




| UNC Final Modification Report | At what stage is this document in the process? |
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| <h1>UNC 0779 0779A:</h1> <h2>0779 - Introduction of Entry Capacity Assignments</h2> <h2>0779A - Introduction of Entry Capacity Assignments with Defined End Date</h2> | <div>01 Modification</div> <div>02 Workgroup Report</div> <div>03 Draft Modification Report</div> <div>04 Final Modification Report</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>Panel recommended implementation of both</p> <ul style="list-style-type: none"> Modification 0779 Modification 0779A. | |
| <p>Impacted Parties:</p> <p>Medium Impact: NTS Users</p> | |
| <p>Impacted Codes:</p> <p>N/A</p> | |

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| Timetable | |  0121 288 2107 |
| Modification timetable: | | 0779 Proposer: Daniel Hisgett National Grid NTS |
| 0779 Pre-modification Discussion | 05 August 2021 |  enquiries@gasgovernance.co.uk |
| 0779A Pre-modification Discussion | 07 September 2021 |  daniel.hisgett@nationalgrid.com |
| 0779 Modification considered by Panel | 19 August 2021 |  07971500855 |
| 0779A Modification considered by Panel | 16 September 2021 | 0779A Proposer: Lauren Jauss RWE Supply & Trading GmbH |
| Initial Consideration by Workgroup | 07 September 2021 |  Lauren.jauss@rwe.com |
| Workgroup Report presented to Panel | 20 January 2022 |  07825 995497 |
| Draft Modification Report issued for consultation | 21 January 2021 | Transporter: National Grid NTS |
| Consultation Close-out for representations | 11 February 2022 |  box.gsoconsultations@nationalgrid.com |
| Final Modification Report available for Panel | 14 February 2022 | Systems Provider: Xoserve |
| Modification Panel decision | 17 February 2022 |  UKLink@xoserve.com |

1 Summary

What

0779

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.

0779A

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).

Why

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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; and
- enables the benefits and potential discounts associated with holding both the capacity and liability simultaneously.

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.

0779A

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, so that capacity utilisation better matches flow requirements;
- provide a route to procure additional primary capacity for a limited period, particularly where no remaining capacity is available in auctions; and
- Incentivise more long term capacity bookings by giving Users greater optionality on their capacity holdings.

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.

This Proposal includes improved functionality and benefits for Users compared with Modification 0779, whilst the cost estimate from XOServe for Central Systems Development is the same for both solutions.

How

0779

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 and the European Interconnection Document would be required to facilitate this.

Users would be able to assign Capacity and associated liability in the auction types in which they were purchased, i.e. monthly or quarterly depending on the make-up of their capacity portfolio. Users would be able to assign any volume, in whole kilowatt hours, within that auction purchase, consistent across the period defined, rather than on an all or nothing basis.

For the avoidance of doubt capacity acquired via Short-term, weekly, on the day and day ahead auctions would be excluded from this.

0779A

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.

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.

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.

2 Governance

0779 Justification for Authority Direction

The proposed changes create a potential monetary benefit for a small subset of customers, i.e. holders of Existing Contracts who are in a position to maximise their Storage discounts and discounts associated with the Avoidance of Inefficient Bypass of the Network arrangements introduced by UNC0728B, by use of Entry Assignments. The impacts would not disadvantage any User type more or less than any other, however these impacts will have an effect on transportation and contractual arrangements for Shippers and therefore Authority Direction is proposed.

We believe it is also important to highlight that this modification is introducing a new product. The concept of Entry Assignments does not currently exist in the UNC. UNC Modification 0775S – Enhancement of Exit Assignments was viewed as a Self-Governance Modification as it enhanced an existing process and didn't create any new impacts on users.

0779A Justification for Self-Governance

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.

National Grid Gas have subsequently estimated an upper-bound maximum possible impact of this modification on Entry Reserve Prices as a result of increased eligibility for storage and inefficient bypass (shorthaul) discounts based on the current charging arrangements. However, there is no forecast of the actual expected utilisation of inefficient bypass or storage discounts, which are likely to be significantly lower than the upper-bound maximum volumes.

Panel's view on Governance

At the Panel Meeting on 16 September 2021 Panel Members determined that Modification 0779A did not meet the Self-Governance criteria and should proceed under Authority Direction.

Requested Next Steps

These Modifications should:

- be considered a material change and not subject to self-governance
- proceed to Consultation

3 Why Change?

0779

Following implementation 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 retain the liability for that capacity; or
2. choose to surrender all capacity back to National Grid via a voluntary discontinuance.

The proposed introduction of Assignments provides an alternative option which would allow Users to transfer, on a Monthly or Quarterly basis, 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 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 licence being maintained simply to continue these arrangements and no other purpose.

Managing and shaping capacity levels ahead of time can be achieved currently though 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.

National Grid believes that this gives Users another tool with which they can better manage their portfolios, and which could also give National Grid NTS more reflective long-term signals compared with the current regime.

Without this change Users will continue to find the best way to manage and profile capacity under the current rules, but National Grid 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.

0779A

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 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 though 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.

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.

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.

4 Code Specific Matters

Reference Documents

Transportation Principle 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>

EU Tariff Code (Regulation 2017/460)

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

European Interconnection Document

<https://www.gasgovernance.co.uk/sites/default/files/ggf/page/2021-03/4%20EID%20Section%20B%20-%20Capacity.pdf>

Exit Capacity Release Methodology Statement

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

The Entry Capacity Transfer and Trade Methodology Statement

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

5 Solution

0779

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 within the current paragraph 6 which relates to the existing Capacity Assignment arrangements.

1. Implementation would allow Users to select a portion of their Monthly and/or Quarterly booked capacity and transfer both capacity and associated liability to a second User.
2. Users would only be able to assign in the capacity auction periods the capacity was booked in, but
3. Users will be able to assign any volume, from 1 kWh/day for the full period, up to the full booking.
4. 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.
5. The assignee would also pay any Entry Transmission Services Revenue Recovery Charges applicable to the Capacity and for the period of the assignment.
6. This functionality would be available at all Entry Points including Interconnectors, 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.
7. An assignment will not be permitted where it conflicts with any NTS Capacity Transfer already in place and accepted by National Grid NTS.

0779A

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 assignee would also pay any Entry Transmission Services Revenue Recovery Charges applicable to the Capacity and for the period of the assignment.
4. 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.

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

0779

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.

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.

Improved long-term signals industry could see more stable pricing.

Some cost implications have been identified which arise in specific scenarios. Potential Rates were estimated to 2031/32, the remainder of the period for which Existing Contracts are held. Beyond the existing published provisional rates, future periods are based on the final year of RII02 Revenues, 2025/26, plus a 2% increase each year, and the current forecasted FCC inputs for the same year, 2025/26.

For each Entry Point a maximum available discount was identified:

80% for Storage Sites

Between 23% & 90% calculated for Entry Points potentially eligible for the short-haul discount

0% elsewhere

Where a Potential Entry Rate for a period was lower than the applicable Existing Contract rate at a point where a discount was available the difference was calculated and multiplied by the available Existing Contract Volume for the period. These values were totalled by period and their potential impact on Rates calculated. These are assumed to be the worst-case revenue under recovery scenarios.

These impacts all arise where Entry Assignments are used in conjunction with Existing Contracts and Short-haul discounts. Currently there are no impacts arising at Storage sites, however these benefits would increase and could also arise at Storage Sites in some scenarios under potential future charging modifications.

The impacts to Users are detailed in the table below. We believe these are significant enough to warrant Authority Direction and will need to be kept under review and assessed in line with future network usage and alongside changes to the Charging Regime.

| | Entry TS Reserve Price p/kWh | Revenue Impact | Adjusted Entry TS Reserve Price p/kWh | Rate Impact p/kWh | Rate Impact |
|---------|------------------------------------|-------------------|---|-------------------------|----------------|
| 2022/23 | 0.0774 | £4,155,793.52 | 0.0782 | 0.0008 | 1.08% |
| 2023/24 | 0.0678 | £19,363,346.74 | 0.0704 | 0.0026 | 3.79% |
| 2024/25 | 0.0666 | £17,100,094.28 | 0.0693 | 0.0027 | 4.05% |
| 2025/26 | 0.0724 | £15,247,177.23 | 0.0750 | 0.0026 | 3.54% |
| 2026/27 | 0.0619 | £15,420,600.00 | 0.0641 | 0.0022 | 3.51% |
| 2027/28 | 0.0602 | £10,223,850.00 | 0.0616 | 0.0014 | 2.28% |
| 2028/29 | 0.0544 | £10,489,500.00 | 0.0557 | 0.0013 | 2.30% |
| 2029/30 | 0.0474 | £9,009,000.00 | 0.0483 | 0.0009 | 1.93% |

| | | | | | |
|---------|--------|-------|--------|--------|-------|
| 2030/31 | 0.0468 | £0.00 | 0.0468 | 0.0000 | 0.00% |
| 2031/32 | 0.0477 | £0.00 | 0.0477 | 0.0000 | 0.00% |

0779A

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 and Inefficient Bypass discounts, 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. Utilisation of these discounts are already taken into account when calculating Reserve Entry Capacity prices for all Users under the existing arrangements, and therefore increased discount eligibility will increase the Reserve Entry Capacity prices across all Users procuring Entry Capacity to a very small degree. However, most importantly, the Proposer believes that the correct counterfactual to the increased discounts and slightly increased Reserve Entry Capacity prices of this Proposal is the continuation of the status quo with increased incidence of inefficient bypass which would result in much higher Entry Capacity Reserve Prices, as well as reduced utilisation of storage, both of which would be much more detrimental to consumers.

National Grid Gas have estimated an upper-bound maximum possible impact of this modification on Entry Reserve Prices as a result of increased eligibility for storage and inefficient bypass discounts based on the current charging arrangements. However, there are no forecasts of the actual expected utilisation discounts, which are likely to be significantly lower than the upper-bound maximum volumes (particularly for this Alternative which proposes allowing assignments for a limited period rather than the full duration of a capacity contract). In 2022/23, the upper-bound estimated impact on Entry Capacity Reserve Prices presented by National Grid is 1.08% assuming no inefficient bypass and (which equates to 0.0008p/kWh or £4.2m), rising to the highest level of 4.05% in 2024/25 (which equates to 0.0027p/kWh or £17.1m) as storage discount eligibility increases, before reducing to 2.28% by 2027/28 and having no impact by 2030/31.

The Rough Order of Magnitude Response provides a cost estimate from XOServe for Central Systems Development which is the same for both this Proposal and Modification 0779. This means that the additional functionality and benefits for Users from this Proposal can be delivered at a very similar if not identical cost as Modification 0779.

0779 Impact of the change on Consumer Benefit Areas:

| Area | Identified impact |
|--|-------------------|
| Improved safety and reliability | None |
| Lower bills than would otherwise be the case | None |
| Reduced environmental damage | 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 |
| Benefits for society as a whole | None |

0779A Impact of the change on Consumer Benefit Areas:

| Area | Identified impact |
|--|-------------------|
| Improved safety and reliability N/A | None |
| Lower bills than would otherwise be the case 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. | Positive |
| 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 |
| Benefits for society as a whole N/A | None |

Cross Code Impacts

None

EU Code Impacts

No changes are proposed which would impact EU Codes.

National Grid 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

0779

System enhancements would be required in Gemini to enable these changes.

The change would need to be prioritised through the Change Management Committee alongside other changes within Xoserve's planned Gemini programme.

There will be a lead time of 3 months for startup/sanction/mobilisation which should be considered. There is the potential for this to be shortened subject to the delivery mechanism and availability of resources and interaction with other Modifications in flight.

The high-level estimate to develop and deliver this change is approximately 28 to 30 weeks for Analysis through to Post Implementation Support.

An enduring solution will cost at least £435,000 but probably not more than £560,000 to implement and the change is not expected to increase ongoing running costs.

The estimated timescale and cost range is applicable to both UNC Modification 0779 and the alternate, UNC Modification 0779A.

0779A

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The estimated timescale and cost range is applicable to both UNC Modification 0779 and the alternate, UNC Modification 0779A.

Panel Questions

Q1. What are the merits of the alternative Modification 0779A Capacity exclusion aspects?

Q2. Do you have any views around redistribution of costs and likelihood of under recovery of costs for National Grid?

The Workgroup on 29 November 2021 reconsidered this question and the comments of the proposer that the impact of the Modification may provide benefits to a small number of users of the assignment facility but may also lead to higher costs for other Users as the total revenue collection by National Grid would remain the same, i.e. the effect is redistributive. A Workgroup Participant pointed out that the modification would introduce an assignment facility that is already available for exit points so is not a 'new' service and that the analysis provided (see table above) showed only small percentage changes in costs for users and that these would not be significant enough to warrant Authority Direction.

Workgroup Impact Assessment

A Workgroup Participant pointed out that if neither modification is implemented then there is a risk that users cannot access benefits and discounts associated with storage and short-haul. This may lead to under-utilisation of storage and possibly bypass of NTS. Modification 0779 may partially address these issues whilst 0779A may do so to a greater extent.

Rough Order of Magnitude (ROM) Assessment

A ROM (XRN5444) was considered by the Workgroup on 29 November 2021 indicating a cost range of £435k-£560k. The CDSP service provider has confirmed that the cost and timescale range is the same for both 0779 and 0779A.

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 |
| 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 |

0779

The Modification will allow Shippers another option when acquiring or disposing of capacity at an ASEP. National Grid believes it will aid long-term profiling and reduce reliance on the short-term markets which could provide National Grid NTS with more reliable long-term booking data, leading to better forecasts in relation to network capability & investment needs as well as providing more accuracy & stability in price setting.

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 proposal will provide a potential route to avoid over reliance on short term markets.

0779A

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.

The Proposer believes that the cost / benefit for this Proposal is more optimal for consumers than Modification 0779 because of the additional features increased market efficiency and hence benefits whilst the costs of the two different solutions are the same,

Workgroup Comments

Workgroup Participants agreed with the assessments relating to the relevant objectives. Some Workgroup Participants expressed a preference for the 0779A as it appears to be more market focussed and provides greater flexibility for System Users and thus would further the objectives to a greater extent.

8 Implementation

0779

Timescales provided by the ROM suggest a period of 10 months would be required from project set up to implementation.

The proposed date for a Panel decision is 20 January 2022. Applying the proposed timescales to this would suggest mid to late November before implementation, but this does not incorporate Ofgem's decision period.

Based on this, a release date in Spring 2023 would be more realistic.

0779A

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

The Modification 0779 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 for Modification 0779A.

A Workgroup Participant at the November 2021 meeting noted that the existence of both the original modification and the alternate means that the spring 2023 implementation may be more realistic.

9 Legal Text

Legal Text for 0779 and 0779A has been provided by National Grid Gas and is published alongside this report. The Workgroup has considered the Legal Text for both proposals and is satisfied that it meets the intent of the respective Solutions.

10 Consultation

Panel invited representations from interested parties on 20 January 2022. All representations are encompassed within the Appended Representations section.

The following table provides a high-level summary of the representations.

Of the 6 representations received 6 unanimously supported implementation of Modification 0779.

Of the 6 representations received 5 supported implementation of Modification 0779A and 1 provided comments.

Representations were received from the following parties:

| Organisation | Response | Preference | 0779 Relevant Objectives | 0779A Relevant Objectives |
|---|------------------------------------|------------|----------------------------|----------------------------|
| ExxonMobil Gas Marketing Europe Limited (EMGME) | 0779 - Support 0779A - Support | 0779A | a) positive d) positive | a) positive d) positive |
| Interconnector Limited | 0779 - Support 0779A - Support | 0779A | a) positive d) positive | a) positive d) positive |
| National Grid NTS | 0779 - Support 0779A - Comments | 0779 | a) positive d) positive | a) positive d) negative |
| RWE Supply & Trading GmbH | 0779 - Support 0779A - Support | 0779A | a) positive d) positive | a) positive d) positive |
| South Hook Gas Company Ltd | 0779 - Support 0779A - Support | 0779A | a) positive d) positive | a) positive d) positive |

| | | | | |
|-----|-----------------------------------|-------|----------------------------|----------------------------|
| SSE | 0779 - Support 0779A - Support | 0779A | a) positive d) positive | a) positive d) positive |
|-----|-----------------------------------|-------|----------------------------|----------------------------|

Please note that late submitted representations will not be included or referred to in this Final Modification Report. However, all representations received in response to this consultation (including late submissions) are published in full alongside this Report and will be taken into account when the UNC Modification Panel makes its assessment and recommendation.

11 Panel Discussions

Discussion

The Panel Chair summarised that Modification 0779 and Modification 0779A would provide additional flexibility for Users to assign their Entry Capacity in full or in part. Modification 0779A proposed greater freedom in respect of the duration of period that may be assigned and would permit the assignment with a shorter notice period.

Panel Members considered the representations made, noting that:

- Of the 6 representations received 6 unanimously supported implementation of Modification 0779.
- Of the 6 representations received 5 supported implementation of Modification 0779A and 1 provided comments.
- 5 out of 6 expressed a preference for Modification 0779A.

Panel Members agreed with respondents and the Proposer that Modification 0779 would bring an alignment between the facilities for assignment of Capacity at Exit and Entry and may lead to a more efficient utilisation of Entry Capacity. Panel Members noted the observation made by National Grid that the greater flexibility permitted under Modification 0779A would reach beyond such alignment and would create a disparity between Entry and Exit arrangements. Panel Members considered the argument put in the response from South Hook Gas that Modification 0779A better reflects the needs of Users with flexible assets such as short-term storage sites and Interconnectors.

Some Panel Members believed that, on balance, the advantages of greater flexibility facilitated by Modification 0779A outweigh any disadvantages arising through the disparity of Entry and Exit Capacity arrangements that would result, because the proposal better reflects the needs of Users of Entry Capacity.

Some Panel Members believed that keeping alignment of Entry and Exit (as proposed in Modification 0779) is desirable because assignment ought to be relevant for the term of the capacity product. Modification 0779A proposes that a User can assign on a shorter basis, however this is available under the capacity transfer product, therefore assignment should be for the duration of the contract. Equivalent arrangements on Entry and Exit avoids the potential for confusion. For short term changes, the capacity transfer process is the one to use. For longer term changes, the new process proposed under Modification 0779 is applicable. If the arrangements in Modification 0779A were implemented and the primary holder of capacity had access to short haul or storage discounts in relation to that capacity, that would be passed on to the assignee. That would then result in the new user paying less and this “loss” has to be recouped from elsewhere; this may not be good for the stability of charges.

Some Panel Members countered that the discount exists already; if the existing holder flows against it, they would get access to the discount. Utilisation of the new Modification 0779A process could make it more difficult for National Grid to predict where discounted capacity is being used.

A Panel Member argued that Modification 0779A creates more flexibility and with it more complexity, Users are expected to understand this. Arguing that simplicity is good has limited usefulness here.

Some Panel Members noted that in terms of implementation costs, Modification 0779A offers more flexibility for what is expected to be the same cost of implementation

Panel Members noted that the illustrative analysis provided by National Grid on the financial impact on Entry Reserve Prices showed a 'worst case' position and that in the view of most respondents the effect would be smaller.

Panel Members noted that the timescale for systems development leads to a conclusion that April 2023 is a realistic target for implementation, depending on the DSC Change Management Committee's determinations.

Panel Members noted that implementation is in the Gemini system. National Grid confirmed that Gemini system change costs are borne by NG. Panel Members noted that ultimately these spread across all Users.

Consideration of the Relevant Objectives

Panel Members considered Relevant Objective a) *Efficient and economic operation of the pipe-line system*, agreeing that implementation of Modification 0779 or Modification 0779A would have a positive impact because users would have greater ability to apply capacity discounts (e.g. shorthaul) greater flexibility to acquire and utilise capacity in the secondary capacity market, and more efficient utilisation of booked capacity thereby encouraging use of the Network.

Panel Members considered Relevant Objective d) *Securing of effective competition between Shippers and/or Suppliers*, agreeing that implementation of Modification 0779 would have a positive impact because it would give new entrants an alternative to the short-term auctions and enables the benefits and potential discounts associated with holding both the capacity and liability simultaneously.

Some Panel Members believed that Modification 0779A further Relevant Objective d) more than Modification 0779 because it offers additional flexibility for Users.

Determinations

Panel Members voted unanimously that both Modifications 0779 and 0779A do not have an SCR impact.

Panel Members voted unanimously that both Modifications 0779 and 0779A do not have a Cross code impact.

Panel Members voted unanimously that no new issues were identified as part of consultation for both Modifications 0779 and 0779A.

Panel Members voted unanimously to recommend implementation of Modification 0779.

Panel Members voted unanimously to recommend implementation of Modification 0779A.

Panel Members considered, should one of the Modifications be implemented, which one better facilitated the achievement of the Relevant Objectives. The conclusion of this 'preference' vote was that proposed Modification 0779A better facilitates the achievement of the Relevant Objectives than proposed Modification 0779, with 7 votes in favour (out of a possible 14).

12 Recommendations

Panel Recommendation

Panel Members recommended:

- that Modification 0779 should be implemented.
- that Modification 0779A should be implemented.

13 Appended Representations

Representation - ExxonMobil Gas Marketing Europe Limited (EMGME)

Representation - Interconnector Limited

Representation - National Grid NTS

Representation - RWE Supply & Trading GmbH

Representation - South Hook Gas Company Ltd

Representation - SSE

Representation - Draft Modification Report UNC 0779 0779A

0779 - Introduction of Entry Capacity Assignments 0779A - Introduction of Entry Capacity Assignments with Defined End Date

Responses invited by: **5pm on 11 February 2022**

To: enquiries@gasgovernance.co.uk

Please note submission of your representation confirms your consent for publication/circulation.

| | |
|---|---|
| Representative: | Chris Wright |
| Organisation: | ExxonMobil Gas Marketing Europe Limited (EMGME) |
| Date of Representation: | 11 February 2022 |
| Support or oppose implementation? | 0779 - Support 0779A - Support |
| Alternate preference: | <i>If either 0779 or 0799A were to be implemented, which would be your preference?</i> 0779A |
| Relevant Objective: | 0779 a) Positive d) Positive 0779A a) Positive d) Positive |
| Relevant Charging Methodology Objective: | Not Applicable |

Reason for support/opposition: Please summarise (in one paragraph) the key reason(s)

We agree that either of these modification proposals would facilitate more efficient capacity holding and utilisation for the reasons outlined in the Draft Modification Report. In particular we would cite greater ability to apply capacity discounts e.g. shorthaul, greater flexibility to acquire and utilise capacity in the secondary capacity market, and more efficient utilisation of booked capacity.

It's impossible to know with any level of certainty what impact, if any, either of these proposals would have on prevailing reserve prices, as this is ultimately dependent upon utilisation of the assignment process and any resulting increase in the application of capacity discounts. On balance, however, we believe that the benefits of increased flexibility brought about by the ability to assign capacity are likely to outweigh any increase in underlying reserve prices.

Our preference is for 0779A due to the greater flexibility it is likely to offer vs 0779.

Implementation: *What lead-time do you wish to see prior to implementation and why?*

We would like the benefits of either of these two proposals to flow through to network users as soon as possible.

Impacts and Costs: *What analysis, development and ongoing costs would you face?*

We wouldn't be faced with any direct additional costs if either of these two proposals were implemented.

Legal Text: *Are you satisfied that the legal text will deliver the intent of the Solution?*

The legal text appears to deliver the intention of these proposals although we haven't conducted a thorough legal review.

Modification Panel Members have requested that the following questions are addressed:

Q1. What are the merits of the alternative Modification 0779A Capacity exclusion aspects?

0779A would appear to offer additional flexibility vs 0779.

Q2. Do you have any views around redistribution of costs and likelihood of under recovery of costs for National Grid?

No.

Are there any errors or omissions in this Modification Report that you think should be taken into account? *Include details of any impacts/costs to your organisation that are directly related to this.*

No.

Please provide below any additional analysis or information to support your representation

N/A.

Representation - Draft Modification Report UNC 0779 0779A

0779 - Introduction of Entry Capacity Assignments 0779A - Introduction of Entry Capacity Assignments with Defined End Date

Responses invited by: **5pm on 11 February 2022**

To: enquiries@gasgovernance.co.uk

Please note submission of your representation confirms your consent for publication/circulation.

| | |
|---|---|
| Representative: | Pavanjit Dhesi |
| Organisation: | Interconnector Limited |
| Date of Representation: | 10/02/22 |
| Support or oppose implementation? | 0779 - Support 0779A - Support |
| Alternate preference: | <i>If either 0779 or 0799A were to be implemented, which would be your preference?</i> 0779A |
| Relevant Objective: | 0779 a) Positive d) Positive 0779A a) Positive d) Positive |
| Relevant Charging Methodology Objective: | Not Applicable |

Reason for support/opposition: Please summarise (in one paragraph) the key reason(s)

The Uniform Network Code allows for assignment of capacity and liability between Users at Exit Points. Either of these modification proposals will provide users with greater flexibility with respect to entry capacity holdings by enabling assignment of capacity and liability between Users at these points as well (in full or in part). It can therefore further facilitate secondary market trading, use of capacity and reduce the administrative burden on shippers. UNC779A provides additional system flexibility to users, which is why, on balance, it is the preferred proposal.

Implementation: *What lead-time do you wish to see prior to implementation and why?*

As soon as practicable.

Impacts and Costs: *What analysis, development and ongoing costs would you face?*

-

Legal Text: *Are you satisfied that the legal text will deliver the intent of the Solution?*

-

Modification Panel Members have requested that the following questions are addressed:

Q1. What are the merits of the alternative Modification 0779A Capacity exclusion aspects?

The alternative UNC 779A provides additional flexibility to system users which should further facilitate the identified objectives a) and d). It allows for notification of capacity assignments up to day ahead of delivery, rather than the original proposal's 5 business days. It is also noted there is no cost difference suggested by the ROM estimation from the provision of the additional flexibility outlined in the UNC779A proposal.

Q2. Do you have any views around redistribution of costs and likelihood of under recovery of costs for National Grid?

Insert Text Here

Are there any errors or omissions in this Modification Report that you think should be taken into account? *Include details of any impacts/costs to your organisation that are directly related to this.*

-

Please provide below any additional analysis or information to support your representation

-

Representation - Draft Modification Report UNC 0779 0779A

0779 - Introduction of Entry Capacity Assignments 0779A - Introduction of Entry Capacity Assignments with Defined End Date

Responses invited by: **5pm on 11 February 2022**

To: enquiries@gasgovernance.co.uk

Please note submission of your representation confirms your consent for publication/circulation.

| | |
|---|--|
| Representative: | Daniel Hisgett |
| Organisation: | National Grid NTS |
| Date of Representation: | 11 February 2022 |
| Support or oppose implementation? | 0779 - Support 0779A - Comments |
| Alternate preference: | <i>If either 0779 or 0799A were to be implemented, which would be your preference?</i> 0779 |
| Relevant Objective: | 0779 a) Positive d) Positive 0779A a) Positive d) Negative |
| Relevant Charging Methodology Objective: | Not Applicable |

Reason for support/opposition: Please summarise (in one paragraph) the key reason(s)

0779:

As proposer of this Modification 0779, which looks to replicate the current Exit Assignment arrangements at Entry Point, National Grid NTS supports its implementation. Enabling Entry Capacity Assignments gives Users an enhanced level of

flexibility when managing their Capacity portfolio, giving them greater opportunity to optimise their portfolio and providing National Grid NTS more accurate long-term signals which makes the modification positive for Relevant Objective a) Efficient and economic operation of the pipe-line system.

It has the potential to reduce their administrative burden and the risks associated with long-term transfer of capacity to other Users. 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.

It gives new entrants an alternative to the short-term auctions and enables the benefits and potential discounts associated with holding both the capacity and liability simultaneously and so is positive for Relevant Objective d).

0779A:

The alternate Modification, 0779A, provides additional functionality in comparison to the existing Exit Assignment arrangement, which creates a new disparity between Exit and Entry which 0779 would redress. Whilst NGG believes that the Alternate offers similar benefits, we believe that this is to a lesser extent for Relevant Objective a) due to the inclusion of the short-term, partial period assignment ability, the inclusion of the weekly capacity auction and the shorter notice period. Overall, we feel it is still a positive change towards Relevant Objective a).

However, the additional features offered by UNC0779A begin to significantly overlap with the existing Capacity Transfer product and are therefore not specifically required to allow the movement of capacity on an interim basis. NGG believes that an Assignment is, by its nature, permanent and cannot be for a specified time-period. National Grid believe that an assignment should be considered a commitment to holding the capacity long term rather than it being a temporary exchange.

National Grid therefore believes that overall, there would be a negative impact on competition and so this Modification is negative in relation to Relevant Objective d).

Implementation: *What lead-time do you wish to see prior to implementation and why?*

Spring 2023 is the timeline proposed in the modification. This may flex dependant on Ofgem's decision timeline and where there is opportunity to combine implementation with other projects, whether inflight or proposed to run on a similar timescale.

Impacts and Costs: *What analysis, development and ongoing costs would you face?*

System enhancements will be required in Gemini to enable these changes which will be funded by NGG.

The published ROM indicates that should the modification be implemented there will be a lead time of 3 months for start-up, sanction & mobilisation which should be considered. There is the potential for this to be shortened, subject to the delivery mechanism, availability of resources and interaction with other Modifications inflight.

The high-level estimate to develop and deliver this change is approximately 28 to 30 weeks for Analysis through to Post Implementation Support.

An enduring solution will cost at least £435,000 but probably not more than £560,000 to implement and the change is not expected to increase ongoing running costs. These figures are the same for both the original and the alternative modification.

Legal Text: *Are you satisfied that the legal text will deliver the intent of the Solution?*

Yes, the legal text satisfies the intent of the solution.

Modification Panel Members have requested that the following questions are addressed:

Q1. What are the merits of the alternative Modification 0779A Capacity exclusion aspects?

National Grid view Capacity Assignment as a long-term solution to a shortage or excess of Capacity held by a User. Short term adjustments can already be made via the Capacity Transfer processes and so the inclusion of weekly capacity auctions as an Assignable product appears to be inconsistent with the need for Capacity Assignment at Entry, as does the ability to end date what should be a permanent Assignment of Capacity.

Q2. Do you have any views around redistribution of costs and likelihood of under recovery of costs for National Grid?

The redistribution of costs analysis is likely a worst-case scenario based on current capacity usage, though these figures may evolve over time as the charging methodology becomes embedded and Shipper behaviours adapt.

The additional features of the alternative would allow users to optimise the benefits available to them, potentially increasing the impact compared with UNC0779. These should remain within the worst-case scenario figures in the short term but will need to be monitored should a change be implemented.

Under either proposal the potential for under-recovery against forecasts, due to optimisation of capacity bookings, would be assessed as part of the annual charge setting process. Should it be appropriate, an amendment to the Forecasted Contracted Capacity (FCC) Methodology could be discussed as part of an FCC review for the year of implementation. The FCC calculations for following years would be unaffected as any known behavioural changes would be reflected via the current FCC process.

The proposer of the alternative has also noted, in their modification and the workgroup report, the additional benefits they expect to gain via the interaction with the Conditional NTS Capacity Charge Discount (CNCCD) product should the alternative be implemented. This is something NGG believe will need to be monitored, under both modifications, to ensure the benefits afforded by the CNCCD product are appropriate as part of the overall charging methodology and consider any reciprocal impact on other charges.

Are there any errors or omissions in this Modification Report that you think should be taken into account? *Include details of any impacts/costs to your organisation that are directly related to this.*

None.

Please provide below any additional analysis or information to support your representation

All analysis required has been submitted as part of the Workgroup Report.

Representation - Draft Modification Report UNC 0779 0779A

0779 - Introduction of Entry Capacity Assignments 0779A - Introduction of Entry Capacity Assignments with Defined End Date

Responses invited by: **5pm on 11 February 2022**

To: enquiries@gasgovernance.co.uk

Please note submission of your representation confirms your consent for publication/circulation.

| | |
|---|---|
| Representative: | Lauren Jauss |
| Organisation: | RWE Supply & Trading GmbH |
| Date of Representation: | 3 February 2022 |
| Support or oppose implementation? | 0779 – Support 0779A – Support |
| Alternate preference: | <i>If either 0779 or 0779A were to be implemented, which would be your preference?</i> 0779A |
| Relevant Objective: | <p>0779</p> <p>a) Positive</p> <p>d) Positive</p> <p>0779A</p> <p>a) Positive</p> <p>d) Positive</p> <p>We believe that UNC779A is significantly better at achieving the relevant objectives, because it improves the efficiency and operation of the pipeline system and facilitates more effective competition in respect of short term capacity bookings and requirements as well as in respect of long term capacity which UNC779 provides for only. Meanwhile the estimated range of implementation cost is the same for both solutions.</p> |
| Relevant Charging Methodology Objective: | Not Applicable |

Reason for support/opposition: Please summarise (in one paragraph) the key reason(s)

RWE is the proposer of the alternative UNC0779A, and we believe it is the best solution.

Firstly, the alternative UNC0779A will allow Users to be assigned Entry Capacity for a limited period and be eligible for the Conditional Discount to Avoid Inefficient Bypass of the NTS (shorthaul) and Storage Discounts where applicable. Currently, the only route to acquire capacity from third party Users is through Secondary Entry Capacity but this is not eligible for shorthaul discounts. Many potential Assignee Users will only require the Entry Capacity for a specific short term period which UNC0779A would allow for, but UNC0779 only allows Entry Capacity Assignments for the longer term because it stipulates assignment for the full remaining duration of a capacity holding.

Any Primary Exit Capacity held in conjunction with Secondary Entry Capacity does qualify for shorthaul and potentially for storage discounts. However, as we understand it, the reason for not allowing the associated Secondary Entry Capacity to qualify is because the price at which it was procured is not known to National Grid. Also, the party that would be eligible for the discount does not have a contract with National Grid on which a discount can be given. In our view, these are technicalities as a result of the contractual structure which can be overcome by allowing flexibility in Assignment of Entry Capacity.

In some scenarios under the current arrangements, there may be little or no Primary Capacity remaining at some ASEPs. In this case, a User is limited or unable to deliver gas to the system using a Primary Capacity contract because the capacity has already all been procured by other Users, even though the capacity may not be fully utilised. In another scenario, either a User selling gas or a facility operator may have already procured Entry Capacity in order to deliver a parcel of gas into the system and there is no value in another User also booking Entry Capacity for the same gas. The result in these scenarios is that from the perspective of a User wanting access to the NTS for a shorthaul route, even where they are the producer, or importer of the gas, it appears as if there is no unused capacity available on the NTS and additional pipeline capacity is required. Similarly, as we understand it, a User wishing to deliver gas from qualifying storage Entry Points may in future be unable to access storage discount arrangements with Secondary Capacity holdings.

Secondly, the alternative proposal UNC0779A provides another route for Users with variable flow requirements who typically book short term capacity both to optimise their capacity holdings to better match their physical flows and to reduce their liabilities and associated credit and collateral requirements with third parties. UNC0779 also achieves these aims, but only delivers these system benefits with regards to long term capacity products because it does not allow for assignment of capacity for a limited period or for assignment within 5 business days of delivery.

Implementation: *What lead-time do you wish to see prior to implementation and why?*

We would like to see implementation as soon as possible. We understand from xoserve that an April 2023 implementation date is a realistic implementation date.

Impacts and Costs: *What analysis, development and ongoing costs would you face?*

This modification would not increase costs but would rather reduce our third party credit and collateral requirements.

Legal Text: *Are you satisfied that the legal text will deliver the intent of the Solution?*

Yes

Modification Panel Members have requested that the following questions are addressed:

Q1. What are the merits of the alternative Modification 0779A Capacity exclusion aspects?

The original UNC0779 proposal excludes assignment of capacity procured in weekly auctions. However, it also requires a minimum 5 business days' notice ahead of delivery of the assigned capacity. Therefore, under this process, there would only be a very small time window anyway between the results of the capacity auction and the deadline for assignment of any part of a weekly contract.

The alternative UNC0779A allows for notification of capacity assignments up to day ahead of delivery, Xoserve have confirmed that day ahead notification is deliverable and is within the same estimated cost range as the original proposal's 5 business days. The alternative does not specifically exclude assignment of weekly capacity products. The reduced notification period in the alternative will increase the time window for being able to assign weekly capacity compared with the Original UNC0779 proposal. However, we would not expect weekly capacity assignment under UNC0779A to be as frequent as the assignment of other products. This is because there is a low probability of a User procuring capacity in a weekly auction and then, within a relatively short time window, deciding instead to want to assign it.

Given that assignment of weekly capacity products can be delivered for no extra discernible cost, we do not see any reason to exclude it.

Q2. Do you have any views around redistribution of costs and likelihood of under recovery of costs for National Grid?

In the UNC0779 original proposal, National Grid Gas have presented analysis illustrating the maximum possible reduction in collection of allowed revenue due to increased access to storage discounts and shorthaul that would instead need to be recovered across all other Users via a higher Reserve Price. We understand that these figures assume all Existing Contract volume is assigned. National Grid Gas do state that this is a "worst" case scenario. However, we believe it is substantially overestimated because the actual expected utilisation and volume of assignments is likely to be significantly lower than the maximum possible capacity that could be assigned.

Even more importantly however, we do not agree that continuation of the status quo would result in the current forecast Entry Reserve Prices. This is because we believe that the risk of inefficient bypass of the NTS remains high as a result of Users having limited ability to qualify for shorthaul under the current arrangements. If inefficient bypass

were to occur, Entry Capacity Reserve Prices would be even higher than if better access to shorthaul discounts were allowed.

In addition, we understand that Users might not be able to fully access storage discounts through Secondary Capacity trades in future, and this may be a barrier to effective utilisation of and investment in storage.

Restricting eligibility for shorthaul and for storage discounts are detrimental to efficient operation of the pipeline system in our view.

Are there any errors or omissions in this Modification Report that you think should be taken into account? *Include details of any impacts/costs to your organisation that are directly related to this.*

No

Please provide below any additional analysis or information to support your representation

We do not have any further relevant data or information for publication.

Representation - Draft Modification Report UNC 0779 0779A

0779 - Introduction of Entry Capacity Assignments 0779A - Introduction of Entry Capacity Assignments with Defined End Date

Responses invited by: **5pm on 11 February 2022**

To: enquiries@gasgovernance.co.uk

Please note submission of your representation confirms your consent for publication/circulation.

| | |
|---|---|
| Representative: | Jeff Chandler |
| Organisation: | SSE |
| Date of Representation: | 11/02/22 |
| Support or oppose implementation? | 0779 – Support 0779A - Support |
| Alternate preference: | <i>If either 0779 or 0799A were to be implemented, which would be your preference?</i> 0779A |
| Relevant Objective: | 0779 a) Positive/ d) Positive/ 0779A a) Positive/ d) Positive/ |
| Relevant Charging Methodology Objective: | Not Applicable |

Reason for support/opposition: Please summarise (in one paragraph) the key reason(s)

We support both modifications. However, 0779A provides more flexibility as described below and will be of greater use to Shippers whilst system implementation costs are the same for both modifications.

0779A will allow Users to be assigned Entry Capacity for a defined time period and be eligible for:

1. the Conditional Discount to Avoid Inefficient Bypass of the NTS (shorthaul) and
2. Storage Discounts.

Currently, the only route to acquire capacity from third party Users is through Secondary Entry Capacity but this is not eligible for shorthaul discounts.

Any Primary Exit Capacity held in conjunction with Secondary Entry Capacity does qualify for shorthaul and potentially for storage discounts. However, the reason for not allowing the associated Secondary Entry Capacity to qualify is because the price at which it was procured is not known to National Grid. However, this is a technicality which can be overcome by allowing flexibility in Assignment of Entry Capacity.

Implementation: *What lead-time do you wish to see prior to implementation and why?*

Implementation as soon as possible. We understand from Xoserve that an April 2023 implementation date is possible.

Impacts and Costs: *What analysis, development and ongoing costs would you face?*

The 0779A modification would not increase costs but would rather reduce third party credit and collateral requirements by allowing fine tuning of capacity compared with 0779.

Legal Text: *Are you satisfied that the legal text will deliver the intent of the Solution?*

N/A

Modification Panel Members have requested that the following questions are addressed:

Q1. What are the merits of the alternative Modification 0779A Capacity exclusion aspects?

0779 excludes assignment of capacity procured in weekly auctions and it also requires a minimum 5 business days' notice ahead of delivery of the assigned capacity. This unnecessarily minimises the time window between the results of the capacity auction and the deadline for assignment of any part of a weekly contract.

0779A allows for notification of capacity assignments up to day ahead of delivery, Xoserve have confirmed that day ahead notification is deliverable and is within the same cost range as the original proposal's 5 business days and the alternative does not specifically exclude assignment of weekly capacity products.

Q2. Do you have any views around redistribution of costs and likelihood of under recovery of costs for National Grid?

In 0779 NGG have presented analysis illustrating the maximum possible reduction in collection of allowed revenue assuming all Existing Contract volume is assigned. We believe this is a substantial over-estimation because the expected utilisation and volume of assignments is likely to be significantly lower than the maximum possible capacity that could be assigned.

Also restricting eligibility for shorthaul and for storage discounts are detrimental to efficient operation of the pipeline system:

1. We do not agree that continuation of the status quo would result in the current forecast Entry Reserve Prices. This is because we believe that the risk of inefficient bypass of the NTS remains high as a result of Users having limited ability to qualify for shorthaul under the current arrangements. If inefficient bypass were to occur, Entry Capacity Reserve Prices would be even higher than if flexible access to shorthaul discounts were allowed.
2. Users might not be able to fully access storage discounts through Secondary Capacity trades in future, and this will be a barrier to effective utilisation of storage.

Are there any errors or omissions in this Modification Report that you think should be taken into account? *Include details of any impacts/costs to your organisation that are directly related to this.*

None

Please provide below any additional analysis or information to support your representation

N/A

Representation - Draft Modification Report UNC 0779 0779A

0779 - Introduction of Entry Capacity Assignments 0779A - Introduction of Entry Capacity Assignments with Defined End Date

Responses invited by: **5pm on 11 February 2022**

To: enquiries@gasgovernance.co.uk

Please note submission of your representation confirms your consent for publication/circulation.

| | |
|---|---|
| Representative: | Adam Bates |
| Organisation: | South Hook Gas Company Ltd ("SHG") |
| Date of Representation: | 11 February 2022 |
| Support or oppose implementation? | 0779 - Support 0779A - Support |
| Alternate preference: | <i>If either 0779 or 0799A were to be implemented, which would be your preference?</i> 0779A |
| Relevant Objective: | 0779 a) Positive d) Positive 0779A a) Positive d) Positive |
| Relevant Charging Methodology Objective: | Not Applicable |

Reason for support/opposition: Please summarise (in one paragraph) the key reason(s)

SHG believes 0779A to be the optimal solution as it allows users to assign NTS Entry Capacity for a specified period (whereas under 0779 capacity must be assigned for the full/remaining duration in respect of which it was originally purchased). Therefore, 0779A better reflects how the NTS is currently used, especially for Users supplying gas from flexible assets (such as LNG Terminals, Interconnectors and Storage facilities) where flows from these sources can vary significantly on a short-term basis. Capacity may not be required for the full duration for which the primary capacity was originally purchased

(e.g. quarterly or monthly) and the solution proposed under 0779 does not allow this excess capacity to be assigned efficiently. In addition, SHG is aware of instances at NTS Entry Points where there is minimal (if any) primary capacity available, and trading of secondary capacity is the only route for users to obtain firm NTS capacity at these Entry Points. Whilst this capacity could be transferred to the secondary user (where the liabilities stay with the original purchaser), it would not then be eligible for the Conditional Discount to Avoid Inefficient Bypass of the NTS (or “Shorthaul”). Therefore, as between the mods, SHG’s preference is for 0779A ahead of 0779, as 0779A better reflects how the NTS is used and how capacity is utilised.

Implementation: *What lead-time do you wish to see prior to implementation and why?*

Implementation should be as soon as possible.

Impacts and Costs: *What analysis, development and ongoing costs would you face?*

SHG does not foresee any additional costs resulting from implementation of this Modification.

Legal Text: *Are you satisfied that the legal text will deliver the intent of the Solution?*

Yes, although a full legal review has not been conducted.

Modification Panel Members have requested that the following questions are addressed:

Q1. What are the merits of the alternative Modification 0779A Capacity exclusion aspects?

As discussed above, 0779A allows any capacity to be assigned up to day-ahead of delivery which better reflects how NTS Entry Capacity is utilised. This allows for more efficient capacity assignments than under 0779.

Q2. Do you have any views around redistribution of costs and likelihood of under recovery of costs for National Grid?

SHG does not believe the implementation of 0779 or 0779A would have a significant impact on the redistribution of costs or increase the likelihood of under recovery of costs by National Grid. It is likely to reduce unnecessary primary capacity purchases which would result in more efficient capacity utilisation. Whilst this may reduce the FCC in National Grid’s charging calculation, it would improve the efficient and economic use of primary capacity already purchased.

Are there any errors or omissions in this Modification Report that you think should be taken into account? *Include details of any impacts/costs to your organisation that are directly related to this.*

N/A

Please provide below any additional analysis or information to support your representation

N/A