













| UNC Modification  | At what stage is this document in the process?   |
|---|--|
| <h1>UNC 0611:</h1> <h2>Amendments to the firm capacity payable price at Interconnection Points</h2>   | <div style="display: flex; flex-direction: column; gap: 5px;"> <div style="border: 1px solid green; background-color: #00a651; color: white; padding: 5px; display: flex; align-items: center; justify-content: center;"> <span style="font-weight: bold; font-size: 1.2em;">01</span> Modification         </div> <div style="border: 1px solid #00a651; padding: 5px; display: flex; align-items: center; justify-content: center;"> <span style="font-weight: bold; font-size: 1.2em;">02</span> Workgroup Report         </div> <div style="border: 1px solid #00a651; padding: 5px; display: flex; align-items: center; justify-content: center;"> <span style="font-weight: bold; font-size: 1.2em;">03</span> Draft Modification Report         </div> <div style="border: 1px solid #00a651; padding: 5px; display: flex; align-items: center; justify-content: center;"> <span style="font-weight: bold; font-size: 1.2em;">04</span> Final Modification Report         </div> </div> |
| <p><b>Purpose of Modification:</b></p> <p>This modification seeks to facilitate compliance with the EU tariff code. It seeks to make amendments to the payable price at Interconnection Points (IP)s.</p> |  |
|   | <p>The Proposer recommends that this modification be assessed by the Workgroup</p>   |
|    | <p>High Impact:<br/>Shippers and National Grid NTS</p>   |
|    | <p>Medium Impact:<br/>N/A</p>  |
|    | <p>Low Impact:<br/>N/A</p>   |

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| <b>10 Recommendations</b>                               | <b>7</b>      | Other:<br><b>Insert name</b>  |
| <b>Timetable</b>  |               | <br>email address  |
| <b>The Proposer recommends the following timetable:</b> |               | <br>telephone  |
| Initial consideration by Workgroup                      | 03 March 2017 |   |
| Workgroup Report presented to Panel                     | 15 June 2017  |   |
| Draft Modification Report issued for consultation       | 15 June 2017  |   |
| Consultation Close-out for representations              | 07 July 2017  |   |
| Final Modification Report available for Panel           | 10 July 2016  |   |
| Modification Panel decision                             | 20 July 2016  |   |

# 1 Summary

## What

The EU Capacity Allocation Mechanism (CAM) code was introduced into the UNC via Modification 0500. Since then several changes have been made to the EU CAM code which has resulted in subsequent proposals to change the UNC, namely Modification 0598S which seeks to introduce changes to the auction calendar and Modification 0597 which seeks to introduce a framework and rules to enable the acquiring of incremental capacity at Interconnection Points to take place. Commission Regulation (EU) 2017/460 establishing a network code on harmonised transmission tariff structures for gas requires changes to rules governing the payable price for both available and incremental annual firm capacity at interconnection points (IPs). This Modification Proposal seeks to introduce rules into the UNC concerning the payable price for the capacity released under the new incremental process at IPs (to be introduced by Modification 0597) and ensure the rules for the payable price for existing available capacity at IPs is compliant with this new EU Tariff code.

## Why

The EU Tariff code prohibits the use of a fixed payable price approach for available firm capacity at IPs, It also introduces the concept of a mandatory minimum premium that may be applied to the payable price for incremental capacity for situations where the reserve price on its own would fail to pass the economic test for incremental release. This Modification shall ensure compliance with this new EU regulation.

## How

The following changes to the payable price for annual firm capacity at IPs shall be added to the UNC.

- a) Annual Yearly Capacity Auctions
  - The rules governing the payable price for NTS Entry Capacity at interconnections points allocated in an Annual Yearly Auction shall be aligned to that for the treatment of Annual Firm Exit Capacity. Namely, the reserve price element of the payable price shall be redetermined to reflect the prevailing reserve price when the capacity falls due for payment.
- b) For Incremental Capacity at Interconnection Points
  - Incremental capacity may be released either via an auction mechanism, or an alternative allocation mechanism.
  - This Modification shall introduce the concept of a Mandatory Minimum Premium which may be added to the Applicable Payable Price for incremental capacity for situations where the reserve price on its own would fail to pass the economic test for incremental release.

## 2 Governance

### Justification for Authority Direction

Panel determined the modification is likely to have a material effect on competition and the contractual regime for the transportation of gas through pipes because it shall change the payable price for capacity released at interconnection points in both the Annual Yearly auction and in any incremental release. As this will impact the rules governing the payable price for firm capacity at IPs.

### Requested Next Steps

This modification should:

- be assessed by a Workgroup

## 3 Why Change?

The EU Tariff code enters into force 6 April 2017. Changes to the UNC are required to ensure compliance with this regulation. The EU tariff code prohibits the use of a fixed payable price approach for available firm capacity at IPs. It also introduces the concept of a mandatory minimum premium that may be applied to the payable price for incremental capacity for situations where the reserve price on its own would fail to pass the economic test for incremental capacity release. These changes shall principally affect NTS shippers. If the Modification is not implemented GB may not be compliant with EU Regulations.

## 4 Code Specific Matters

### Reference Documents

<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L:2017:072:FULL&from=EN>

### Knowledge/Skills

An understanding of the EU Tariff code and the European Interconnection Document within the UNC would be beneficial.

## 5 Solution

### Annual Yearly Capacity Auctions

The rules governing the Applicable Daily Rate of the Capacity Charge for Annual Yearly Entry will have to be aligned to that for Exit. The daily charge for interconnection point capacity allocated in an annual yearly capacity auction is the NTS Auction Price, which consists of the Reserve Price plus a share of any auction premium. This Modification proposes to change the NTS Auction Price such that for the purposes of calculating the Applicable Daily Rate the reserve price element shall be redetermined as the reserve price for such Gas Year in the prevailing Transportation Statement.

### Incremental Capacity

With regards to incremental capacity it is proposed that the following definitions are introduced:

- a) The role of the **Mandatory Minimum Premium shall be elaborated**. This shall be an additional pricing element that may be applied to the payable price for incremental capacity to enable a positive economic test outcome where the allocation of all incremental capacity at the reserve price calculated via the normal charging methodology would not generate sufficient revenues to pass the test.
- b) The Applicable Daily Rate of the Capacity Charge for when incremental capacity at IPs is released via an Alternative Allocation Mechanism shall be the Reserve Price plus the Mandatory Minimum Premium (where applied). For the purposes of calculating the Applicable Daily Rate, the reserve price shall be redetermined as the reserve price for such Gas Year in the prevailing Transportation Statement.

For the avoidance of doubt, the concept of the Mandatory Minimum Premium shall be included in the code but the mechanism by which it is calculated shall be elaborated in both the entry and exit capacity release methodology statement.

## 6 Impacts & Other Considerations

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

No impact identified.

#### Consumer Impacts

Slightly positive. This Modification supports the new process for releasing incremental capacity at Interconnection Points which may facilitate the addition of capacity to the GB market which in turn could be of benefit to consumers.

#### Cross Code Impacts

None identified.

#### EU Code Impacts

This UNC Modification proposal demonstrates how GB will comply with the EU Tariff code. There are also links with amendments to the EU CAM code as detailed in UNC Modifications 0597 and 0598S.

#### Central Systems Impacts

The move from a fixed price to an administered price for entry capacity at interconnection points will impact GEMINI. Any system changes to GEMINI will be dealt with as part of National Grid's EU Phase 4 project.

## 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.   | None              |
| b) Coordinated, efficient and economic operation of<br>(i) the combined pipe-line system, and/ or<br>(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:<br>(i) between relevant shippers;<br>(ii) between relevant suppliers; and/or<br>(iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers. | None              |
| e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers.   | None              |
| f) Promotion of efficiency in the implementation and administration of the Code.   | None              |
| g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.   | Positive          |

This modification furthers relevant objective g) because it introduces appropriate changes into the UNC to reflect Commission Regulation 2017/460.

## 8 Implementation

No implementation timescales are proposed. The European Commission has specified that this Regulation should come into effect on 6 April 2017 with respect to the mandatory minimum premium; however the earliest such a premium could apply is Q1 2018 subject to an incremental signal being confirmed following the demand assessment phase in March 2017. The requirement for entry capacity allocated at the annual auction to have a floating price is not required until the annual auction in July 2018. The Authority decision should take account of these timelines.

## 9 Legal Text

### Text Commentary

| Amendment   | Comment   |
|---|---|
| <b>EID Section B</b>  |   |
| <b>Amend existing paragraph 2.1.5 (g) &amp; (l) to read as follows:</b>   |   |
| (g) <b>“Reserve Price”</b> means the price below which Interconnection Point Capacity may not be purchased which shall be set for each Gas Year in accordance with the National Grid NTS Transportation Statement for that Gas Year.  | Revised definition to clarify meaning.  |
| (l) <b>“NTS Auction Price”</b> means the NTS Share of the Auction Premium plus: <ul style="list-style-type: none"> <li>(i) for the purposes of calculating the Applicable Daily Rate, the Reserve Price prevailing in respect of the period in relation to which the Applicable Daily Rate is payable;</li> <li>(ii) for the purposes of an Auction, where the Auction relates to a period of one Gas Year, the Reserve Price prevailing in respect that Gas Year, or where the Auction relates to a period of more than one Gas Year, the Reserve Price prevailing in respect the first Gas Year to which the Auction relates ;</li> </ul> | Definition expanded to show that the payable price shall float and that this is not the same as the cleared price in an auction.  |
| <b>Amend existing paragraph 2.1.7 to read as follows:</b>   |   |
|   |   |
| 2.1.7 Notwithstanding paragraph 2.1.6, the Applicable Daily Rate in respect of Interconnection Point Capacity held by a Bacton User at the Bacton IP ASEP or the Bacton UKCS ASEP shall be determined in accordance with TD Part IIE paragraph 4.3.   | New 2.1.7 inserted to take account TAR NC Article 35 and ensure that the fixed price element of firm capacity bought at an IP before 6 April 2017 shall not be subject to change by the TAR NC. |
| <b>EID Section E</b>  |   |

|  |  |   |
|--|--|---|
| <b>A new section 8 to go into EID section E.</b> |  |   |
| <b>8</b>   | <b>APPLICABLE DAILY RATE FOR INTERCONNECTION POINT CAPACITY</b>  | New section created to define the payable price (Applicable Daily Rate) in an alternative allocation mechanism. It also points to where calculation methodology can be found for the mandatory minimum premium (i.e Entry and Exit Release Methodology Statements.. |
| 8.1  | The Applicable Daily Rate payable in respect of Interconnection Point Capacity shall, notwithstanding TDP Sections B2.11 and B3.12, be the Reserve Price.  |   |
| 8.2  | If an economic test is carried out in respect of the allocation of any Interconnection Point Capacity and a mandatory minimum premium (as is referred to in paragraph 4.1.4(d)(i)(3) and calculated in accordance with National Grid NTS's Entry Capacity Release Methodology Statement or Exit Capacity Release Methodology Statement) is required in order that the economic test is positive such mandatory minimum premium shall be added to the Reserve Price referred to in paragraph 8.1. |   |

## Text

### EID Section B

Amend existing paragraph 2.1.5 (g) & (l) to read as follows:

- (g) **“Reserve Price”** means the price below which Interconnection Point Capacity may not be purchased which shall be set for each Gas Year in accordance with the National Grid NTS Transportation Statement for that Gas Year.
- (l) **“NTS Auction Price”** means the NTS Share of the Auction Premium plus:
  - (i) for the purposes of calculating the Applicable Daily Rate, the Reserve Price prevailing in respect of the period in relation to which the Applicable Daily Rate is payable;
  - (ii) for the purposes of an Auction, where the Auction relates to a period of one Gas Year, the Reserve Price prevailing in respect that Gas, or where the Auction relates to a period of more than one Gas Year, the Reserve Price prevailing in respect the first Gas Year to which the Auction relates ;

Amend existing paragraph 2.1.7 to read as follows:

- 2.1.7 Notwithstanding paragraph 2.1.6, the Applicable Daily Rate in respect of Interconnection Point Capacity held by a Bacton User at the Bacton IP ASEP or the Bacton UKCS ASEP shall be determined in accordance with TD Part IIE paragraph 4.3.

### EID Section E

A new section 8 to go into EID section E.

#### **8 APPLICABLE DAILY RATE FOR INTERCONNECTION POINT CAPACITY**

- 8.1 The Applicable Daily Rate payable in respect of Interconnection Point Capacity shall, notwithstanding TDP Sections B2.11 and B3.12, be the Reserve Price.

- 8.2 If an economic test is carried out in respect of the allocation of any Interconnection Point Capacity and a mandatory minimum premium (as is referred to in paragraph 4.1.4(d)(i)(3) and calculated in accordance with National Grid NTS's Entry Capacity Release Methodology



Statement or Exit Capacity Release Methodology Statement) is required in order that the economic test is positive such mandatory minimum premium shall be added to the Reserve Price referred to in paragraph 8.1.

## 10 Recommendations

### Proposer's Recommendation to Workgroup

Workgroup is asked to:

- Assess this modification; and
- Agree it should be issued to consultation.