UNC Workgroup Report	At what stage is this document in the process?

UNC 0805:

Introduction of Weekly NTS Exit Capacity Auctions

01	Modification
02	Workgroup Report
03	Draft Modification Report
04	Final Modification Report

Purpose of Modification:

To introduce Weekly NTS Exit Capacity Auctions to allow for more economic and efficient capacity bookings.

Next Steps:

The Workgroup recommends that this Modification should not be subject to Self-Governance

The Panel will consider this Workgroup Report on 18 August 2022. The Panel will consider the recommendations and determine the appropriate next steps.

Impacted Parties:

High: None

Medium: National Grid NTS

Low: Users

Impacted Codes:

None.

Contents

Timetable

Modification timetable:	
Initial consideration by Workgroup	07 April 2022
Workgroup Report presented to Panel	18 August 2022
Draft Modification Report issued for consultation	19 August 2022
Consultation Close-out for representations	09 September 2022
Final Modification Report available for Panel	14 September 2022
Modification Panel decision	20 October 2022

Any questions?

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1 Summary

What

UNC Modification 0752S - *Introduction of Weekly Entry Capacity Auction* which proposed the introduction of weekly entry capacity auctions was approved for implementation by the Uniform Network Code (UNC) Modification Panel on 21 May 2021.

Under the current arrangements for the booking of National Transmission System (NTS) Exit (flat) Capacity, Users are restricted to booking Annual or Daily NTS Exit Firm Capacity. It is proposed to expand the options available to Users by adding a weekly exit capacity auction to the suite of NTS Exit Capacity products.

Why

With the exception of NTS Exit Points connected to the Distribution Networks, Users shipping gas to Direct Connects have reduced annual NTS Exit Capacity holdings, choosing to optimise the capacity costs by acquiring daily products (both Firm and Off-Peak). Following the implementation of UNC Modification 0678A - *Amendments to Gas Transmission Charging Regime (Postage Stamp)*, even greater focus has been given to booking strategies as in a number of locations auction Reserve Prices have increased significantly.

At present, NTS Exit Capacity can only be bought on an enduring, annual, or daily basis. However, Users may wish to book a week of firm capacity rather than rely on Daily System Exit Capacity (i.e. preferring to “lock in” a volume of capacity for an extended period), for the following reasons:

a) Mitigate against risks that Daily NTS Exit (Flat) Capacity is withheld by National Grid because of a perceived or actual constraint (whilst also increasing visibility for the System Operator); or

b) want to purchase capacity ahead of the Gas Day for planning purposes; or

c) reduce administrative costs and potential booking errors when managing daily booking processes

The introduction of a weekly auction product is likely to be an attractive proposition for Users and customers. A longer duration, such as a month, is unlikely to coincide with operational plans and management of costs.

How

This Modification seeks to implement a Weekly NTS Exit Capacity auction which allows Users an additional opportunity to book capacity more efficiently, outside of the current Annual, Daily and Daily Off-Peak products. The product will only be available to NTS Direct Connects (excluding Interconnectors), to the exclusion of DN Exit Points.

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

2 Governance

Justification for Authority Direction

The Modification introduces different treatment according to class of parties in that weekly NTS Exit Capacity Auctions will only be applied at NTS Direct Connect Exit Points, excluding Interconnectors. This means that Authority Direction is likely to be required for this Modification.

Requested Next Steps

This Modification should:

- be considered a material change and not subject to Self-Governance.
- be assessed by a Workgroup.

3 Why Change?

Introduction

NTS Exit (Flat) Capacity is required to be purchased[1] to allow a User to offtake gas from the NTS and is made available through various NTS Exit Capacity Application Windows and auctions, which are prescribed within UNC TPD Section B3 (summarised within Table 1).

Following the implementation of UNC Modification 0678A[2], which changed the charging methodology associated with NTS Capacity, NTS Exit Capacity Reserve Prices have become uniform. As a result, Users saw significant changes to Reserve Prices at a number of locations and, we understand, have shifted focus towards booking capacity on a daily basis, aligning purchases with anticipated offtake quantities.

Table 1: Summary of NTS Exit Capacity (Flat) Application Windows/Auctions

Capacity Product	Product	Timeline	
Enduring Annual (EAFLEC)[3]	Flat annual strips, evergreen	Y+4, Y+5 or Y+6	Obligated
Annual (AFLEC)	Flat annual strips	Y+1, Y+2 and Y+3	Unsold Obligated
Day- ahead (DADNEX)	Daily	D+1	Unsold Obligated
Within-day (WDDNEX)	Daily	D	Unsold Obligated
Daily off-peak (DONEX)	Daily	D+1	In accordance with UNC B 3.6.2

Daily System Exit Capacity Auctions

Whilst the Daily Auctions allow 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

[1] Where a Shipper's offtake quantity exceeds their exit capacity entitlement and the total amount of gas offtaken exceeds aggregate capacity entitlements then, they will become subject to overrun charges as per UNC TPD Section B3.13

[2] https://www.gasgovernance.co.uk/0678

[3] A User may also request a reduction in Enduring Capacity holdings during the application window.

NTS Exit Point should it foresee a capacity constraint occurring[4]. We understand that National Grid does not in the ordinary course notify the market of any potential scale backs ahead of time. As a result, Users are only able to "lock in" capacity for use on a day by either buying annual capacity or trust that sufficient capacity will be available on a day-ahead basis. Given the cost implications of buying annual capacity for offtakes which exhibit variable consumption patterns, this strategy is uneconomic and will impose additional costs on the customer at the associated Exit Point. However, Daily Capacity may also be perceived as being less reliable for the reasons stated and Users and their customers may prefer to manage this risk by acquiring capacity for a duration longer than a day while "locking in" capacity in advance of day ahead.

Further, the current limitation of short-term products to daily capacity only is unnecessarily restrictive and out of kilter with the entry capacity regime. Although a monthly Exit Capacity product is unlikely to secure much support, a weekly product will, in some cases, align with customer consumption forecasts. A weekly booking cycle will reduce the administrative burdens imposed on Users (in booking daily capacity) and, as a result of reduced manual interventions, lead to less booking errors.

Shipper and customer benefits

Weekly Exit Capacity products will provide the following benefits to Users and consumers:

- Reduce availability risk of relying on day ahead capacity products
- Align with anticipated offtake forecasts and internal planning processes
- Reduce administrative costs and potential errors associated with running daily booking processes (resulting in, for example, Exit Capacity overruns)
- Increase National Grid visibility of week ahead bookings.
-

Exclusion of Distribution Network Exit Points

Although the challenges faced by NTS Direct Connects can be applied to DNs several differences should be highlighted:

- Many Direct Connects are subject to greater variability and unpredictability in demand, due for example to activities in complimentary markets e.g. electricity markets
- The costs of acquiring NTS Exit Capacity are incurred by NTS Direct Connects. In the case of DNs these costs can be passed on to shippers (and ultimately customers) through DN charges as there are no explicit commercial incentives placed on DNs to manage NTS Exit Capacity costs
- DN licences oblige DNs to acquire NTS Exit Capacity to meet 1 in 20 demand conditions. Such an obligation does not apply to NTS Direct Connects
- DNs will book capacity at a number of NTS Exit Points to ensure that, in aggregate, they meet their licence obligations and are able to satisfy connected demand, potentially making shorter-term capacity products less attractive.
- DN Exit Points contribute around 60% of total Forecast Contract Capacity. Any reduction in aggregate bookings (and subsequent revenue contributions) will have a greater impact on charges than equivalent changes to NTS Direct Connect booking behaviours

[4] As per Chapter 4 of the Exit Capacity Release Methodology Statement: https://www.nationalgrid.com/uk/gas-transmission/uk/electricity-transmission/document/135876/download

- Permitting DNs greater flexibility in capacity booking may create issues for National Grid NTS in its operation and planning of the NTS.

The analysis set out in Appendix 1 shows the impact of applying weekly auctions at DN NTS Exit Points. The scenario underpinning the analysis is somewhat subjective and cannot be relied upon to predict changes in booking behaviours, but nonetheless it does provide a sense of the broader charging impacts.

In short, the analysis shows that DNs, and their customers, would realise cost savings where weekly bookings were to be combined with annual bookings.[5] In the scenario provided for Gas Year 2022/23, initial booking costs would be reduced by 54% and final costs by around 12% once the revenue under-recovery has been recycled through NTS Capacity Charges.[6] The replacement of some annual bookings with weekly bookings at DN's, based on the scenario set out in Appendix 1 would generate a "revenue under-recovery" of £165m during Gas Year 22/23. If this is compared to NTS Direct Connects booking 50% of their historical bookings on a weekly basis, this would generate a "revenue under-recovery" of around £2m.

Based on the differences between the classes of NTS offtakes, in particular the commercial incentives placed upon them, the prescriptive drivers on DNs to book peak capacity and the broader charging impacts, caused by revenue under-recoveries, on NTS Direct Connects of introducing weekly auctions at DN NTS Exit Points, it is proposed that the weekly product should only be made available to NTS Direct Connect Exit Points.

4 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

Exit Capacity Release Methodology Statement: https://www.nationalgrid.com/uk/gas-transmission/uk/electricity-transmission/document/135876/download

Knowledge/Skills

No additional knowledge or skills required.

5 Solution

For this Modification to be implemented the provisions for a Weekly NTS Exit Capacity Auction would need to be included within UNC Transportation Principal Document (TPD) Section B, including:

- The capacity available at the Weekly NTS Exit Capacity auction is any Obligated Exit Capacity at any Direct Connect NTS Exit Point excluding Interconnectors (but not DN Exit Points) that has not previously been allocated as Enduring Annual NTS Exit (Flat) Capacity or Annual NTS Exit (Flat) Capacity.

[5] It should be noted that the analysis does not consider a change to bookings at NTS Direct Connects.

[6] In the analysis a Revenue Recovery Charge is generated to account for the revenue under-recovery caused by the DNs switching from annual to weekly bookings.

- The Weekly NTS Exit Capacity auction would take place between 08:00 and 17:00 at D-5 (where D is the first gas day of the weekly period, being a Monday).
- The Weekly NTS Exit Capacity allocation process take place on D-4. For the avoidance of doubt, any unsold capacity would be included in the volume to be released via the Daily NTS Exit (Flat) Capacity auctions.
- National Grid will inform each User of those of capacity bids which have been accepted and the amount of Weekly NTS Exit Capacity which it is registered as holding before the start of D-3.
- 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. Where a weekly period does cross two Gas Years then National Grid will notify Users 5 business days before the auction is due to take place.
- Where one or more Days in a calendar week fall within one Gas Year and the remaining Days in that calendar week fall in the next Gas Year and the Remaining Available NTS Exit (Flat) Capacity in each of the two years is a different amount, the amount of Weekly NTS Exit (Flat) Capacity comprised in the capacity invitation shall be determined taking the lower of the Remaining Available NTS Exit (Flat) Capacity on each Day in the two years.
- For the avoidance of doubt, upon implementation the prevailing Reserve Price and a Duration Multiplier of one (1) (as prescribed within UNC TPD Section Y for the current NTS Auctions) will be applied to the Weekly NTS Exit 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-IPs, this is reflective of the extent of the amendments that can be made by way of UNC amendment. It is also consistent with the implementation of UNC Modification 0752S.
- It is anticipated that there will not be any impacts on Day-Ahead Exit Capacity Auctions. Users are able to submit daily capacity bids at any time from 05.00 hours on D-7 until 00.00 on D[7]. Allocation of Daily Capacity commences at 15.00 on D-1. As the Weekly Exit Capacity Auction will allocate weekly strips on D-4, unsold capacity (for each day in the relevant week) will flow through to the Daily Capacity Auction allocation process.

[7] Note following the implementation of UNC Modification 0759 - *Enhancements to NTS Within-Day Firm Entry and Exit Capacity Allocations* on 24th April 2022 Users will be able to submit capacity bids up to 02:00 on D.

6 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.

Workgroup Response

Workgroup Participants did not identify any such impact.

Consumer Impacts

A Weekly Exit Capacity Product will enable Users to better align their capacity booking activities with customer needs, ensuring improved efficiencies and greater confidence that capacity can, and has been acquired to underpin customer flows. Currently, a User is only able to acquire Annual Capacity to provide customers with the assurance that capacity can be acquired on each day that it is needed, resulting in higher costs being incurred by the User and ultimately the customer.

Workgroup Response

Some workstream participants pointed out that this modification will allow only Direct (NTS) Connect Users access to the product.

A Workstream Participant pointed out that the analysis provided in the modification (Appendix 1) shows that the cost impacts on all Users would be immaterial. Another Participant pointed out that the benefits go beyond the focus of the gas market (i.e. generation and potentially other Users) and thus this proposal supports the operation of the Power Market.

The Proposer stated that the Weekly Product proposed under this modification simply provides those (NTS Direct Connect) Users with more certainty.

A Workstream Participant countered that the financial impact is shown as immaterial because the impacted Users can already access a short-term Daily product.

Some Workgroup Participants stated that the financial benefits of this service (if it were to be allowed for GDNs) could apply to GDNs and the customers that they represent through the cost pass-through mechanism. Those Workgroup Participants also argued that many of the benefits identified by the Proposer as falling to Shippers and customers (specifically items under the 1st, 2nd and 4th bullet point) apply equally to the GDNs.

Some Workgroup Participants submitted written comments for consideration by the 07 July Workgroup that addressed the justification put forward by the Proposer for **Exclusion of Distribution Network Exit Points** (see in ‘Why Change’ section above) from access to the proposed weekly product. Workgroup agreed that those comments be included in this report.

Modification text	***GDN comments***
Although the challenges faced by NTS Direct Connects can be applied to DNs several differences should be highlighted: *- Many Direct Connects are subject to greater variability and unpredictability in demand, due for*	*An equivalent variability exists for GDNs during the transition from summer to winter periods, also known as the ‘shoulder months’.*

example to activities in complimentary markets e.g. electricity markets	
- The costs of acquiring NTS Exit Capacity are incurred by NTS Direct Connects. In the case of DNs these costs can be passed on to shippers (and ultimately customers) through DN charges as there are no explicit commercial incentives placed on DNs to manage NTS Exit Capacity costs	*Capacity Outputs incentives were in place for the GDNs to encourage the booking of NTS Exit (Flat) Capacity to be made in an efficient manner. These have been removed under RIIO-2 and replaced with a new Licence Condition* ***SSpC A57: Exit Capacity Planning*** *which endeavours to produce a similar outcome.*
- DN licences oblige DNs to acquire NTS Exit Capacity to meet 1 in 20 demand conditions. Such an obligation does not apply to NTS Direct Connects	*As stated above, they also oblige the GDNs to book capacity efficiently. It could be argued that if the GDNs were given the opportunity to utilise this weekly capacity product, then there is the potential for greater efficiency.*
- DNs will book capacity at a number of NTS Exit Points to ensure that, in aggregate, they meet their licence obligations and are able to satisfy connected demand, potentially making shorter-term capacity products less attractive.	*This product has the potential to provide additional options to the GDNs in meeting Licence obligations as it is essentially a 'firm' product and not subject to curtailment in the event an NTS constraint is called.*
- DN Exit Points contribute around 60% of total Forecast Contract Capacity. Any reduction in aggregate bookings (and subsequent revenue contributions) will have a greater impact on charges than equivalent changes to NTS Direct Connect booking behaviours	*With the potential for Users to book capacity more in line with usage, by including the GDNs, it could be argued that future charges could be more cost reflective.*
- Permitting DNs greater flexibility in capacity booking may create issues for National Grid NTS in its operation and planning of the NTS.	*With the GDNs supplementing Annual Capacity with additional weekly bookings, this should provide more granular data than currently available. As this will be published in the ECPG reports and communicated in advance to National Grid, this should aid the operation and planning of the NTS rather than hinder.*

Cross Code Impacts

No Cross Code Impacts identified.

Workgroup Participants did not identify any impacts.

EU Code Impacts

No EU Code Impacts identified.

Workgroup Participants did not identify any impacts.

Central Systems Impacts

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

A ROM has been requested (see below)

Performance Assurance Considerations

Workgroup Participants have not identified any considerations.

Panel Questions

Q1. Impact of this Modification on charges (for example on annual capacity)

The Workgroup discussion of 5 May 2022 concluded with agreement by Workgroup Participants that there would be very little impact on charges dependent on behaviour. The views expressed were that current bookings of daily capacity may be converted to weekly but that annual bookings (by NTS Direct Connect Users) were unlikely to be substituted by weekly.

Q2. Should the Modification remain Self Governance

The Workgroup discussed this question on 5 May 2022 based on v1.0 of the Modification. Discussions concluded that it would depend on whether GDNs were to be excluded from the scope of this Modification. At Workgroup on 09 June 2022 the Proposer confirmed that the Modification would be formally amended to exclude GDNs, Workgroup agreed that the Modification would then need to follow Authority Direction Procedures. Modification v2.0 was subsequently published on 10 June 2022.

For further explanation of this point please see discussion captured below under Impact Assessment.

Workgroup Impact Assessment

May Workgroup

A Workgroup Participant queried whether Interconnector Points (IPs) would be included within the scope. The Proposer confirmed that as the product is not included in the CAM Code it would not be appropriate to include IPs within the scope of the service as that wouldn't be compliant with CAM.

A Workgroup Participant stated that Gas Distribution Networks (GDNs) have discussed the Exit Capacity Planning Guidance and changes for this year's process. It was noted that the Modification as initially presented (v1.0) appears to be written with an assumption that GDNs would not use the weekly product. However, having considered this the GDNs did not believe this should be assumed. The Workgroup discussed the potential drivers and consequences of GDN's use of weekly capacity.

A Workgroup Participant pointed out that GDNs have a licence obligation to book efficiently and if the product is available to them then they would be obliged to utilise it. GDNs currently book annual capacity and do not rely on Daily capacity as that may not be available to meet their 1-in-20 obligation. The Weekly product may however to sufficient to meet the need and thus could be a substitute for Annual. A change in GDN capacity booking might cause an unintended effect on revenue recovery. This in turn would need to be dealt with through adjustments to prices. As the total revenue to be recovered is the same it would potentially introduce extra complexity with no financial benefit for GDNs.

Workgroup Participants discussed whether it would be appropriate to discriminate between classes of parties seeking to book capacity. The Proposer explained that the Modification v1.0 had been drafted with a specific type of customer and that usage by GDNs was not seen as beneficial or required. The Workgroup considered the appropriateness of targeting the service to limited parties. Prior to the June 2022 Workgroup, a Workgroup

Participant representing GDNs asked that some analysis on the potential use by GDNs be provided to justify restricting the scope and to avoid an increase in unit costs for GDNs.

June and July Workgroup

Workgroup Participants heard a presentation covering the analysis provided in Appendix 1 at Workgroup on 09 June 2022. Some Workgroup Participants pointed out that the provision of analysis since the May meeting would lead to a different conclusion which is that if the service was made available to GDNs then costs to GDNs could reduce with an opposite increase in NTS costs. Subsequently, some Workgroup Participants provided written responses which were considered at the 07 July Workgroup.

"Whilst we recognise that the booking scenario discussed (in the Appendix) has been used to demonstrate the potential impact upon NTS charges, it should be made clear that the reality would be somewhat different. Many GDNs will have, in the 2021 Annual Application Window, booked long-term NTS Exit (Flat) Capacity at their offtakes in line with the latest available Peak 1-in-20 demand forecasts (as per the requirements of the ECPG). This will include bookings of Annual Capacity for Years 1, 2 and 3, and Enduring Annual Capacity for Years 4 onwards. With some 2022 Peak Day demand forecasts indicating a further increase, there is the potential to supplement existing booking levels with the new weekly product. In order for the GDNs i.e. their customers, to benefit from this product, they would need to reduce existing capacity bookings. The issue is existing holdings of Annual Capacity cannot be reduced and reductions can only be made to the Enduring Annual product, and only where User Commitment is not in place. The tables below summarises levels of User Commitment currently held by Cadent.

User Commitment
All LDZs

User Commitment Period	LDZ	Offtake	Comments
Mar 21 - Feb 25	EA	PETERBOREYE	PARCA Request
Oct 24 - Sep 26	EA	BACTON	Required to meet Peak Day demand
	EA	BRISLEY	
	EA	GTWILBRAHAM	
	EA	MATCHNGGREEN	
	EA	ROUDHAMHEATH	
	EA	ROYSTON	
	EA	WESTWINCH	
	EA	WHITWELL	
	EM	KIRKSTEAD	
	EM	SILKWILLOUGH	
	EM	SUTTONBRIDGE	
	EM	WALESBY	
	NW	AUDLEYNW	
	NW	ECCLESTON	
	NW	HOLMESCHAPEL	
	NW	LUPTON	
	NW	PARTINGTON	

User Commitment Period	LDZ	Offtake	Comments
Oct 24 - Sep 26	NW	SAMLESBURY	Required to meet Peak Day demand
	NW	WARBURTON	
	WM	AUDLEYWM	
	WM	LEAMINGTON	
	WM	LOWERQUINTON	
	WM	ROSSWM	
	WM	STRATFRDAVON	
Oct 25 - Sep 27	EM	ALREWASEM	
	EM	DROINTON	
	EM	TURLANGTON	
	NL	HORNDON	
	NL	PETERSGRNSM	
	NW	BLACKROD	
	WM	ALREWASWM	
	WM	ASPLEY	
	WM	AUSTREY	
	WM	RUGBY	

As can be seen from the above, in the majority of cases reductions to Enduring Annual Capacity cannot be made until 1st October 2026, with other others extending further still to October 2027. Therefore, even if this modification were to be implemented in 2022 and included the GDNs, it would be a number of years before a scenario similar to that described in Appendix1 would become possible. During the lead up to this, the GDNs would be able to amend the proposed capacity booking levels submitted to both NG and via the ECPG. Doing this would result in the Forecasted Contracted Capacity (FCC) being updated and charges amended accordingly, *hopefully ensuring both any revenue under-recovery is kept to a minimum and a more cost reflective NTS Charging Regime ensues."*

Some Workgroup participants felt that the availability of the Product to the GDNs would be more cost reflective and that this would be beneficial for the regime.

A Workgroup Participant pointed out that parties would have an opportunity to consider the analysis and provide their views in their consultation responses including the specific GDN points made in this Workgroup Report.

A Workgroup Participant pointed out that the future year benefits for GDNs (if they were allowed access) may be greater than indicated in the analysis part 1.

Rough Order of Magnitude (ROM) Assessment

The ROM[8] identifies that an enduring solution will cost at least £280,000 but probably not more than £365,000 to implement. The change is not expected to increase ongoing running costs.

This change would need to be prioritised through the DSC Change Management Committee alongside other changes within Xoserve's planned Gemini programme. Please note a lead time of 3 months for startup / sanction / mobilisation should be considered though there is the potential for this to be shortened subject to the delivery mechanism and availability of resources. The high-level estimate to develop and deliver this change is approximately 20 to 22 weeks for Analysis through to Post Implementation Support.

Workgroup Participants noted the content of the ROM.

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

[8] https://www.gasgovernance.co.uk/sites/default/files/ggf/book/2022-05/Mod%200805S%20XRN5502%20ROM%20Response%20V1.0.pdf

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

Relevant Objective:

a) This proposal furthers Relevant Objective (a) as implementing a Weekly NTS Exit Capacity auction will provide Users 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. By excluding DNs this ensures that National Grid NTS will have more confidence in the planning and operation of the NTS.

d) This proposal furthers Relevant Objective (d) by allowing Users to book NTS Exit Capacity that better reflects their anticipated gas flows (versus the current Annual Capacity products). This will reduce the cost of acquiring unwanted NTS Exit Capacity, where the alternative of relying on the daily product is perceived to be an unpalatable risk. In the case of NTS Direct Connects, demand tends to be unpredictable and variable which requires shippers to book capacity at relatively short notice.

Workgroup Response

A Workgroup Participant pointed out that the justification argued by the proposer is for NTS Direct Connect Users only.

Some Workgroup Participants disagreed with the statement made in support of Relevant Objective a) as National Grid already have Section H information and the addition of weekly data would supplement this.

Some Workgroup Participants disagreed with the statement made in support of Relevant Objective d) and suggested that the impact of implementation would be 'Negative' as the proposal excludes the GDNs and the customers (c.22 million) they represent. Some Workgroup Participants also responded to the statement made in support of Relevant Objective d) and pointed out that GDN also varies seasonally.

8 Implementation

The Modification should be implemented as soon as reasonably possible and is not required to be implemented at the start of a Gas Year, subject to UNC TPD Section Y 1.3.2 (j) regarding the publication of reserve prices.

20 June 2022: National Grid Comment:

Implementing the modification mid-year could provide Users with the opportunity to profile their capacity bookings more accurately during the summer months should they choose to. Mid-year implementation would likely cause an impact on expected revenues without the opportunity to account for that impact in the Forecasted Contracted Capacity and thereby adjust the Transmission Services Rates for the year ahead. However, the potential scale of the impact on revenues, as demonstrated in the proposer's analysis, is likely to be small without the influence of DNs, and so would likely be resolved by a small adjustment to "K" in the following year rather than requiring a within year Revenue Recovery Charge.

9 Legal Text

A first draft of Legal Text based on v1.0 of the Modification has been provided by National Grid and is published at https://www.gasgovernance.co.uk/0805/090622. The Workgroup has considered the Legal Text available at the June Workgroup and is satisfied that it meets the intent of the Solution. The Workgroup considered the updated text published at https://www.gasgovernance.co.uk/0805/070722 at the July meeting and remains satisfied that it meets the intent of the solution.

Some Workgroup Participants reflected that the overview of changes at the June Meeting had highlighted all the relevant changes. Following that review no further comments have been received.

Text Commentary

This legal text amends UNC TPD Section B by adding provision of a new product – Weekly NTS Exit Capacity Auctions. Majority of changes are contained within newly created paragraph 3.5 in UNC TPD Section B and throughout Annex B-1. For clarity, the whole of UNC TPD Section B has been included. A list of consequential referencing changes in other UNC sections is captured after changes to UNC TPD Section B.

Text

This is published alongside this report here:

https://www.gasgovernance.co.uk/sites/default/files/ggt/book/2022-06/UNC805%20text%20%28v2%29.pdf

10 Recommendations

Workgroup's Recommendation to Panel

- Agree that Authority Direction should apply.
- Issue this proposal for consultation.

11 Appendix 1

Part 1. Impacts of DNs acquiring the weekly product

Waters Wye Associates performed analysis which was subsequently presented to June 2022 Workgroup to quantify the impact on prices in a scenario where DNs were able to access the weekly product.

Based on information provided by Wales & West Utilities, a potential booking scenario for the purposes of assessing price impacts assumes that DNs profile NTS Exit Capacity bookings using a combination of annual and weekly tranches. Based on an assumption that the volume of annual bookings is equivalent to demand requirements on 20% of days (summer) with the remaining volumes booked on a weekly basis, the initial savings are 54% of the costs compared to booking the full peak day volume across 365 days.

Scenario – 2022/23 price impacts (54% reduction in DN initial costs)

NTS Exit Capacity Price = 0.0218 p/kWh/d

Total DN booking revenue: Peak Booking for 365 days = £317m

Total DN booking revenue: Annual + Weekly booking = £146m

Total DN booking revenue under-recovery = £171m

Revised NTS Exit Capacity Price (adjusted for under-recovery using RRC) = 0.03093 p/kWh/d

Total DN savings under this scenario = £38m

20 June 2022: National Grid Comment:

The proposer's analysis calculates a within year Revenue Recovery Charge rate. Using the FCC value applicable to the Gas Year to calculate the RRC value is a logical step and as a rough calculation this is effective.

We would note that the potential for a 54% reduction in GDN bookings due to use of the weekly auction process would likely generate a significant difference between overall bookings compared to FCC, and so an overall under recovery for the Gas Year (even when the Exit Transmission Services rates are combined with the calculated RRC) may still occur. This under recovery would flow into the following year.

A more detailed set of analysis, running the Allowed Revenues through a version of the pricing model which accommodates the 54% reduction in the combined GDNs FCC due to potential use of the weekly auctions, would likely generate an Exit rate higher than the combined Transmission rate and calculated RRC by the proposer. However, we note that this would be an extreme scenario and reality could well be closer to the rough calculations provided by the proposer.

Part 2. Impacts of NTS Direct Connects acquiring the weekly product

Waters Wye Associates performed analysis to quantify the impact on prices in a scenario where NTS Direct Connects were able to access the weekly product.

Using an extreme assumption that NTS Direct Connects converted 50% of their Annual Capacity Bookings during the period 1 October 2020 to March 2022, the reduction in revenue collected by National Grid NTS would be around £2m per annum, or 0.5% of total revenue to be collected from the sale of Exit Capacity products.

Observations

The analysis is very crude as it assumes that all DNs will tailor their booking behaviours in the same way, reducing annual bookings for the majority of the year while "topping up" with weekly bookings during higher demand periods. Total cost savings to the DNs under this scenario, following the redistribution and recovery of the resulting under-recovery are in the region of 12% of the total annual peak day booking requirement. Given

DN licences require bookings to align with 1 in 20 demand conditions and that there is no direct commercial incentive on DNs to manage costs, a mix of annual and weekly bookings consistent with this scenario is unlikely to be realised. Nonetheless, it is plausible that if the weekly product were to be made available to DNs that a combination of annual and weekly bookings could be acquired, reducing overall costs to DNs and their customers. For completion, it should be understood that any savings made by DNs would be recoverable from charges imposed on NTS Direct Connects.

Compared to the impacts of NTS Direct Connects accessing the weekly product, Part 2 of the analysis shows that even under an extreme scenario where 50% of annual bookings are replaced by weekly bookings, the resulting revenue under-recovery is immaterial (around £2m per annum).