

UNC Modification	At what stage is this document in the process?
<h1 data-bbox="134 322 655 416">UNC 0869:</h1> <h2 data-bbox="129 450 1166 808">Revision to the Calculation Methodology of the Security Amount for Planning and Advanced Reservation of Capacity Agreement (PARCA)</h2>	<div data-bbox="1209 309 1469 629"> <p>01 Modification</p> <p>02 Workgroup Report</p> <p>03 Draft Modification Report</p> <p>04 Final Modification Report</p> </div>
<p>Purpose of Modification:</p> <p>This Modification would revise the price used in the calculation of the Security Amount for reservation of Capacity through a Planning and Advanced Reservation of Capacity Agreement (PARCA) from a Weighted Average Price (WAP) for Entry and Exit sites to the Reserve Price. This will ensure the Security Amount reflects the current Reserve Price determination rather than an average of geographically different prices that are no longer applicable.</p>	
<p>Next Steps:</p> <p>The Proposer recommends that this Modification should be:</p> <ul style="list-style-type: none"> subject to Self-Governance assessed by a Workgroup <p>This Modification will be presented by the Proposer to the Panel on 21 March 2024. The Panel will consider the Proposer’s recommendation and determine the appropriate route.</p>	
<p>Impacted Parties:</p> <p>High:</p> <p>Low: Shipper Users, National Gas Transmission</p> <p>None:</p>	
<p>Impacted Codes:</p> <p>Uniform Network Code (UNC) Transportation Principal Document (TPD) Section Y</p>	

1 Summary

What

In respect of the process of adding a New Connection site to the National Transmission System (NTS), Entry or Exit Capacity can be reserved by the Customer while they develop their projects to ensure its future availability when the site comes online. The Total PARCA Security Amount (as defined in the UNC TPD paragraph 46 – Phase 2 – Reservation of Capacity under the PARCA) is calculated using a Weighted Average Price (WAP) based on all Entry Points or all Exit points, as directed by [UNC Modification 0465V](#). This Modification’s objectives were to provide more consistent and less variable PARCA Security Amounts while ensuring they better reflect the actual costs NGT incurs during the planning process.

Why

Since the implementation of [UNC Modification 0678A](#) (with effect from 01 October 2020) Capacity charging is now based on a ‘Postage Stamp’ methodology which publishes a single annual Reserve Capacity price for Entry and a single annual Reserve Capacity price for Exit.

Prior to UNC0678A, a Long Run Marginal Cost (LRMC) methodology was in place that produced geographically different prices for Capacity. Analysis in Modification 0465V showed that the variation for a PARCA Security Amount for a 50 GWh Exit requirement could vary from £18,000 to £5m, around the network. The former is clearly insufficient to cover the associated costs, whereas the latter could be seen as a barrier and thereby deter investment.

As such, using a WAP for the purposes of determining PARCA Security Amounts was considered relevant. Without discounts, the price generated under the WAP approach would result in the Reserve Capacity Price under the ‘Postage Stamp’ methodology. However, this method does not suitably differentiate for any applicable Specific Point Discounts that were introduced as part of UNC 0678A (e.g. for Storage sites that receive an 80% discount). The inclusion of the discounted Storage sites has the unintended consequence of reducing the WAP below the Reserve Capacity price. The materiality based on the current October 2023 Transportation Statement is displayed below.

ENTRY CHARGES	October 2023 (p/kWh/day)
Entry Reserve Price	0.0784
Entry Reserve Price with Storage Discount	0.0157
Entry PARCA WAP	0.0659

EXIT CHARGES	October 2023 (p/kWh/day)
Exit Reserve Price	0.0127
Exit Reserve Price with Storage Discount	0.0025
Exit PARCA WAP	0.0124

The proposer suggests the PARCA Security Amount WAP Methodology needs to be updated to better reflect the 'Postage Stamp' Charging Methodology now in place, yet still cover NGT's actual costs.

How

The proposed solution is to align the PARCA charges with the published Entry or Exit Reserve price as per the relevant published Transportation Statement. All sites would therefore pay the current Entry or Exit Reserve price.

As per the current charges applied from the October 2023 Transportation Statement, they would be:

ENTRY CHARGES	October 2023 (p/kWh/day)
Entry Reserve Price	0.0784

EXIT CHARGES	October 2023 (p/kWh/day)
Exit Reserve Price	0.0127

NGT believes that implementation of this change will increase market confidence relative to the current arrangements and therefore better facilitate the objectives of the Charging Methodology.

2 Governance

Justification for Self-Governance

As the Proposal seeks to align the existing methodology of UNC Modification 0678A with the PARCA process, the Proposer is of the view that there is insufficient materiality to require a decision from the Authority and should proceed as a Self-Governance Modification.

This Modification will only adjust the price used in the calculation of the total PARCA Security Amount, to be in line with prevailing methodology.

We do not believe that the Proposal has a material effect on existing or future gas Consumers or operation of Network Systems, nor will it reduce competition in the marketplace or unduly discriminate between different classes of UNC parties.

Requested Next Steps

This Modification should:

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

NGT believes that the changes proposed within this Proposal should be in place in time for the publication of the October 2024 Transportation Statement at the end of September 2024. We therefore propose that the Proposal proceeds to Panel, after assessment by Workgroup, for a Panel decision as soon as possible.

3 Why Change?

Why?

As per [UNC Modification 0727](#) a discount of 80% was enacted against Storage-related Entry and Exit Capacity charges “to prevent significant commercial impact for Storage Users which would ultimately have an adverse impact on security of price and supply for the GB market.” The logic of this discount is to ensure the ongoing Commercial viability of Storage Operations. The proposer believes that Project Development should be considered separately from Operations and this discount should not feed into the WAP calculations, nor should the discounted Storage price be used to calculate the PARCA Security Amount. To apply such a large discount would undermine one of the core principles of UNC Modification 0465V; namely to ensure NGT’s costs are covered.

Without this change, any site with a Specific Point Discount will feed into the WAP calculations, creating an under-priced Total PARCA Security Amount, whereas the Reserve Price should always be applied to meet the objectives of consistency, fairness and covering of costs.

The Proposer contends that updating the price that is used in the determination of the Total PARCA Security Amount has two key benefits:

- It is reflective of the current ‘Postage Stamp’ Charging Methodology; and
- Removes any artificial reductions of the Reserve Price from sites with Specific Point Discounts.

It is in keeping with the logic and spirit of UNC Modification 0678A and UNC Modification 0465V that this change be implemented.

4 Code Specific Matters

Reference Documents

[UNC TPD Section Y](#)

5 Solution

It is proposed that changes be made to the Transportation Principal Document, Section Y, to align the calculation of the PARCA Security Amount with the published Reserve Price for Entry and Exit sites.

6 Impacts & Other Considerations

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

None

Consumer Impacts

This proposal only updates the price used to calculate the Total PARCA Security Amount. Updating would likely decrease the likelihood of any socialisation of costs meaning any effect on Transportation Charges and therefore to the Consumer extremely unlikely.

What is the current consumer experience and what would the new consumer experience be?

None

Impact of the change on Consumer Benefit Areas:	
Area	Identified impact
Improved safety and reliability No Impact	None
Lower bills than would otherwise be the case No Impact	None
Reduced environmental damage No impact	None
Improved quality of service No impact	None
Benefits for society as a whole No impact	None

Cross-Code Impacts

None

EU Code Impacts

None

Central Systems Impacts

No impacts.

7 Relevant Objectives

Impact of the Modification on the Transporters' Relevant Objectives:	
Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	None

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.	Positive
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.	None
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

Impact of the Modification on the Transporters' Relevant Charging Methodology Objectives:

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

e) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	None
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Demonstration of how the charging Relevant Objectives are furthered:

c) Keeping the charging methodology in Section Y under review, this modification ensures the price used in the PACRA Security amount is consistent with the prevailing charging methodology.

Demonstration of how the charging Relevant Charging Methodology Objectives are furthered:

b) Making this update brings the calculation of the Total PARCA Security Amount more in line with the prevailing Reserve Price determination ensuring it better reflects prices payable at Specific Points (e.g. non-Storage and Storage) without unintentional socialisation.

8 Implementation

Implementation of this Proposal should take effect in time to be reflected in the Transportation Charges that will apply from 01 October 2024. Ideally any change would be in place before the publication of the Transportation Statement prior to October 2024.

9 Legal Text

Text Commentary

Legal text to follow.

Text

Legal text to follow.

10 Recommendations

Proposer's Recommendation to Panel

Panel is asked to:

- Agree that Self Governance procedures should apply.
- Refer this proposal to a Workgroup for assessment.