*]
- (3) A licence under this section—
- (a) must specify the interconnector or interconnectors in relation to which participation is authorised; and
 - (b) may limit the forms of participation in the operation of an interconnector which are authorised by the licence.

Annex 2:

<https://www.ofgem.gov.uk/licences-industry-codes-and-standards/licences/licensable-activities>

Licensable activities

The Gas Act 1986 (as amended) ... prohibit certain activities unless the person carrying on that activity is licensed, exempt from the requirement for a licence, or eligible ... for an exception to the prohibition on unlicensed activities.

Transporter Licence

This allows the licensee to:

- *convey gas through pipes to any premises within an area authorised by the licence*
- *convey gas through pipes to any pipeline system operated by another Gas Transporter, or other pipeline system specified in the licence.*

Interconnector Licence

This allows the licensee to participate in the operation of a gas interconnector which is defined as:

- *co-ordinating and directing the conveyance of gas into or through a gas interconnector*
- *making such an interconnector available for use for the conveyance of gas.*

Shipper Licence

This allows the licensee to arrange with a gas transporter for gas to be introduced into, conveyed through, or taken out of a pipeline system operated by that gas transporter. In all instances, the purpose of the gas movement should be general or for purposes connected with the supply of gas to premises.

Supplier Licence

This allows the licensee to supply gas to any premises through pipes. A Gas Supplier Licence can allow supply to either:

- *domestic and non-domestic premises, or*
- *non-domestic premises only.*

Current Gas Act Exemptions

<https://epr.ofgem.gov.uk/Document/Retrieve/bbe2eb23-0a28-4e4d-8587-cac1525e9c8e>