





| UNC Final Modification Report | At what stage is this document in the process? |
|--|---|
| <h1>UNC 0805:</h1> <h2>Introduction of Weekly NTS Exit Capacity Auctions</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 introduce Weekly NTS Exit Capacity Auctions to allow for more economic and efficient capacity bookings.</p> | |
| <p>Next Steps:</p> <p>Panel consideration is due on 15 September 2022 <i>(at short notice by prior agreement)</i></p> | |
| <p>Impacted Parties:</p> <p>High: None</p> <p>Medium: National Grid NTS</p> <p>Low: Users</p> | |
| <p>Impacted Codes:</p> <p>None.</p> | |

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| Timetable | |  |
| Modification timetable: | |  commercial.enquiries@xoserve.com |
| Initial consideration by Workgroup | 07 April 2022 | Other: Nick Wye |
| Workgroup Report presented to Panel | 21 July 2022 |  nick@waterswye.co.uk  01789 266 811 |
| Draft Modification Report issued for consultation | 22 July 2022 | |
| Consultation Close-out for representations | 12 August 2022 | |
| Final Modification Report available for Panel | 15 August 2022 | |
| Modification Panel decision | 15 September 2022 | |
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| | | |

 Any questions?

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1 Summary

What

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

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

Why

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

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

- a) Mitigate against risks that Daily NTS Exit (Flat) Capacity is withheld by National Grid because of a perceived or actual constraint (whilst also increasing visibility for the System Operator); or
- b) want to purchase capacity ahead of the Gas Day for planning purposes; or
- c) reduce administrative costs and potential booking errors when managing daily booking processes

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

How

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

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

2 Governance

Justification for Authority Direction

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

Requested Next Steps

This Modification should:

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

3 Why Change?

Introduction

NTS Exit (Flat) Capacity is required to be purchased¹ to allow a User to offtake gas from the NTS and is made available through various NTS Exit Capacity Application Windows and auctions, which are prescribed within UNC TPD Section B3 (summarised within Table 1).

Following the implementation of UNC Modification 0678A², which changed the charging methodology associated with NTS Capacity, NTS Exit Capacity Reserve Prices have become uniform. As a result, Users saw significant changes to Reserve Prices at a number of locations and, we understand, have shifted focus towards booking capacity on a daily basis, aligning purchases with anticipated offtake quantities.

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

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

Daily System Exit Capacity Auctions

Whilst the Daily Auctions allow for capacity to be booked at the day ahead or within-day stage, thus allowing capacity to be booked efficiently to reflect flows, National Grid may withhold capacity from sale at the relevant

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

² <https://www.gasgovernance.co.uk/0678>

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

NTS Exit Point should it foresee a capacity constraint occurring⁴. We understand that National Grid does not in the ordinary course notify the market of any potential scale backs ahead of time. As a result, Users are only able to “lock in” capacity for use on a day by either buying annual capacity or trust that sufficient capacity will be available on a day-ahead basis. Given the cost implications of buying annual capacity for offtakes which exhibit variable consumption patterns, this strategy is uneconomic and will impose additional costs on the customer at the associated Exit Point. However, Daily Capacity may also be perceived as being less reliable for the reasons stated and Users and their customers may prefer to manage this risk by acquiring capacity for a duration longer than a day while “locking in” capacity in advance of day ahead.

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

Shipper and customer benefits

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

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

Exclusion of Distribution Network Exit Points

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

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

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

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

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

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

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

4 Code Specific Matters

Reference Documents

UNC TPD Section B: https://www.gasgovernance.co.uk/sites/default/files/ggf/page/2020-12/4%20TPD%20Section%20B%20-%20System%20Use%20%26%20Capacity_0.pdf

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

Knowledge/Skills

No additional knowledge or skills required.

5 Solution

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

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

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

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

- The Weekly NTS Exit Capacity auction would take place between 08:00 and 17:00 at D-5 (where D is the first gas day of the weekly period, being a Monday).
- The Weekly NTS Exit Capacity allocation process take place on D-4. For the avoidance of doubt, any unsold capacity would be included in the volume to be released via the Daily NTS Exit (Flat) Capacity auctions.
- National Grid will inform each User of those of capacity bids which have been accepted and the amount of Weekly NTS Exit Capacity which it is registered as holding before the start of D-3.
- Where a weekly period crosses two Gas Years, then the prevailing price on each relevant day will be used. For example, week commencing 27th September 2021 crosses the 2020/21 and 2021/22 Gas Year. In this example, 27th, 28th, 29th and 30th September would be charged at the 2020/21 reserve price whilst the 1st, 2nd and 3rd October would be charged at the 2021/22 reserve price. Where a weekly period does cross two Gas Years then National Grid will notify Users 5 business days before the auction is due to take place.
- Where one or more Days in a calendar week fall within one Gas Year and the remaining Days in that calendar week fall in the next Gas Year and the Remaining Available NTS Exit (Flat) Capacity in each of the two years is a different amount, the amount of Weekly NTS Exit (Flat) Capacity comprised in the capacity invitation shall be determined taking the lower of the Remaining Available NTS Exit (Flat) Capacity on each Day in the two years.
- For the avoidance of doubt, upon implementation the prevailing Reserve Price and a Duration Multiplier of one (1) (as prescribed within UNC TPD Section Y for the current NTS Auctions) will be applied to the Weekly NTS Exit Capacity Auctions.
- For the avoidance of doubt, the amendments to the UNC as proposed in this Modification shall not be applicable to interconnection points ("IPs"). The revised CAM Regulation (as retained in UK law in accordance with the European Union (Withdrawal) Act 2018 and amended by the Gas (Security of Supply and Network Codes) (Amendment) (EU Exit) Regulations 2019) governs the offering of capacity products at UK IPs. A weekly capacity product is not envisaged by the CAM Regulation. In order to permit the offering at IPs of weekly capacity products, the CAM Regulation would need to be amended, which would be a legislative process; authorising the offering of this new product at IPs is beyond the permitted scope of the UNC and therefore would not be achievable through a modification to the UNC. While the Modification may therefore result in differences between capacity products offered at IPs and non-IPs, this is reflective of the extent of the amendments that can be made by way of UNC amendment. It is also consistent with the implementation of UNC Modification 0752S.
- It is anticipated that there will not be any impacts on Day-Ahead Exit Capacity Auctions. Users are able to submit daily capacity bids at any time from 05.00 hours on D-7 until 00.00 on D⁷. Allocation of Daily Capacity commences at 15.00 on D-1. As the Weekly Exit Capacity Auction will allocate weekly strips on D-4, unsold capacity (for each day in the relevant week) will flow through to the Daily Capacity Auction allocation process.

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

6 Impacts & Other Considerations

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

No Significant Code Review or significant industry change will be impacted by this Modification.

Workgroup Response

Workgroup Participants did not identify any such impact.

Consumer Impacts

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

Workgroup Response

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

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

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

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

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

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

| Modification text | GDN comments |
|--|---|
| <p><i>Although the challenges faced by NTS Direct Connects can be applied to DNs several differences should be highlighted:</i></p> <ul style="list-style-type: none"> <i>- Many Direct Connects are subject to greater variability and unpredictability in demand, due for</i> | <p><i>An equivalent variability exists for GDNs during the transition from summer to winter periods, also known as the 'shoulder months'.</i></p> |

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

Cross Code Impacts

No Cross Code Impacts identified.

Workgroup Participants did not identify any impacts.

EU Code Impacts

No EU Code Impacts identified.

Workgroup Participants did not identify any impacts.

Central Systems Impacts

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

A ROM has been requested (see below)

Performance Assurance Considerations

Workgroup Participants have not identified any considerations.

Panel Questions

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

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

Q2. Should the Modification remain Self Governance

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

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

Workgroup Impact Assessment

May Workgroup

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

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

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

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

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

June and July Workgroup

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

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

User Commitment

All LDZs

| User Commitment Period | LDZ | Offtake | Comments |
|------------------------|-----|--------------|----------------------------------|
| Mar 21 - Feb 25 | EA | PETERBOREYE | PARCA Request |
| Oct 24 - Sep 26 | EA | BACTON | Required to meet Peak Day demand |
| | EA | BRISLEY | |
| | EA | GTWILBRAHAM | |
| | EA | MATCHNGGREEN | |
| | EA | ROUDHAMHEATH | |
| | EA | ROYSTON | |
| | EA | WESTWINCH | |
| | EA | WHITWELL | |
| | EM | KIRKSTEAD | |
| | EM | SILKWILLOUGH | |
| | EM | SUTTONBRIDGE | |
| | EM | WALESBY | |
| | NW | AUDLEYNW | |
| | NW | ECCLESTON | |
| | NW | HOLMESCHAPEL | |
| | NW | LUPTON | |
| | NW | PARTINGTON | |
| User Commitment Period | LDZ | Offtake | Comments |
| Oct 24 - Sep 26 | NW | SAMLESBURY | Required to meet Peak Day demand |
| | NW | WARBURTON | |
| | WM | AUDLEYWM | |
| | WM | LEAMINGTON | |
| | WM | LOWERQUINTON | |
| | WM | ROSSWM | |
| | WM | STRATFRDAVON | |
| Oct 25 - Sep 27 | EM | ALREWASEM | |
| | EM | DROINTON | |
| | EM | TURLANGTON | |
| | NL | HORDON | |
| | NL | PETERSGRNSM | |
| | NW | BLACKROD | |
| | WM | ALREWASWM | |
| | WM | ASPLEY | |
| | WM | AUSTREY | |
| | WM | RUGBY | |

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

hopefully ensuring both any revenue under-recovery is kept to a minimum and a more cost reflective NTS Charging Regime ensues.”

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

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

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

Rough Order of Magnitude (ROM) Assessment

The ROM⁸ identifies that an enduring solution will cost at least £280,000 but probably not more than £365,000 to implement. The change is not expected to increase ongoing running costs.

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

Workgroup Participants noted the content of the ROM.

7 Relevant Objectives

| Impact of the modification on the Relevant Objectives: | |
|--|-------------------|
| Relevant Objective | Identified impact |
| a) Efficient and economic operation of the pipe-line system. | Positive |
| b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters. | None |
| c) Efficient discharge of the licensee's obligations. | None |
| d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers. | Positive |

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

| | |
|--|------|
| e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers. | None |
| f) Promotion of efficiency in the implementation and administration of the Code. | None |
| g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators. | None |

Relevant Objective:

- a) This proposal furthers Relevant Objective (a) as implementing a Weekly NTS Exit Capacity auction will provide Users with an additional opportunity to efficiently purchase capacity that better reflects their anticipated gas flows. This will enable National Grid NTS to commercially plan, operate and manage the NTS, therefore facilitating the efficient and economic operation of the NTS. By excluding DNs this ensures that National Grid NTS will have more confidence in the planning and operation of the NTS.
- d) This proposal furthers Relevant Objective (d) by allowing Users to book NTS Exit Capacity that better reflects their anticipated gas flows (versus the current Annual Capacity products). This will reduce the cost of acquiring unwanted NTS Exit Capacity, where the alternative of relying on the daily product is perceived to be an unpalatable risk. In the case of NTS Direct Connects, demand tends to be unpredictable and variable which requires shippers to book capacity at relatively short notice.

Workgroup Response

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

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

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

8 Implementation

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

20 June 2022: National Grid Comment:

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

9 Legal Text

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

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

Text Commentary

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

Text

Published alongside this report at: <https://www.gasgovernance.co.uk/0805>

10 Consultation

Panel invited representations from interested parties on 21 July 2022. All representations are encompassed within the Appended Representations section.

The following table provides a high-level summary of the representations. Of the 8 representations received 3 supported implementation, 2 provided comments and 3 were not in support.

Representations were received from the following parties:

| Organisation | Response | Relevant Objectives |
|-----------------------|----------|----------------------------|
| Cadent | Oppose | a) negative d) negative |
| EP UK Investments | Support | a) positive d) positive |
| National Grid | Oppose | a) positive d) negative |
| Northern Gas Networks | Oppose | a) negative |
| SGN | Comments | a) negative d) negative |
| Uniper Energy | Support | d) positive |
| Vitol SA | Support | a) positive |

| | | |
|------------------------|----------|----------------------------|
| | | d) positive |
| Wales & West Utilities | Comments | a) positive d) negative |

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

12 Recommendations

Panel Recommendation

Panel Members recommended that Modification 0805 **[should [not]** be implemented.

13 Appendix 1

Part 1. Impacts of DNs acquiring the weekly product

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

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

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

NTS Exit Capacity Price = 0.0218 p/kWh/d

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

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

Total DN booking revenue under-recovery = £171m

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

Total DN savings under this scenario = £38m

20 June 2022: National Grid Comment:

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

We would note that the potential for a 54% reduction in GDN bookings due to use of the weekly auction process would likely generate a significant difference between overall bookings compared to FCC, and so an overall

under recovery for the Gas Year (even when the Exit Transmission Services rates are combined with the calculated RRC) may still occur. This under recovery would flow into the following year.

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

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

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

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

Observations

The analysis is very crude as it assumes that all DN's will tailor their booking behaviours in the same way, reducing annual bookings for the majority of the year while "topping up" with weekly bookings during higher demand periods. Total cost savings to the DN's under this scenario, following the redistribution and recovery of the resulting under-recovery are in the region of 12% of the total annual peak day booking requirement. Given DN licences require bookings to align with 1 in 20 demand conditions and that there is no direct commercial incentive on DN's to manage costs, a mix of annual and weekly bookings consistent with this scenario is unlikely to be realised. Nonetheless, it is plausible that if the weekly product were to be made available to DN's that a combination of annual and weekly bookings could be acquired, reducing overall costs to DN's and their customers. For completion, it should be understood that any savings made by DN's would be recoverable from charges imposed on NTS Direct Connects.

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

14 Appended Representations

Representation - Cadent

Representation – EP UK Investments

Representation – National Grid

Representation – Northern Gas Networks

Representation – SGN

Representation – Uniper Energy

Representation – Vitol SA

Representation – Wales & West Utilities

Representation - Draft Modification Report UNC 0805

Introduction of Weekly NTS Exit Capacity Auctions

Responses invited by: **5pm on 12 August 2022**

To: enquiries@gasgovernance.co.uk

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

| | |
|---|-----------------------------|
| Representative: | Shiv Singh |
| Organisation: | Cadent |
| Date of Representation: | 8 th August 2022 |
| Support or oppose implementation? | Oppose |
| Relevant Objective: | a) Negative d) Negative |
| Relevant Charging Methodology Objective: | Not Applicable |

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

We oppose this modification as we believe it discriminates between Users by only applying to NTS Directs.

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

A mid-year implementation could be problematic, so we suggest the start of the next Gas Year i.e., 1st October 2023.

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

None, as this modification would exclude the Gas Distribution Networks (GDN).

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

Yes.

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

The initial version of this modification did include the GDNs and as such, was one that Cadent was in support of. Analysis was then carried out to determine the impact on NTS Exit Charges from use of the product by the GDNs. As a result, the Proposer came to a number of conclusions that led them to exclude the GDNs from the proposal.

Cadent is of the opinion that the conclusions (detailed in Table 1 below) do not paint the whole picture and we have provided the reasoning behind this. It is, therefore, disappointing that the Proposer has chosen to proceed without including the GDNs and the downstream customers they represent.

The main reason for excluding the GDNs appears to be based upon a potential '*revenue under-recovery of £165m*'. The reality is that the likelihood of this happening is no greater than it currently is as the GDNs have a licence obligation to share forecasted capacity bookings with National Grid well in advance of the actual Gas Year.

Once the amended forecasts make their way through to the Forecasted Contracted Capacity (FCC) process and into the resultant NTS Exit Charges, this would result in the 24 million customers downstream of the GDNs being assigned a lower share (than current) of the overall annual charge due to capacity being booked more in line with actual usage. As a consequence, this would mean the remaining Users would be assigned a greater share of the annual charge, but this would also be more in line with their usage.

In conclusion, Cadent opposes this modification as it denies the 11 million customers that it represents the opportunity to benefit from more cost reflective charges.

Table 1

| Modification Section | Modification Text | GDN Comments |
|---|---|--|
| Section 1: Summary | <p><i>At present, NTS Exit Capacity can only be bought on an enduring, annual, or daily basis. However, Users may wish to book a week of firm capacity rather than rely on Daily System Exit Capacity (i.e. preferring to “lock in” a volume of capacity for an extended period), for the following reasons:</i></p> <p><i>a) Mitigate against risks that Daily NTS Exit (Flat) Capacity is withheld by National Grid because of a perceived or actual constraint (whilst also increasing visibility for the System Operator); or</i></p> | <p>This is also true for GDNs wishing to satisfy Peak 1-in-20 obligations. Due to these license obligations, it is only the Annual products that currently enable the GDNs to satisfy the requirements. The introduction of the weekly product would provide an additional option that would not only result in the purchase of capacity more in line with usage, but also release capacity for use by other Users that would otherwise become sterilised.</p> |
| Section 2: Governance | <p><i>The modification introduces different treatment according to class of parties in that weekly NTS Exit Capacity Auctions will only be applied at NTS Direct Connect Exit Points, excluding Interconnectors.</i></p> | <p>We suggest the modification discriminates between Users without providing suitable justification.</p> |
| Section 3: Why Change? Daily System Exit Capacity Auctions | <p><i>...Given the cost implications of buying annual capacity for offtakes which exhibit variable consumption patterns, this strategy is uneconomic and will impose additional costs on the customer at the associated Exit Point.</i></p> | <p>This also applies to Cadent and the 11 million customers that we represent through the cost pass-through mechanism.</p> |
| Shipper and customer benefits | <p><i>Weekly Exit Capacity products will provide the following benefits to Users and consumers:</i></p> <ul style="list-style-type: none"> <i>-Reduce availability risk of relying on day ahead capacity products</i> <i>-Align with anticipated offtake forecasts and internal planning processes</i> <i>-Reduce administrative costs and potential errors associated with running daily booking processes (resulting in, for example, Exit Capacity overruns)</i> | <p>We believe that points 1, 2 and 4 apply equally to the GDNs also.</p> |

| | | |
|--|--|---|
| | <i>-Increase National Grid visibility of week ahead bookings</i> | |
| Exclusion of Distribution Network Exit Points | <p><i>Although the challenges faced by NTS Direct Connects can be applied to DNs several differences should be highlighted:</i></p> <ul style="list-style-type: none"> <i>- Many Direct Connects are subject to greater variability and unpredictability in demand, due for example to activities in complimentary markets e.g. electricity markets</i> | An equivalent variability exists for GDNs during the transition from summer to winter periods, also known as the 'shoulder months'. |
| | <ul style="list-style-type: none"> <i>- The costs of acquiring NTS Exit Capacity are incurred by NTS Direct Connects. In the case of DNs these costs can be passed on to shippers (and ultimately customers) through DN charges as there are no explicit commercial incentives placed on DNs to manage NTS Exit Capacity costs</i> | <p>The Capacity Outputs incentives were in place for the GDNs to encourage the booking of NTS Exit (Flat) Capacity to be made in an efficient manner. These have been removed under RIIO-2 and replaced with a new Licence Condition SSpC A57: Exit Capacity Planning which endeavours to produce a similar outcome.</p> <p>As the cost of capacity acquired by Cadent is incurred by our customers, any savings achieved would be seen in a reduction across 11 million customer bills.</p> |
| | <ul style="list-style-type: none"> <i>- DN licences oblige DNs to acquire NTS Exit Capacity to meet 1 in 20 demand conditions. Such an obligation does not apply to NTS Direct Connects</i> | As stated above, they also oblige the GDNs to book capacity efficiently. It could be argued that if the GDNs were given the opportunity to utilise this weekly capacity product, then there is the potential for greater efficiency. |
| | <ul style="list-style-type: none"> <i>- DNs will book capacity at a number of NTS Exit Points to ensure that, in aggregate, they meet their licence obligations and are able to satisfy connected demand, potentially making shorter-term capacity products less attractive.</i> | This product has the potential to provide additional options to the GDNs in meeting Licence obligations as it is essentially a 'firm' product and not subject to curtailment in the event an NTS constraint is called. |
| | <ul style="list-style-type: none"> <i>- DN Exit Points contribute around 60% of total Forecast Contract Capacity. Any reduction in aggregate bookings (and subsequent revenue contributions) will have a greater impact on charges than equivalent changes to NTS Direct Connect booking behaviours</i> | With the potential for Users to book capacity more in line with usage, by including the GDNs, it could be argued that future charges could be more cost reflective. Conversely, by excluding the GDNs, there is the potential for a skewed market where the NTS Directs are effectively being subsidised by the 24 million customers downstream of the GDNs. |
| | <ul style="list-style-type: none"> <i>- Permitting DNs greater flexibility in capacity booking may create issues for National Grid NTS in its operation and planning of the NTS.</i> | Arguably, with the GDNs supplementing Annual Capacity with additional weekly bookings, this should provide more granular data than currently available. As this will be published in the Exit Capacity Planning Guidance (ECPG) reports and communicated in advance to National Grid, this should aid the operation and planning of the NTS rather than hinder. |

In short, the analysis shows that DNs, and their customers, would realise cost savings where weekly bookings were to be combined with annual bookings. In the scenario provided for Gas Year 2022/23, initial booking costs would be reduced by 54% and final costs by around 12% once the revenue under-recovery has been recycled through NTS Capacity Charges. The replacement of some annual bookings with weekly bookings at DN's, based on the scenario set out in Section 11 would generate a "revenue under-recovery" of £165m during Gas Year 22/23. If this is compared to NTS Direct Connects booking 50% of their historical bookings on a weekly basis, this would generate a "revenue under-recovery" of around £2m.

Whilst we recognise that the booking scenario discussed above has been used to demonstrate the potential impact upon NTS charges, it should be made clear that the reality would be somewhat different.

Many GDNs will have, in the 2021 Annual Application Window, booked long-term NTS Exit (Flat) Capacity at their offtakes in line with the Peak 1-in-20 demand forecasts (as per the requirements of the ECPG). This will include bookings of Annual Capacity for Years 1, 2 and 3, and Enduring Annual Capacity for Years 4 onwards. With some 2022 Peak Day demand forecasts indicating a further increase, there is the potential to supplement existing booking levels with the new weekly product.

In order for the GDNs i.e. their customers, to benefit from this product, they would need to reduce existing capacity bookings.

The issue is existing holdings of Annual Capacity cannot be reduced and reductions can only be made to the Enduring Annual product, and only where User Commitment is not in place.

The tables below provide a summary of levels of User Commitment currently held by Cadent.

User Commitment All LDZs

| User Commitment Period | LDZ | Offtake | Comments | User Commitment Period | LDZ | Offtake | Comments |
|------------------------|---------------|-----------|---------------|------------------------|--------------|-----------|----------|
| Mar 23 - Feb 25 | EA | PETERBORO | PARCA Request | Oct 24 - Sep 26 | SW | SALISBURY | |
| EA | BACTON | | | SW | WARRINGTON | | |
| EA | BIRLEY | | | SW | AUGLEPPM | | |
| EA | OTWILLINGHAM | | | SW | LEAMINGTON | | |
| EA | MATCHINGGREEN | | | SW | LOWERQUINTON | | |
| EA | ROUSHAMSTEAD | | | SW | ROSWAY | | |
| EA | ROSTON | | | SW | STRATFORDON | | |
| EA | WESTMICH | | | SW | ALDWALEM | | |
| EA | WATFORD | | | SW | DRYTON | | |
| EA | KIRKSTAD | | | SW | HULLINGTON | | |
| EA | SHERWELL | | | SW | HORNCH | | |
| EA | SUTTONHARBOUR | | | SW | PETERBORO | | |
| EA | WALSLEY | | | SW | BLACKROD | | |
| EA | AUGLEPPM | | | SW | ALDWALEM | | |
| EA | ECCESTON | | | SW | ASPLEY | | |
| EA | HOLMESCHAPPEL | | | SW | AUTREY | | |
| EA | LIPTON | | | SW | RUGBY | | |
| EA | WATFORD | | | | | | |

As can be seen from the above, in the majority of cases reductions to Enduring Annual Capacity cannot be made until 1st October 2026, with other others extending further still to October 2027.

Therefore, even if this modification were to be implemented in 2022 and included the GDNs, it would be a number of years before a scenario similar to that described in Section 11 would become possible.

During the lead up to this, the GDNs would be able to amend the proposed capacity booking levels submitted to both NG and via the ECPG. Doing this would result in the Forecasted Contracted Capacity (FCC) being updated and charges amended accordingly, hopefully ensuring both any revenue under-recovery is kept to a minimum and a more cost reflective NTS Charging Regime ensues.

| | | |
|---|--|--|
| <p>Section 7: Relevant Objectives</p> | <p><i>d) Securing of effective competition:</i></p> <p><i>(i)between relevant shippers;</i></p> <p><i>(ii)between relevant suppliers; and/or</i></p> <p><i>(iii)between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.</i></p> | <p>We suggest the Identified Impact is 'Negative' as the proposal excludes the GDNs and the 24 million customers they represent.</p> |
| | <p>Relevant Objective:</p> <p><i>a) ...By excluding DNs this ensures that National Grid NTS will have more confidence in the planning and operation of the NTS.</i></p> | <p>As stated earlier, we disagree with this statement as National Grid already have Section H information and the addition of weekly data would supplement this.</p> |
| | <p><i>d) ...In the case of NTS Direct Connects, demand tends to be unpredictable and variable which requires shippers to book capacity at relatively short notice.</i></p> | <p>GDN demand does also vary seasonally.</p> |
| | | |

Representation - Draft Modification Report UNC 0805

Introduction of Weekly NTS Exit Capacity Auctions

Responses invited by: **5pm on 12 August 2022**

To: enquiries@gasgovernance.co.uk

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

| | |
|---|---|
| Representative: | Alastair Tolley |
| Organisation: | EP UK Investments |
| Date of Representation: | |
| Support or oppose implementation? | Support |
| Relevant Objective: | a) Positive d) Positive |
| Relevant Charging Methodology Objective: | Not Applicable * <i>delete as appropriate</i> |

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

EP UK Investments supports this modification as it provides Direct Connects, especially CCGT power stations, with a tool for efficiently managing the capacity requirements and risks associated with their operation and provides NGG with greater forward visibility of these users' booking behaviour.

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

We consider that a weekly exit capacity product should be in place as soon as possible to allow CCGTs to manage gas capacity risks. Ideally, this would be time for winter 2022/23 due to the high risk of exit capacity interruption or non-availability of daily firm capacity in this period.

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

There would be no additional cost incurred by EP UK Investments as a result of the introduction of weekly auctions. The additional product would enhance our capacity options and allow us to manage our capacity requirements and associated risks in the most economic and efficient way.

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

Yes, we are satisfied with the legal text.

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

EP UK Investments supports this modification as it provides Direct Connects, especially CCGT power stations, with a tool for efficiently managing the capacity requirements and risks associated with their operation and provides NGG with greater forward visibility of these users' booking behaviour.

Since October 2020 most generators attempt to match their exit capacity bookings as closely as possible to anticipated flows through daily capacity bookings rather than buying annual or enduring firm products in order to minimise capacity costs. However, many generators would benefit from a firm exit capacity product that is shorter than a year but longer than a day. This would allow for more efficient management of capacity requirements based on expected generation profiles, especially during the winter months. Allowing direct connects to buy capacity further in advance than day ahead would also provide NGG with greater certainty of capacity requirements during tight winter months and assist with system planning and operation.

A key risk facing generators this winter is the availability of daily firm exit capacity as such capacity can be withheld from sale at NGG's discretion where it forecasts a constraint. This could leave generators unable to access uninterruptible exit capacity when the gas supply situation is expected to be tight. For a CCGT that has already committed to delivery in the electricity market, not being able to access exit capacity in order to generate could leave it exposed to high costs in either buying back its position when the power market is tight or facing electricity imbalance prices of up to £6,000/MWh. To avoid these penalties, a generator may be encouraged to offtake gas without holding exit capacity and incur overrun charges, making the capacity regime ineffective. The option to book a weekly exit capacity product could help avoid this behaviour.

In general, we believe that there is a mismatch between gas and electricity market rules and incentives when both systems are tight or in an emergency situation. We consider that urgent discussions are required between all parties to assess and resolve these issues ahead of this winter.

Representation - Draft Modification Report UNC 0805

Introduction of Weekly NTS Exit Capacity Auctions

Responses invited by: 5pm on 12 August 2022

To: enquiries@gasgovernance.co.uk

| | |
|---|---|
| Representative: | Anna Stankiewicz |
| Organisation: | National Grid |
| Date of Representation: | 12 th August 2022 |
| Support or oppose implementation? | Oppose |
| Relevant Objective: | <p>a) Positive</p> <p>d) Negative</p> |
| Relevant Charging Methodology Objective: | Not Applicable |

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

National Grid agrees that UNC0805 *Introduction of Weekly NTS Exit Capacity Auctions* would address some of the shortfalls in the existing portfolio of Exit NTS capacity products. If implemented, it has a potential to support some NTS Users in securing firm capacity on a more flexible short-term basis than they can currently, without the risk of capacity being withheld. It can also relieve Users from having to establish daily capacity booking strategies by allowing slightly longer-term planning.

While National Grid recognises the benefits of an introduction of a new Exit auction as outlined above, we also deem it appropriate to consider the basis on which one group of Users, DNs, have been excluded from the possibility of using it as a product. We recognise some of the arguments made in favour of excluding this User group from the proposed product, however, we don't feel that they are strong enough to justify the different treatment this change would introduce to the market. We believe that all Users should have equal access to all capacity products available.

The implementation of this proposal could have some positive impact on efficient and economic operation of the NTS, providing the weekly booking option was used and gave an earlier insight into the level of anticipated flows (assuming the modification will impact User behaviour i.e., daily capacity Users will switch to weekly product). The degree to

which this foresight would be useful is unknown at this point. We would like to note that inclusion of DN's would not hinder our ability to operate more effectively (as stated in the proposal) but would make us more reliant on other sources of LDZs long term demand data already available (mainly DN's Section H demand forecast shared with NGG annually and Future Energy Scenarios).

If Users currently relying on annual bookings switch to a weekly product, this is likely to have a positive impact on competition, as by booking more accurately they will be saving costs. However, as analysis included within the proposal demonstrates, we are likely to experience only a limited behavioural impact due to the fact that majority of Power Stations / Industrial and Commercial sites already book capacity via the short-term products. Therefore, whilst we recognise the impact as positive, it may only be marginally positive overall.

Exclusion of one User group from accessing the weekly product will have a negative impact on competition and fairness in having access to all capacity products available. On balance, we believe the negative impact on competition (preventing competition between DN operators and relevant shippers) outweighs the slight positive, hence we oppose implementation of this proposal.

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

Significant system changes would be required to implement this modification as well as other considerations related to publication of prices:

- Implementation of system changes, estimated in the ROM as 20-22 weeks plus a three month lead time for start-up/sanction/mobilisation, plus Ofgem decision making time, mean that this modification would not be likely to be implemented, and the Weekly auction not available to use, before circa October 2023.

Should this modification be approved, National Grid NTS proposes implementation should follow the following steps (similar as in case of implementation of Modification proposal 0752S Introduction of Weekly Entry Capacity Auctions):

1. Following Ofgem's implementation decision, a Notice of Implementation shall be issued which states the system implementation date as "to be determined".
2. In the next Code update, as close to the decision date as is operationally possible, a footnote should be added to the impacted sections of the UNC text that identifies the future implementation of the modification which would amend that section.
3. Once a firm date for implementation of the system changes is identified, a further Notice of Implementation shall be issued confirming this as also being the date at which the legal text is implemented in the UNC.
4. Concurrently to the legal text being implemented into the UNC, the reserve price for the Weekly auction shall be published with Ofgem approval (the reserve price cannot be published without the legal text being present in UNC, Ofgem's approval to publish reserve prices outside of standard timeframe of on or after 1st August will be needed as per NGG's Licence Special Condition A11(18)).

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

National Grid NTS will be subject to the costs of system implementation as outlined in the ROM, which are expected to be in the range of £280,000 to £365,000 to implement.

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

National Grid NTS are satisfied that the legal text delivers the intent of the Solution.

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 identified.

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

N/A

Joint Office

Enquiries@gasgovernance.co.uk

2nd August 2022

Dear Joint Office,

Re UNC Modification: 0805 Introduction of Weekly NTS Exit Capacity Auctions

Thank you for the opportunity to provide representation on the above noted Modification Proposal. Please find below Northern Gas Network's (NGN) comments in respect of this change.

NGN does NOT support this Modification Proposal.

Reason for opposition

We do not support this Modification due to its discriminatory nature in relation to Distribution Networks (DNs). Whilst the proposer claims that 'Permitting DNs greater flexibility in capacity booking may create issues for National Grid NTS in its operation and planning of the NTS' this seems in conflict with the fact that DNs have, under UNC Transportation Principal Document (TPD) Section B, the ability to use daily auctions. Should a situation arise where we needed to make a short-term booking, the ability to use a weekly, rather than numerous daily options, should reduce any perceived issues, therefore excluding DNs from this option would appear counter intuitive. In view of this we believe that this proposal is negative for Relevant Objectives

a) Efficient and economic operation of the pipe-line system.

Implementation:

As this modification is not classed as self- governance, should it be approved, it can be implemented at any time as directed by The Authority.

Impacts and Costs:

None identified.

Legal Text:

Whilst we note that there is a new clause 3.5 to exclude DNO users from weekly auction, we believe that due to the fact that under section TPD B a User (with limited exceptions) includes a DNO user; paragraph 3.1.5 (b) & 3.5.4 should state 'Shipper User' rather than 'User', or refer to proposed clause 3.5 which excludes DNO Users from Weekly Auctions.

Are there any errors or omissions in this Modification Report that you think should be taken into account?

None identified.

Smell gas?

Call the National Gas Emergency
Service on 0800 111 999



1100 Century Way
Thorpe Park Business Park
Colton, Leeds LS15 8TU



0113 397 5300



northerngasnetworks.co.uk

**we are
the network**

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

We are not averse to the inclusion of Weekly NTS Capacity Auctions as an addition to the existing auction options for all Users (both Shipper and DNO), and would support a modification proposal that was inclusive to all User parties as defined under TPD B 1.12

I hope these comments will be of assistance and please contact me should you require any further information in respect of this response.

Yours sincerely,

Tracey Saunders (via email)
Market Services Manager
Mobile: 07580 215 743

Smell gas?

Call the National Gas Emergency
Service on 0800 111 999



1100 Century Way
Thorpe Park Business Park
Colton, Leeds LS15 8TU



0113 397 5300



northerngasnetworks.co.uk

**we are
the network**

Representation - Draft Modification Report UNC 0805

Introduction of Weekly NTS Exit Capacity Auctions

Responses invited by: **5pm on 12 August 2022**

To: enquiries@gasgovernance.co.uk

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

| | |
|---|---|
| Representative: | David Mitchell |
| Organisation: | Scotland Gas Networks Ltd & Southern Gas Networks Ltd |
| Date of Representation: | 12 th August 2022 |
| Support or oppose implementation? | Comments |
| Relevant Objective: | a) Negative d) Negative |
| Relevant Charging Methodology Objective: | Not Applicable |

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

SGN would like to offer comments in response to this consultation.

SGN supported the initial version of this modification and we are, in principle, in favour of introducing Weekly NTS Capacity Auctions.

However, we have concerns that the modification as now drafted will discriminate against different classes of user, as not all parties will be able to utilise the facility of weekly NTS Exit Capacity Auctions. It is our view that the GDNs should also be able to use the facility, which would benefit our customers and could in turn prove to be more cost reflective.

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

We support the proposed implementation lead times.

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

SGN does not anticipate any costs from the implementation of this modification.

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

We are satisfied that the legal text will deliver the intent of the modification.

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 identified.

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

None identified.

Representation - Draft Modification Report UNC 0805

Introduction of Weekly NTS Exit Capacity Auctions

Responses invited by: **5pm on 12 August 2022**

To: enquiries@gasgovernance.co.uk

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

| | |
|---|--------------------|
| Representative: | Richard Fairholme |
| Organisation: | Uniper |
| Date of Representation: | 12/08/2022 |
| Support or oppose implementation? | Support |
| Relevant Objective: | d) Positive |
| Relevant Charging Methodology Objective: | Not Applicable |

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

This proposal, if implemented, will allow Shipper Exit Users (particularly those with generation and storage) to better align their capacity bookings with actual flows and/or to help minimise risks, which should better facilitate competition in the market. This is particularly important as we head towards Winter.

We believe it is appropriate to exclude DN Users as their needs and economic drivers are materially different.

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

As soon as possible and pre-Winter

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

None identified

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

Yes.

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

Nothing further to add.

Representation - Draft Modification Report UNC 0805

Introduction of Weekly NTS Exit Capacity Auctions

Responses invited by: 5pm on 12 August 2022

To: enquiries@gasgovernance.co.uk

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

| | |
|---|----------------------------|
| Representative: | Iwan Hughes |
| Organisation: | Vitol SA |
| Date of Representation: | 12 August 2022 |
| Support or oppose implementation? | Support |
| Relevant Objective: | a) Positive d) Positive |
| Relevant Charging Methodology Objective: | Not Applicable |

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

The proposal was purposefully directed at NTS Direct Connects as it as these offtakes which would most benefit from the product while limiting the impacts on other Users and customers. Gas demand is far more unpredictable at NTS Direct Connects, with particular relevance to power generators, than at GDNs, which although see some variability do not experience the same extremes in volatility as Direct Connects. The primary purpose of the proposal is to provide NTS Direct Connects with the ability to secure firm Exit Capacity ahead of the day, which they tend to rely on (unlike GDNs which book close to 100% of their capacity requirements on an annual basis). By allowing NTS Direct Connects the ability to book weekly products this will improve NTS planning, as it is safe to assume that those availing themselves of the product will switch away from the daily product. Given less that 1% of NTS Direct Connect capacity bookings are made on an annual basis, the impact will be significant in terms of improving NTS planning data ahead of the day. This is not the case with GDNs where annual capacity bookings make up close to 100% of their total bookings.

The proposal will provide Users (and their customers) with access to an alternative Exit Capacity Product. This product will reduce the risks associated with relying upon a daily product (with its availability uncertainty) and more widely generate benefits to the market and its customers, including an anticipated reduction in Exit Capacity charges as a result of increased revenue recovery as Direct Connects switch from daily to weekly bookings.

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

The modification should be implemented at the earliest opportunity to enable the benefits to be realised without delay.

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

None identified

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

Yes

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 identified

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

While there are obvious benefits to NTS Direct Connects associated with this proposal (as stated above and in the proposal itself) consideration should be given to the costs the change might impose on other Users (and customers). Based on the analysis performed by Waters Wye Associates and contained in Appendix 1 of the Modification Report), a very worst-case scenario would result in costs of £2m being passed through transmission charges. Given the analysis is based on an assumption that Users will move away from annual bookings to weekly bookings, we observe that this is highly improbable. As stated previously, it should be anticipated that NTS Direct Connects will instead substitute daily bookings for weekly bookings, which will result in an overall revenue credit and downward pressure on transmission charges for other Users (and customers).

The same cannot be said for GDNs, where based on the analysis contained in Appendix 1 the revenue shortfall of GDNs switching from annual bookings to weekly bookings would be significant; around £171m is stated in the analysis.

We note that GDNs are of the view that the proposal is discriminatory and weekly products should be made available to all Users. We strongly oppose this view as they are not subject to the same levels in demand volatility and unpredictably and because of their lack of financial exposure to the costs of acquiring exit capacity are less likely to access the product and/or acquire it with the same level of diligence as NTS Direct Connects. The commercial drivers faced by GDNs are very different to those faced by NTS Direct Connects. Further the analysis shows that although the benefits to NTS Direct Connects are significant, the costs associated with the weekly product will be immaterial and most likely negative. The same cannot be said for GDNs where the benefits will be offset by significant increases in transmission charges for all Users, resulting in a net disbenefit for customers of electricity.

On the basis of the above and the observations contained in the Modification Report (Section 3) the exclusion of GDNs from the proposal is well justified and should not be viewed as being discriminatory.

Representation - Draft Modification Report UNC 0805

Introduction of Weekly NTS Exit Capacity Auctions

Responses invited by: **5pm on 12 August 2022**

To: enquiries@gasgovernance.co.uk

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

| | |
|---|---|
| Representative: | Bethan Winter |
| Organisation: | Wales & West Utilities |
| Date of Representation: | 12 August @ 5pm |
| Support or oppose implementation? | Comments |
| Relevant Objective: | <p>a) Positive However by excluding GDNs there is a missed opportunity for National Grid to receive weekly nominations for the NTS / LDZ offtakes.</p> <p>d) Negative The Identified Impact is 'Negative' as the proposal excludes the GDNs and the customers they represent.</p> |
| Relevant Charging Methodology Objective: | Not Applicable |

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

We appreciate the benefits to sites directly connected to the NTS but the exclusion of GDNs means that benefits to customers embedded within distribution network are missed. Our response for this response is to capture our current position which has developed over the course of discussions at workgroup, in particular, having seen the outcome of the analysis on the pricing.

We consider that this modification furthers relevant objective (a) *Efficient and economic operation of the pipe-line system* but, by excluding GDNs there is a missed opportunity for National Grid to receive weekly nominations for the NTS / LDZ offtakes. We consider that the modification does not further relevant objective (d) *Securing of effective competition:(iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers* as the proposal excludes the GDNs and the customers connected to their systems.

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

Not applicable as the current modification excludes GDN

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

Not applicable as the current modification excludes GDN

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

We are not aware of any issues with the legal text.

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.*

GDN Users are specifically excluded from this modification and some reasoning has been provided by the proposer. GDNs have a different view on the reasoning in a number of cases and have provided a joint response to the workgroup which is included on pages 8 and 9 of the draft modification report.

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

Background:

During GD1 Capacity Output incentives were in place for the GDNs to encourage the booking of NTS Exit (Flat) Capacity to be made in an efficient manner. In GD2 these have been removed and replaced with a new Licence Condition **SSpC A57: Exit Capacity Planning** which endeavours to produce a similar outcome.

To meet our license obligations, the NTS Exit Capacity that GDNs book needs to be sufficient to ensure we can meet demand on a peak 1:20 winter day. As per the Exit Capacity Planning Guidance document (ECPG), which forms part of a new licence condition introduced under RIIO2 (Standard Special Condition A57: Exit Capacity Planning), we are obliged to closely align the capacity bookings to the 1-in-20 Peak Day demand forecast. This ensures we remain compliant with this licence obligation and that our customers gas supply is not put at risk.

When booking NTS Exit Capacity we apply the following principles (amongst others), as detailed in our ECPG methodology statement:

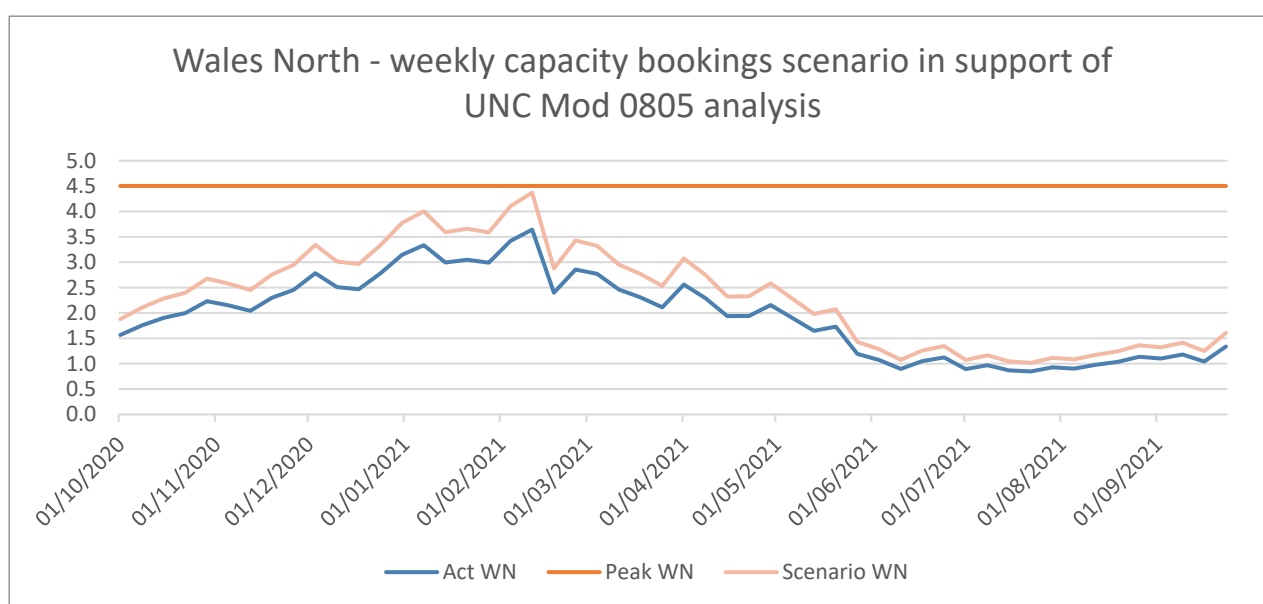
The following principles and assumptions are applied when producing offtake level capacity requirements:

- NTS Offtake capacity must be available to satisfy our 1:20 licence condition.
- NTS Flat Capacity must be guaranteed through purchase of annual or enduring capacity as there are circumstances where NTS may not release capacity through daily auctions See: [Microsoft Word - Exit Capacity Release \(approved\) v14.0.docx \(nationalgrid.com\)](#); paragraph 162.

Booking NTS Flat Capacity through the use of long-term products rather than via daily auctions means that GDNs are booking significantly more NTS Flat Capacity than we need on most days in the year because of the seasonal variation in our customers' requirements. The costs of this are pass-through so in turn our customers are paying for more capacity than they need.

The graph below provided an indication of the levels of excess capacity which is currently booked for the Wales North (WN) LDZ "Peak WN" against a weekly capacity booking that could be made should this modification be implemented **and** apply to GDN Users. In this scenario exit capacity bookings could be reduced by 54%.

Note: We believe this product would support our 1:20 requirement since it mitigates against risks that Daily NTS Exit (Flat) Capacity is withheld by National Grid because of a perceived or actual constraint.



Analysis:

We have been aware that directly connected sites are able to optimise their bookings taking into account the commercial risks associated with NTS withholding daily capacity because they don't have the same 1:20 licence requirement as GDNs.

However, if this modification is implemented the directly connected sites will continue to pay significantly less than the equivalent site located within a distribution network even though the risk of NTS withholding daily capacity has been removed.

Given the arrangements around NTS revenue recovery we were keen to understand whether implementation of this modification would result in cost savings, or whether we would introduce additional work to manage a weekly process which would be more than offset by increases in NTS charges that would result in us paying similar levels to today even though bookings were seemingly optimised.

We therefore requested some analysis be undertaken to understand the overall impact on costs, noting that any under-recovery resulting from a change in booking behaviour

would result in increases to NTS Exit Capacity Prices which may result in very little change to the overall cost of capacity to GDNs and their customers.

Whilst the analysis in Appendix 1 is recognised as very crude we believe that the level of redistribution of 12% of the total annual peak day booking requirement for GDNs which would transfer to NTS Direct Connect sites is worth noting and may represent a sufficient cross-subsidy to warrant further UNC modifications.

Conclusion:

If this modification is implemented in its current form, we will consider whether to raise an additional modification to allow GDNs to access the same product.

WWU did not raise an alternative extending the scope of the modification as we were not able to justify the original Shipper proposal due to our lack of knowledge of their business and processes.