













UNC Modification	At what stage is this document in the process?
<h1>UNC 0737:</h1> <h2>Transfer of NTS Entry Capacity from an abandoned ASEP</h2>	<div>01 Modification</div> <div>02 Workgroup Report</div> <div>03 Draft Modification Report</div> <div>04 Final Modification Report</div>
<p><b>Purpose of Modification:</b></p> <p>To enable the transfer of NTS Entry Capacity booked at “abandoned” donor Aggregated System Entry Points (ASEPs) to alternative recipient ASEPs where there is unsold entry capacity at the recipient ASEPs.</p>	
	<p>The Proposer recommends that this Modification should be:</p> <ul style="list-style-type: none"> <li>• Considered a material change and not subject to self-governance.</li> <li>• Assessed by a Workgroup.</li> </ul> <p>This Modification will be presented by the Proposer to the Panel on 17 September 2020. The Panel will consider the Proposer’s recommendation and determine the appropriate route.</p>
	<p><b>High Impact:</b></p> <p>All parties that pay NTS Transportation Charges and/or have a connection to the NTS, and National Grid NTS.</p>
	<p><b>Medium Impact:</b></p> <p>N/A</p>
	<p><b>Low Impact:</b></p> <p>N/A</p>

Contents		?	Any questions?
1	Summary	3	Contact: Joint Office of Gas Transporters
2	Governance	3	
3	Why Change?	4	 <a href="mailto:enquiries@gasgovernance.co.uk">enquiries@gasgovernance.co.uk</a>
4	Code Specific Matters	5	
5	Solution	5	 0121 288 2107
6	Impacts & Other Considerations	9	Proposer:
7	Relevant Objectives	9	Ricky Hill, Centrica Energy Ltd
8	Implementation	11	 <a href="mailto:Ricky.Hill@centrica.com">Ricky.Hill@centrica.com</a>
9	Legal Text	11	
10	Recommendations	11	 07789 579169
Timetable			
The Proposer recommends the following timetable:			Transporter: National Grid NTS
Pre-Modification Discussion	06 August 2020 and 08 September 2020		<a href="mailto:colin.williams@nationalgrid.com">colin.williams@nationalgrid.com</a>
Modification considered by Panel	17 September 2020		01926 655916 or 07785 451776
Initial consideration by Workgroup	06 October 2020		
Workgroup Report presented to Panel	17 December 2020		
Draft Modification Report issued for consultation	17 December 2020		
Consultation Close-out for representations	22 January 2021		
Final Modification Report available for Panel	27 January 2021		
Modification Panel decision	18 February 2021		
			Systems Provider: Xoserve
			<a href="mailto:commercial.enquiries@xoserve.com">commercial.enquiries@xoserve.com</a>
			Other Nick Wye
			<a href="mailto:nick@waterswye.co.uk">nick@waterswye.co.uk</a>
			07900 055144

## 1 Summary

### What

The Proposal seeks to allow the transfer of sold NTS Entry Capacity at an “abandoned” entry point (the donor entry point) to a recipient entry point where there remains unsold entry capacity at the nominated recipient entry point. Where the entry capacity booked at the donor entry point is classified as Existing Capacity<sup>1</sup> the protections afforded to this entry capacity remain post-transfer i.e. the contracted auction price is honoured and Transmission Services Entry Revenue Recovery Charges (RRC) are not applied.

### Why

Entry Points may be abandoned as planned upstream projects do not come to fruition or gas supplies have been exhausted or are no longer economic. Where entry capacity is held by Users at abandoned entry points, it results in inefficient outcomes, with Users paying National Grid for capacity which will not be utilised (and thus paying for a service which is not required), restricting the release of capacity by National Grid at other entry points as it is required to fulfil obligations to support existing bookings. Ultimately, were a User(s) to default against payments for entry capacity holdings, National Grid may serve Termination Notices which would result in the socialisation of unpaid costs across other Users.

### How

An entry point will be regarded as abandoned where all entry capacity holdings at the entry point is offered up for transfer to an alternative entry point. All entry capacity bookings at the donor entry point must be offered for transfer within a designated transfer window. Where there are multiple Users with capacity bookings at the abandoned ASEP, each User may request a transfer to alternative entry points. The requested transfers will be subject to an Exchange Rate, calculated by National Grid and a transfer will only be permitted where the Exchange Rate does not exceed 3:1. A transfer will only be completed where there is sufficient unsold capacity at the donor ASEP to accommodate the transfer volume.

## 2 Governance

### Justification for Authority Direction

This Modification is recommended to be sent to the Authority for direction as it is likely to have a material effect on transportation arrangements for shippers, upstream project investors and relevant consumers.

This Modification was presented as a pre-Modification at the Transmission Workstream held in August 2020 and at NTSCMF in September 2020.

### Requested Next Steps

This Modification should be:

- Considered a material change and not subject to self-governance
- Assessed by a Workgroup.

---

<sup>1</sup> As defined in the UNC 0678A legal drafting Section B 2.2.2 <https://www.nationalgrid.com/uk/gas-transmission/document/128021/download>

### 3 Why Change?

Users acquire NTS Entry Capacity to ensure that gas can be supplied at the relevant ASEP up to the amount of the capacity holding. The booking of capacity ensures that the User will not incur System Entry Overrun Charges. Where there is insufficient unsold NTS Entry Capacity, a User will acquire forward capacity to secure additional, incremental capacity as part of the Planning and Advanced Reservation of Capacity Agreement (PARCA) process or via the release by National Grid of non-obligated capacity (or by entry capacity substitution). In this case, Users are required to book a defined volume of capacity for a minimum number of quarters as part of an Entry User Commitment.<sup>2</sup>

New ASEPs may be established to support gas supplies from new “upstream” projects<sup>3</sup>. In these circumstances, Users will forward book entry capacity to ensure access to the NTS is secured, to correspond with the commencement of gas supplies. The duration of the capacity bookings will depend upon the Entry User Commitment and/or the User’s risk assessments associated with “locking in” NTS access rights, alongside project plans and costs.

Entry capacity may be held by a User at an ASEP where a planned upstream project did not achieve completion, or an existing upstream project was discontinued. In both cases, entry capacity bookings are maintained and paid for without any prospect of gas being flowed. For the purposes of this Modification Proposal we have classified these ASEPs as “abandoned ASEPs”.

Although entry capacity is permitted to be transferred (traded) between ASEPs, in accordance with the Entry Capacity Trade & Transfer Methodology<sup>4</sup>, it is only permitted where all obligated entry capacity at the recipient ASEP has been sold. This restriction results in the following undesirable outcomes:

- a) Users who hold capacity at abandoned ASEPs will continue to incur capacity costs with no prospect of flowing gas against their capacity bookings;
- b) National Grid will continue to receive revenue from Users for capacity bookings which cannot, or will not be used at abandoned ASEPs;
- c) National Grid is required to make provisions to support supplies at the abandoned ASEPs where entry capacity is booked. This is inefficient and leads to a sterilisation of NTS capacity, limiting the ability for National Grid to make additional capacity available elsewhere on the NTS;
- d) The inability to freely transfer capacity between ASEPs may inhibit new projects from connecting to the NTS where entry capacity is required to be bought in advance for an extended period. This is even more pertinent following the implementation of UNC Modification 0678A Amendments to Gas Transmission Charging Regime (Postage Stamp) which will result in significant increases in entry capacity costs at the majority of ASEPs;
- e) A User who holds entry capacity at the abandoned ASEP may default on capacity payments and ultimately cease to be a User where National Grid gives a User a Termination Notice, in accordance with UNC TPD Section V 4.3. In such cases, the outstanding debts are socialised across all Users. Termination as a User may be an attractive option to a User which has no other interests beyond the holding of entry capacity at the abandoned ASEP.

<sup>2</sup> <https://www.nationalgrid.com/uk/gas-transmission/document/128001/download>

<sup>3</sup> Upstream relates to any facility which delivers gas directly into the NTS

<sup>4</sup> <https://www.nationalgrid.com/uk/gas-transmission/document/128021/download>

For the reasons stated above, it is in the interests of the User and all other Users that entry capacity which is held at an abandoned ASEP should be transferrable to another ASEP, where the recipient ASEP has unsold obligated entry capacity.

## 4 Code Specific Matters

### Reference Documents

EU Tariff Code (Regulation 2017/460)

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

UNC Modification Proposal 0678A Ofgem Decision

<https://www.ofgem.gov.uk/publications-and-updates/amendments-gas-transmission-charging-regime-decision-and-final-impact-assessment-unc678abcdefghij>

The Entry Capacity Transfer and Trade Methodology Statement

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

### Knowledge/Skills

None

## 5 Solution

### Classification of donor ASEP as abandoned – Initial qualification criterion

User(s) may request the transfer of all entry capacity bookings at a single “donor” ASEP to one or more “recipient” ASEPs during an “Abandoned ASEP Transfer Window”. The window will be open for a period of [5] Business Days at the end of [February] each Gas Year. Entry capacity will only be considered for transfer where all entry capacity bookings by all Users held at the Donor Entry Point are subject to a transfer request. The earliest requested transfer date will be [01 April] in the same Gas Year but can be made at any time thereafter where the transfer request stipulates an alternative date.

Where all Users of all capacity bookings over all durations at the donor ASEP submit a transfer request, the donor ASEP will be classified as Abandoned, which in turn will permit the transfer to be ratified, subject to other conditions being met.

For the avoidance of doubt an individual User must nominate a single recipient ASEP for the purposes of a transfer in relation to all capacity held at the donor ASEP, however, individual Users may request alternative recipient ASEPs.

Example 1:

User A and User B quarterly entry capacity bookings at the same donor ASEP

	Oct 22	Jan 23	April 23	July 23	Oct 23	Jan 24	April 24	July 24	Oct 24
User A	100	100	0	0	100	100	0	0	100
User B	0	0	50	50	0	0	50	50	50

### Scenario 1

User A requests a transfer of all capacity holdings at the donor ASEP from 01 October 2022 to 31 December 2024 to a single recipient ASEP.

User B requests a transfer of all capacity holdings at the donor ASEP from 01 April 2023 to 31 December 2024 to a single recipient ASEP.

In this scenario all capacity bookings by all Users at the donor ASEP are requested to be transferred. The initial qualification criteria are met and the donor ASEP is classified as Abandoned, enabling the collective transfer requests to move to the next stage

### Scenario 2

User A requests a transfer of all capacity holdings at the donor ASEP from 01 Oct 2022 to 31 December 2024 to a single recipient ASEP.

User B requests a transfer of all capacity holdings at the donor ASEP from 01 April 2024 to 31 December 2024 to a single recipient ASEP.

In this scenario only User A has requested the transfer of all of its capacity holdings. User B will retain capacity holdings at the ASEP from 01 April 2023 to 30 September 2023. The initial qualification criteria are not met and the ASEP is not classified as abandoned and all transfer requests made by both Users will be rejected by National Grid.

## Calculating the rate of exchange – secondary qualification criterion

Where the requested transfer(s) meet the initial qualification criteria, National Grid will calculate the capacity Exchange Rates relevant to the identified donor and recipient ASEPs. The methodology applied to calculate the exchange rates will be the same as that set out in the Entry Capacity Transfer and Trade Methodology Statement.<sup>5</sup>

Where the Exchange Rate for a donor ASEP: recipient ASEP exceeds 3:1 then the transfer request will be rejected. Where more than one donor ASEP: recipient ASEP transfer has been requested, the transfer will be rejected only for those where the Exchange Rate exceeds 3:1.

Example 2:

User A and User B quarterly entry capacity bookings at the donor ASEP (initial qualification criteria met)

	Oct 22	Jan 23	April 23	July 23	Oct 23	Jan 24	April 24	July 24	Oct 24
User A	100	100	0	0	100	100	0	0	100
User B	0	0	50	50	0	0	50	50	50

In the table above, User A requests a transfer from the donor ASEP to recipient ASEP X and User B requests a transfer from the donor ASEP to recipient ASEP Y.

Where National Grid calculates Exchange Rates to be equal to or less than 3:1 for both requested transfers then the requests will be considered for transfer.

<sup>5</sup> <https://www.nationalgrid.com/uk/gas-transmission/document/128021/download>

Where National Grid calculates an Exchange Rate which is less than or equal to 3:1 in relation to User A's transfer request, but greater than 3:1 in relation to User B transfer request then User B's transfer request will be rejected. User A's transfer request will be able to progress to the next stage.

### Completing the transfer – final qualification criterion

Where a requested transfer fulfils the initial and secondary qualification criteria, a final assessment will be carried out by National Grid. Applying the relevant Exchange Rate, where the total amount of capacity held in aggregate at the recipient ASEP does not exceed the obligated level of entry capacity at the donor ASEP, the transfer can be carried out. i.e. there is sufficient unsold capacity at the recipient ASEP to accommodate the transfer. The applicant User will be required to confirm if it would like the transfer to be executed, before the transfer is enacted.

Where this criterion is not met for one or more of the requested periods, then for those periods the transfer will not be permitted. For the avoidance of doubt, for all other qualifying periods the transfer(s) will be carried out.

Example 3:

Requested Transfer Volume with *sufficient* unsold capacity across all periods (assumes a 1:1 Exchange Rate)

	Oct 22	Jan 23	April 23	July 23	Oct 23	Jan 24	April 24	July 24	Oct 24
User A Donor ASEP holdings	100	100	0	0	100	100	0	0	100
Recipient ASEP X unsold obligated	200	150	300	300	200	100	300	300	100

In the example above, User A will be permitted to transfer all volumes of booked capacity at the donor ASEP to ASEP X.

Example 4:

Requested Transfer Volume with *insufficient* unsold capacity across all periods (assumes a 1:1 Exchange Rate)

	Oct 22	Jan 23	April 23	July 23	Oct 23	Jan 24	April 24	July 24	Oct 24
User A Donor ASEP holdings	100	100	0	0	100	100	0	0	100
Recipient ASEP X unsold obligated	200	150	300	300	50	50	300	300	100

In this example, User A will be permitted to transfer capacity for periods October 2022, January 2023 and October 2024. For periods October 2023 and January 2024 there is insufficient unsold capacity and as a result the transfer for these periods will not be permitted.

## Treatment of Existing Contracts

Where the transferred capacity is classified as Existing Capacity, post transfer the capacity will continue to be classified as Existing Capacity and be subject to the same protections as allowed for, following implementation of UNC Modification 0678A - Amendments to Gas Transmission Charging Regime (Postage Stamp) i.e. the cost of the capacity will be maintained and any Entry Transmission Services Revenue Charges (RRC) will not be applied for the duration of the capacity holding.

In order to allow the transfer of Existing Capacity, a new definition of Existing Registered Holdings will need to be developed. Existing Registered Holdings will exist where such capacity has been subject to a transfer as set out in this Modification. As is the case under UNC Modification 0678A in relation to Existing Registered Holdings the Applicable Daily Rate for NTS Entry Capacity and the Entry Transmission Services Revenue Charges are not applied.

## Impacts and Considerations

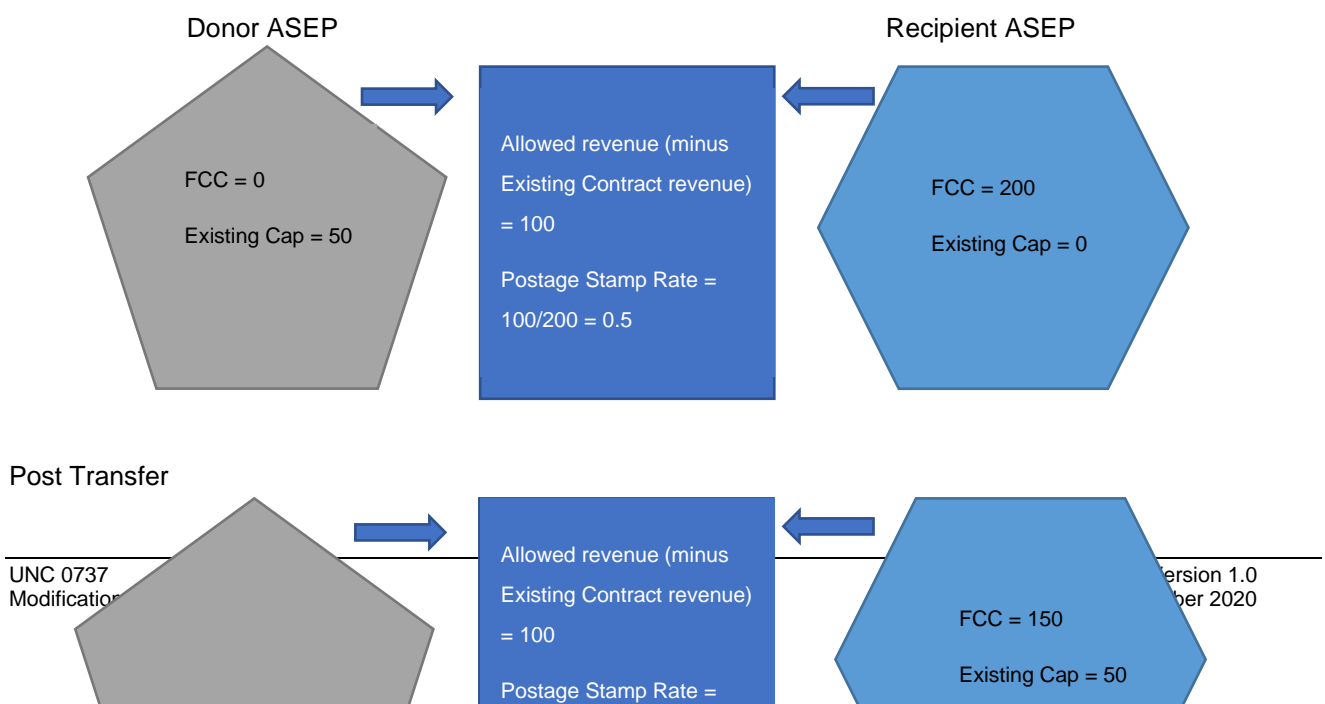
The transfer of capacity may have an impact on Entry Capacity Prices and/or the Revenue Recovery Charge (RRC) as per UNC Modification 0678A, in the event that the capacity subject to the transfer is classified as Existing Capacity. The impact, if any, is dependent upon whether the additional capacity transferred to the recipient ASEP displaces bookings which would otherwise have been made at that ASEP independent of the capacity transfer. If this was the case then the future bookings of capacity at the recipient ASEP would be replaced by capacity already acquired at the donor ASEP and subject to Existing Contract status resulting in a revenue under-recovery.

Where the first date of transfer will be enacted in a future Gas Year(s) beyond the Gas Year during which the application was submitted, and the transfer results in an outcome as detailed above, then future NTS Entry Capacity charges will reflect the impact on Forecasted Contracted Capacity (FCC). Where this is not the case and the first date of transfer will be in the same Gas Year as the application, then there could be impacts on the amount of revenue recovered during the Gas Year.

For example:

If 50 units of Existing Capacity are to be transferred from the donor ASEP to recipient, on a 1:1 basis, the total volume of Existing Contracts remains unchanged. Where the Forecasted Contracted Capacity (FCC) forecasts a future booking of 50 units at the recipient ASEP, this is displaced by the 50 units of transferred Existing Capacity. As a result, the FCC will be reduced by 50 units increasing the unit rate of entry capacity across the NTS. Diagram 1 shows the overall impacts on FCC and capacity unit rates.

Diagram 1: Potential Impact of transferring Existing Capacity between ASEPs





FCC = 0

Existing Cap = 0

If the transfer occurs during the same Gas Year as the application, then the revenue recovered from the recipient ASEP may be reduced as the forecast sale of entry capacity at the prevailing entry capacity price is displaced by the transferred capacity.

## 6 Impacts & Other Considerations

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

No

#### Consumer Impacts

The ability to transfer capacity from abandoned entry points will enable investors in prospective upstream projects to acquire capacity in the NTS in the knowledge that it will have value in the event that the project fails to come to market. This will reduce the level of sunk costs, reducing project investment risk and should encourage investors to support more marginal projects. In turn, this will improve supply diversity and volumes, ultimately driving down the cost of gas to customers.

If a holder of entry capacity at an abandoned entry point to default on payment with regard to their capacity bookings and if this were to subsequently result in User termination from the UNC, the outstanding costs will be shared across all Users, leading to increased costs for customers. The ability to transfer capacity will greatly reduce the possibility of User default as the capacity will confer commercial value to the User.

#### Cross Code Impacts

None

#### EU Code Impacts

This Modification requires a change to the definitions of “Existing Registered Holding” and “Existing Available Holding” whereby where Existing Capacity is transferred from the donor ASEP to the recipient ASEP it maintains Existing Capacity status. The transfer of such capacity is compliant with Art.35 of the EU Tariff Code in that it does not preclude the transfer of Existing Capacity rights from one entry point to another.

## 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

The NTS is unconstrained with surplus capacity at nearly all entry points. Where capacity is held at an entry point which is no longer or has never been operational, this means that capacity is unutilised, while incurring charges for the holding User. Permitting the transfer of capacity bookings from an abandoned entry point to an entry point where bookings are below obligated levels, means that capacity can be “moved” to locations where it is likely to be utilised, thereby optimising the use of the NTS. The effect of the transfer is akin to the process of substitution where unused, or in this case unwanted and unused capacity is reinstated and made accessible to the market at a location where it is required. The optimisation of capacity bookings in response to market need will result in a positive impact on Relevant Objective (a); more efficient and economic operation of the pipe-line system.

Relevant Objective (d) is better facilitated as Users holding capacity at abandoned entry points are not encumbered with costs for a service they are unable to use. Through this Modification, a User is able to transfer capacity away from abandoned entry points to entry points where the capacity will maintain value and either use the capacity for its own supply purposes or obtain income from the sale of the capacity to a third party. This provides Users with more flexibility around the use and location of capacity, particularly in an unconstrained network. It reflects the generic nature of the capacity product and ensures the market is able to locate capacity where it is required.

Creating a value for capacity at abandoned entry points will also enhance security of supply, by reducing the downside risk associated with the booking of capacity to support potential upstream projects. Improved supply diversity and volumes will enhance competition in the downstream market.

Finally, the Modification will discourage User default and ultimately User termination from the UNC in the case that it is burdened with costs for holding unusable capacity. As the costs associated with capacity payment defaults are shared across all Users, this Modification improves shipper competition by reducing the likelihood of these costs being imposed more widely on the shipping community.

## 8 Implementation

It is proposed that this Modification is implemented at the earliest opportunity upon the direction of the Authority.

## 9 Legal Text

### Text Commentary

To be provided.

### Text

To be provided.

## 10 Recommendations

### Proposer's Recommendation to the Panel

Panel is asked to

- Agree that Authority Direction should apply
- Refer this proposal to a Workgroup for assessment.