

| UNC Modification | At what stage is this document in the process? |
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| <h1 style="color: #008080;">UNC 0779A:</h1> <h2 style="color: #008080;">Introduction of Entry Capacity Assignments <u>with Defined End Date</u></h2> | <div style="display: flex; flex-direction: column; gap: 5px;"> <div style="border: 1px solid #008080; background-color: #008080; color: white; padding: 2px; display: flex; align-items: center; justify-content: center;">01 Modification</div> <div style="border: 1px solid #008080; padding: 2px; display: flex; align-items: center; justify-content: center;">02 Workgroup Report</div> <div style="border: 1px solid #008080; padding: 2px; display: flex; align-items: center; justify-content: center;">03 Draft Modification Report</div> <div style="border: 1px solid #008080; padding: 2px; display: flex; align-items: center; justify-content: center;">04 Final Modification Report</div> </div> |
| <p>Purpose of Modification:</p> <p>To enable network Users to transfer, in full or in part, both the Capacity and associated financial Liability at an Aggregated System Entry Point (ASEP).</p> | |
| <p>Next Steps:</p> <p>The Proposer recommends that this modification should be:</p> <ul style="list-style-type: none"> <u>considered to be an Alternative to Modification 0779</u> <u>subject to Self-Governance</u> <u>assessed by a Workgroup alongside Modification 0779 with suitable timescales.</u> <p>This Modification will be presented by the Proposer to the Panel on <u>16 September 2021</u>. The Panel will consider the Proposer's recommendation and determine the appropriate route.</p> | |
| <p>Impacted Parties:</p> <p>High Impact: None Medium Impact: NTS Users Low Impact: None</p> | |
| <p>Impacted Codes:</p> <p>N/A</p> | |

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| Timetable | |
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| The Proposer recommends the following timetable: | |
| Pre-modification Discussion | <u>07 September 2021</u> |
| <u>Date Modification Raised</u> | <u>08 September 2021</u> |
| Modification considered by Panel | <u>16 September 2021</u> |
| <u>First Workgroup Meeting</u> | 07 <u>October 2021</u> |
| Workgroup Report <u>to be</u> presented to Panel | <u>18 November 2021</u> |
| Draft Modification Report issued for consultation | <u>19 November 2021</u> |
| Consultation Close-out for representations | <u>10 December 2021</u> |
| Final Modification Report available for Panel | <u>14 December 2021</u> |
| Modification Panel decision | <u>16 December 2021</u> |

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1 Summary

What

The Uniform Network Code (UNC) currently allows for assignment of Capacity and liability between Users at an Exit Point. This Modification proposes to enhance the current Assignment arrangement by providing the ability to assign Capacity at Entry Points both in full and in part, for a defined period within the duration of a contract by specifying any start and any end date, with no minimum assignment period (i.e. assignment could be for one day only).

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Why

Enabling Entry Capacity Assignments gives Users an enhanced level of flexibility when managing their Capacity portfolio. It would

- reduce their administrative burden and risks associated with long-term transfer of capacity to other Users;
- give new entrants an alternative to the short-term auctions;
- enables the benefits and potential discounts associated with holding both the capacity and liability simultaneously;
- allows for the assignment of capacity that would otherwise be unutilised for a limited period; and
- provides a route to procure additional primary capacity for a limited period, particularly where no remaining capacity is available in auctions.

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It also aids in ensuring capacity liability is held by the Shipper licensee utilising the capacity, reducing the need to maintain otherwise dormant Shipper licences.

How

Enhancements to the National Grid Gemini System would provide Users with the ability to assign entry capacity and liability rather than just being able to transfer capacity as is currently allowed. Updates to the UNC would be required to facilitate this.

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Users would be able to assign Capacity and liability by defining any start and any end date to the assignment. These start and end dates do not need to coincide with the start or end dates of the capacity contract as it was originally procured, and they do not need to necessarily be the first or last day of a month but can be any date as long as the defined period is wholly within the Assignor's capacity holding. Users would be able to assign any volume within a contract, consistent across the period defined, rather than on an all or nothing basis. The assignment period would have no minimum, and therefore could be for one day only.

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Capacity acquired via day and day ahead auctions would be excluded from these arrangements.

This modification also proposes that entry capacity assignments be notified at least one Business Day prior to the first Day of the Assignment Period. This is shorter than the current notice required for exit capacity assignments which is the fifth Business Day prior to the first Day of the Assignment Period.

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2 Governance

Justification for Authority Direction

The proposed changes would not disadvantage any User type more or less than any other.

The Proposer can see no evidence of a material effect arising from this Modification on:

- (a) existing or future gas consumers; and
- (b) 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; and
- (c) the operation of one or more pipe-line system(s); and
- (d) matters relating to sustainable development, safety or security of supply, or the management of market or network emergencies; and
- (e) the uniform network code governance procedures or the network code modification procedures.

Requested Next Steps

This Modification should

- Be considered to be an Alternative to Modification 0779.
- Be subject to Self-Governance and
- Be assessed by a Workgroup alongside Modification 0779 with suitable timescales.

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3 Why Change?

Following implementation on 01 October 2020 of Modification 0678A - Amendments to Gas Transmission Charging Regime (Postage Stamp) and submission of proposals to Ofgem to Manage Inefficient Bypass of the Network, Industry parties approached National Grid NTS with a request to consider enhancing the existing Assignment arrangements.

Currently, Users can book capacity, but where changes in usage mean the capacity level booked is no longer required for a known period, there are currently two feasible options:

1. Trade the capacity to another User but must retain the liability for that capacity;
2. Alternatively they could choose to surrender all capacity back to National Grid via a voluntary discontinuance.

The proposed introduction of Assignments provides an alternative 3rd option that would allow Users to transfer some or all of their booked capacity to another User, transferring the liability along with the capacity.

The desire for Users to sell subsequently surplus capacity has increased with the introduction of the Gas Transmission Charging Reforms. Industry has, in the past, highlighted several issues that this functionality could resolve.

Where Shippers are active but no longer require the capacity booked, third party contracts have to be arranged and maintained to provide for payment arrangements between Shippers for the lifetime of that liability. This

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leaves the original Shipper with an ongoing administrative burden and makes them exposed to potential risks should the secondary Shipper default on that arrangement.

In some cases of a Shipper exiting the market, it leaves them with otherwise dormant Shipper licences being maintained simply to continue these arrangements and no other purpose.

Managing and shaping capacity levels ahead of time can be achieved currently through the transfer process and these third-party arrangements, but where Users wish to hold both the capacity and liability to retain any associated benefit, they are forced to use the day ahead and on the day markets, which gives no long term signals and where Capacity is not always guaranteed to be available,

This solution would somewhat mitigate the need to rely on the third-party agreements and reduce dependency on short-term markets, giving Users more certainty on capacity availability.

This Proposal will enable assignor Users to assign capacity that would otherwise be unutilised for a limited period and would be of particular benefit to assignee Users where no remaining capacity is available to procure in auctions. This gives Users another tool with which they can better manage their portfolios, and would also give National Grid NTS more reflective capacity booking signals compared with the current regime because capacity bookings should better reflect actual flows. The ability to define any start and any end date to an Assignment will allow Users to assign capacity that meet the requirements of the Assignee User.

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Without this change Users will continue to find the best way to manage and profile capacity under the current rules, but the Proposer believes this provides them with another option to consider, with unique benefits when compared to long-term transfer of capacity only and short-term volume adjustments. The solution allows Users to only hold appropriate and relevant levels of capacity, retaining the associated liabilities, and ensuring commercial positions are optimised under each Shipper Licence.

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A notice period which is as short as possible is expected to be beneficial because closer to real-time, assignees who have variable usage, and typically procure capacity in short term auctions, have greater certainty with regards to their actual capacity requirements. Variable Users also may not require capacity on consecutive days, and therefore will benefit from access to assigned capacity which can be assigned for one day only.

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4 Code Specific Matters

Reference Documents

Transportation Principal Document: Section B

https://www.gasgovernance.co.uk/sites/default/files/ggf/page/2020-10/4%20TPD%20Section%20B%20-%20System%20Use%20%26%20Capacity_0.pdf

UNC Modification Proposal 0276

<https://www.gasgovernance.co.uk/0276>

The Entry Capacity Transfer and Trade Methodology Statement

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

Exit Capacity Release Methodology Statement

<https://www.nationalgrid.com/uk/gas-transmission/document/128006/download>

EU Tariff Code (Regulation 2017/460)

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

5 Solution

A new paragraph will be entered into the Transportation Principal Document (TPD) Section B of the UNC to provide for the introduction of Entry Capacity Assignments. This would sit under, or alongside the current paragraph 6 which relates to the existing Capacity Assignment arrangements.

1. Implementation would allow Users to select a portion of their booked capacity (~~excluding day ahead and within-day contracts~~) of one day or more and transfer, for delivery from day-ahead, both capacity and associated liability to a second User.
2. Users would be able to assign capacity for a defined period with any start date (from day-ahead at the earliest) to any end date, and will be able to assign any volume, from 1 kWh/day for the defined period, up to the full booking. The start and end dates of the assignment do not need to be the first or last day of a month but can be any date as long as the defined period is wholly within the Assignor's capacity holding.
3. The capacity assignee would pay the published Entry Transmission Services rate applicable to the period being assigned regardless of any existing agreements in place between National Grid Gas with the assignor.
4. The assignee would also pay any Entry Transmission Services Revenue Recovery Charges applicable to the Capacity and for the period of the assignment.
5. This functionality would be available at all ASEPs; however, any Bundled Capacity booked at an Interconnector (Capacity which is matched to Capacity available at the adjacent Transmission System Operator (TSO)), would be excluded from this arrangement. Unbundled Capacity, as per Section 5.1 clause 7 of the Capacity Allocation Mechanisms (CAM) Network Code, can be traded on the secondary market which, under this Modification, would include the ability to be Assigned.

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6 Impacts & Other Considerations

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

No, it does not.

Consumer Impacts

No negative impacts should be felt by Users due to this enhancement as no existing functionality is being removed from the Code.

Capacity assignors would benefit from an additional tool which could aid in reduction of the administrative processes currently involved with transfer of capacity while retaining the liability, and a lowering in their credit requirements, reducing the risks associated with booking long term capacity. It will also increase capacity utilisation by reducing capacity holdings that are no longer required, so that capacity bookings are more efficient by better reflecting actual flow requirements.

Assignees would be able to take direct advantage of any appropriate Entry Transmission Services rate discounts applicable to the Entry Point, for example the Storage discount, due to holding both the capacity and the liability. These discounts could be passed onto end consumers and when combined with the improved capacity booking signals from industry, it is possible that this will result in more stable pricing.

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National Grid does not expect that the potential cost savings for Users would be on a scale great enough to significantly impact on Consumer's bills, but

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| Impact of the change on Consumer Benefit Areas: | |
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| Area | Identified impact |
| Improved safety and reliability N/A | None |
| Lower bills than would otherwise be the case <u>Assignees would be able to take direct advantage of any appropriate Entry Transmission Services rate discounts applicable to the Entry Point, which may result in some cost savings which could be passed onto end consumers</u> | <u>Positive</u> |
| Reduced environmental damage N/A | None |
| Improved quality of service Enabling the Assignment of Entry Capacity may help to optimise capacity bookings and reduce the costs associated with management of third-party agreements between Shippers. This in turn could lead to savings in cost and administration which may reach end users. | Positive |

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| Benefits for society as a whole N/A | None |
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Cross Code Impacts

None

EU Code Impacts

No changes are proposed which would impact EU Codes.

The Proposer intends to retain the current status quo, with no proposed changes to UNC TPD Section Y or the terms which entered in to force from 01 October 2020 ("Existing Available Holdings" & "Existing Registered Holdings") to define Existing Contracts in the Code. This Modification only enables changes to capacity liability from the direction date. Article 35 of the EU Tariff Code (TAR NC) specifies 06 April 2017 as the date by which contracts, or capacity bookings must be concluded and so capacity and liability moved under this proposal does not qualify for the price protection which that clause affords.

The exclusion of bundled capacity at Interconnectors avoids any conflict with the CAM Code.

Central Systems Impacts

System enhancements would be required in Gemini to enable this. National Grid expects there to be some degree of overlap in the solution for UNC779 and *Modification 0755S - Enhancement of Exit Capacity Assignments*, and have requested that they be implemented by the same project team. If this is still the case, then it would be appropriate for this proposal too.

For Modification 779, early estimates from Xoserve suggest a system development time of approximately 40-50 weeks and a cost ranging between £1.2m and £1.5m to implement both and Entry and Exit solution simultaneously, though these figures included a significant risk factor as the Modification parameters were not as well defined at the time of the initial discussion. Implementation of *Modification 0755S* is now expected to be in the region of £235k-£295k. From this an inferred cost is around £1m-£1.2m for the UNC779 Entry Assignments solution to be implemented, but a more up to date figure will be requested via a ROM. An additional estimate of cost and development time will be required for this proposal, including an assessment of alternative minimum notice periods of 1, 3 or 5 days, or any other notice period in between that is caused by a relevant systems constraint at any particular time horizon that may result in an optimal cost/benefit outcome.

ROM: Implementation timings

The UNC779 concept was initially presented as a pre-mod in Transmission Workgroup in November 2020. At that time, it was hoped that an implementation date of 01 October 2021 for Entry Capacity Assignments could be achieved, although early discussions with Xoserve suggested that a lead time of just over 10 months from the pre-mod discussion may not be realistic and an implementation date during Spring 2022 may be more achievable. In the meantime, whilst the concept of Entry Assignments was put on hold, Modification 0755S - Enhancement of Exit Capacity Assignments, with which there expected to be some degree of overlap has progressed.

The Proposer therefore requests that a target implementation date of October 2022 be assessed as part of a ROM request.

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7 Relevant Objectives

Impact of the Modification on the Relevant Objectives:

| Relevant Objective | Identified impact |
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| 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 Modification will better facilitate relevant objective d) because it will allow Shippers another option when acquiring or disposing of primary capacity at an ASEP and reduce over-reliance on the short-term markets.

Users would have more flexibility and confidence in the management of Quarterly and Monthly Capacity. In particular, it will allow assignor Users the opportunity to assign capacity within relatively short timescales to assignee Users in response to end User customers' needs. For example, in the event that a consumer chooses to appoint a new Shipper the current rules do not allow the outgoing Shipper to assign its Capacity to the incoming User to meet the consumer's requirements. Consequently, incoming Shipper Users and their newly acquired customers would need to rely on shorter-term Capacity products or plan years in advance to secure longer-term Capacity.

The Proposer believes it will also better facilitate relevant objective a) by aiding capacity profiling, reducing short-term capacity bookings, and increasing capacity utilisation. All of these improvements could provide National Grid NTS with more reliable booking data, leading to better forecasts in relation to network capability & investment needs as well as providing more accuracy & stability in price setting.

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8 Implementation

No implementation timescales are proposed ~~for Modification 0779A, as with Modification 0779.~~ However, timescales will be assessed following receipt of a ROM.

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~~The UNC779 concept was initially presented as a pre-mod in Transmission Workgroup in November 2020. At that time it was hoped that an implementation date of 01 October 2021 for Entry Capacity Assignments could be achieved, although early discussions with Xoserve suggested that a lead time of just over 10 months from the pre-mod discussion may not be realistic and an implementation date during Spring 2022 may be more achievable. In the meantime, whilst the concept of Entry Assignments was put on hold, Modification 0755S - Enhancement of Exit Capacity Assignments, with which there expected to be some degree of overlap has progressed.~~

~~The Proposer therefore requests that a target implementation date of October 2022 be assessed as part of a ROM request.~~

9 Legal Text

Legal text will be drawn up by the Transporter, National Grid at a time when the Modification is sufficiently developed in line with the Legal Text Guidance Document.

10 Recommendations

Proposer's Recommendation to Panel

Panel is asked to:

- ~~Agree that this Modification should be an Alternative to UNC779.~~
- Agree that Self-Governance procedures should apply, and
- Refer this proposal to a Workgroup for assessment alongside Modification 0779 with suitable timescales.

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