

UNC Draft Modification Report	At what stage is this document in the process?
<h1>UNC 0823:</h1> <h2>Amendment to the Allocation of Entry Capacity and Flow Quantities to Qualifying CNCCD Routes</h2>	<div style="display: flex; flex-direction: column; gap: 10px;"> <div style="border: 1px solid #ccc; border-radius: 5px; padding: 5px; display: flex; align-items: center; gap: 10px;"> <span style="border: 1px solid #ccc; border-radius: 50%; padding: 2px 8px;">01</span> Modification         </div> <div style="border: 1px solid #ccc; border-radius: 5px; padding: 5px; display: flex; align-items: center; gap: 10px;"> <span style="border: 1px solid #ccc; border-radius: 50%; padding: 2px 8px;">02</span> Workgroup Report         </div> <div style="border: 1px solid #ccc; border-radius: 5px; padding: 5px; display: flex; align-items: center; gap: 10px;"> <span style="border: 1px solid #ccc; border-radius: 50%; padding: 2px 8px;">03</span> Draft Modification Report         </div> <div style="border: 1px solid #ccc; border-radius: 5px; padding: 5px; display: flex; align-items: center; gap: 10px;"> <span style="border: 1px solid #ccc; border-radius: 50%; padding: 2px 8px;">04</span> Final Modification Report         </div> </div>
<p><b>Purpose of Modification:</b></p> <p>This Modification seeks to amend the apportionment of Entry Capacity and Entry Flow between multiple Conditional NTS Capacity Charge Discount qualifying routes that share an Entry Point, so that both are based on the minimum of the Exit Capacity and the Exit Flow at the Exit Point of each route.</p>	
<p><b>Next Steps:</b></p> <p>This Draft Modification Report is issued for consultation responses at the request of the Panel. All parties are invited to consider whether they wish to submit views regarding this Modification. The close-out date for responses is <b>17 January 2023</b>, which should be sent to <a href="mailto:enquiries@gasgovernance.co.uk">enquiries@gasgovernance.co.uk</a>. A response template, which you may wish to use, is at <a href="http://www.gasgovernance.co.uk/0823">www.gasgovernance.co.uk/0823</a>.</p> <p>The Panel will consider the responses and agree whether or not this Modification should be made.</p>	
<p><b>Impacted Parties:</b></p> <p>High: None</p> <p>Low: Shippers</p>	
<p><b>Impacted Codes:</b></p> <p>None</p>	

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<b>Modification timetable:</b>		
Pre-Modification Discussed	01 September 2022	
Date Modification Raised	05 September 2022	
New Modification to be considered by Panel	15 September 2022	
First Workgroup Meeting	06 October 2022	
Workgroup Report to be presented to Panel	15 December 2022	
Draft Modification Report issued for consultation	15 December 2022	
Consultation Close-out for representations (20 Days)	17 January 2023	
Final Modification Report available for Panel	20 January 2023	
Modification Panel decision	16 February 2023	

 Any questions?

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## 1 Summary

### What

In order to be eligible for Conditional NTS Capacity Charge Discount (CNCCD) on qualifying nominated routes, Users must have bought the Entry Capacity and the Exit Capacity and must flow gas along that route. Where a User has two or more nominated CNCCD (shorthaul) discount routes which share an Entry Point, the User's Entry Capacity holding, and Entry Flows are apportioned to each route. The apportionments are then used to calculate the quantities that are eligible for the CNCCD discount on each route separately: the allocation of Entry Capacity is based on the proportions of the User's Exit Capacity at each Exit Point and the Entry Flow is allocated based on the flows at each Exit Point.

This proposal is to amend this apportionment calculation so that both the Entry Capacity holdings and Entry flows are both allocated in the same proportions which should be determined as the minimum of either the Exit Capacity holding or the Exit flow, whichever is lower, for each of the Exit points.

### Why

The ratio of Exit Capacity holdings for each route is not a good representation of how the Entry Capacity is actually used because it does not consider where the gas actually flows. This means unused Exit Capacity on one route attracts an apportionment of Entry Capacity which is sometimes not used or needed for gas flows on that route. This reduces the Entry Capacity allocated to other routes where it is actually being used and is needed, artificially restricting the quantities eligible for CNCCD.

The current arrangements do not reflect the operation, costs and benefits of access to and use of a pipeline that is owned and operated by the User, which is the intent of the current CNCCD arrangements: to avoid inefficient bypass of the NTS.

The impact of this defect is that Users with multiple routes sharing an Entry Point cannot access the CNCCD arrangements as intended and it disincentivises them from booking Exit Capacity for these routes until the very last opportunity to reduce the risk of losing eligibility to CNCCD.

### How

This proposal is to amend the apportionment calculation in UNC (Uniform Network Code) TPD B9.3.8 so that both Entry Capacity (CapEn) and Entry Flow (DQEn) is allocated based on the minimum of both Exit Capacity and Exit Flow at each of the Exit points of each registered route.

## 2 Governance

### Justification for Authority Direction

On 15 December 2022 UNC Panel determined the Modification is likely to have a material impact relating to the costs for capacity holdings and flows for the current gas year. Please refer to Panel Questions within section 6 for further detail.

This Modification would better facilitate CNCCD discount arrangements to avoid inefficient bypass of the NTS for CNCCD qualifying routes that share Entry Points with other qualifying routes. The proposer believes that the current apportionment calculation does not reflect the way in which Entry Capacity is utilised because it does not consider actual gas flows, and that the implications of the current calculation was an oversight at the time of implementation of UNC Modification 728B - Introduction of Conditional Discount for Avoiding Inefficient Bypass

of the NTS with 28km distance cap. The proposer believes this amendment better delivers the intent of UNC728B.

The Proposer believes the current defect affects a minority of CNCCD qualifying routes. The proposed arrangements would redistribute a relatively small amount of Entry and Exit Capacity charges that become eligible for the CNCCD discount across all Users.

*The Modification:*

*(i) is unlikely to have a material effect on:*

*(aa) existing or future gas consumers; and*

*(bb) competition in the shipping, transportation or supply of gas conveyed through pipes or any commercial activities connected with the shipping, transportation or supply of gas conveyed through pipes; and*

*(cc) the operation of one or more pipe-line system(s); and*

*(dd) matters relating to sustainable development, safety or security of supply, or the management of market or network emergencies; and*

*(ee) the uniform network code governance procedures or the network code Modification procedures; and*

*(ii) is unlikely to discriminate between different classes of parties to the uniform network code/relevant gas transporters, gas shippers or DN operators.*

Modification 0823 will therefore follow Authority Direction procedures.

## Requested Next Steps

This Modification should:

- be considered a material change and not subject to Self-Governance.
- proceed to consultation.

## 3 Why Change?

The objective of CNCCD is to ensure that capacity charges for transporting gas over short distances (which is relatively expensive with postage stamp charging arrangements) are lower than the cost to Users of constructing their own NTS bypass pipelines.

A User with a bypass pipeline would be able to determine Entry into and flow across that pipeline, whereas the allocation arrangements for shared Entry Points do this by calculation. The Proposer believes that this calculation should be amended so that the proportions allocated to each route better reflects the Entry Capacity requirements and Flow along each route.

The ratio of Exit Capacity holdings for each route is not a good representation of how the Entry Capacity is actually used because it does not consider where the gas actually flows. Under the current apportionment arrangements, unused Exit Capacity on one route, if not matched by unused Entry Capacity, attracts an apportionment of Entry Capacity which is not used or needed on that route and away from other routes where it is actually being used. This artificially restricts the quantities eligible for CNCCD.

The current allocation calculation is believed to be incorrect because it does not reflect how the Entry Capacity is used in practice i.e., where the gas actually flows. This means that the current arrangements do not reflect the operation, costs and benefits of access to and use of a pipeline that is owned and operated by the User, which is the intent of the current CNCCD arrangements.

The impact of this defect is that Users with multiple routes sharing an Entry Point cannot access the CNCCD arrangements as intended and it disincentivises them from booking Exit Capacity for these routes until the very last opportunity in order to reduce their risk of losing eligibility for CNCCD.

## 4 Code Specific Matters

### Reference Documents

Current CNCCD arrangements were introduced with Modification UNC728  
<https://www.gasgovernance.co.uk/0728>

Transportation Principal Document: Section B  
[https://www.gasgovernance.co.uk/sites/default/files/ggf/page/2020-10/4%20TPD%20Section%20B%20-%20System%20Use%20%26%20Capacity\\_0.pdf](https://www.gasgovernance.co.uk/sites/default/files/ggf/page/2020-10/4%20TPD%20Section%20B%20-%20System%20Use%20%26%20Capacity_0.pdf)

## 5 Solution

The proposal is to modify the Entry apportionment calculation to use the minimum of Exit Capacity and Gas Flow at the Exit point of each registered route. This will mean that each route becomes self-contained in that it cannot be adversely impacted by the existence of unused exit capacity on another route registered against the same Entry point.

### Business Rules proposed for UNC Modification 0728B (Urgent) - Introduction of a Conditional Discount for Avoiding Inefficient Bypass of the NTS

37. Where a User specifies a single Entry Point as the relevant Entry Point for more than one route (i.e. in respect of more than one Exit Point):

37.1. the Entry Capacity (CAPE<sub>n</sub>) for the relevant route will be equal to the User's Entry Capacity at the ASEP pro-rated on the basis of the Exit Capacity quantity as a proportion of the aggregate of the Exit Capacity quantities (for which the Entry Point is the relevant Entry Point for the nominated routes);

37.2. the quantity of Entry Capacity procured via an Existing Contract (ECEn) for the relevant route will be the equal to the User's Entry Capacity procured via an Existing Contract at the ASEP pro-rated on the basis of the Exit Capacity quantity as a proportion of the aggregate of the Exit Capacity quantities (for which the Entry Point is the relevant Entry Point for the nominated routes); and

37.3. the Entry Allocation (AEn) for the relevant route will be the equal to the User's Entry Allocation at the ASEP pro-rated on the basis of the Exit Allocation quantity as a proportion of the aggregate of the Exit Allocation quantities (for which the Entry Point is the relevant Entry Point for the nominated routes).

37.4. the Apportionment Quantity (AQEn) for the relevant route will be the equal to the User's Apportionment Quantity pro-rated on the basis of the Exit Capacity quantity as a proportion of the aggregate of the Exit Capacity quantities (for which the Entry Point is the relevant Entry Point for the nominated routes);

### Potential Amended Wording to Business Rules

37. Where a User specifies a single Entry Point as the relevant Entry Point for more than one route (i.e. in respect of more than one Exit Point):

37.1. the Entry Capacity (CAPE<sub>n</sub>) for the relevant route will be equal to the User's Entry Capacity at the ASEP pro-rated on the basis of the **Minimum** of Exit Capacity quantity **and Exit Allocation Quantity**

as a proportion of the aggregate of the **minimum** of the Exit Capacity quantities **and Exit Allocation Quantity per route** (for which the Entry Point is the relevant Entry Point for the nominated routes);

37.2. the quantity of Entry Capacity procured via an Existing Contract (ECEn) for the relevant route will be the equal to the User's Entry Capacity procured via an Existing Contract at the ASEP pro-rated on the basis of the **Minimum of Exit Capacity quantity and Exit Allocation Quantity** as a proportion of the aggregate of the **minimum of the** Exit Capacity quantities **and Exit Allocation Quantity per route** (for which the Entry Point is the relevant Entry Point for the nominated routes); and

37.3. the Entry Allocation (AEn) for the relevant route will be the equal to the User's Entry Allocation at the ASEP pro-rated on the basis of the **Minimum of Exit Capacity quantity and Exit Allocation quantity** as a proportion of the aggregate of the **minimum of the** Exit Capacity quantities **and Exit Allocation quantities** (for which the Entry Point is the relevant Entry Point for the nominated routes).

37.4. the Apportionment Quantity (AQEn) for the relevant route will be the equal to the User's Apportionment Quantity pro-rated on the basis of **the Minimum of Exit Capacity quantity and Exit Allocation quantity** as a proportion of the aggregate of **the minimum of the** Exit Capacity quantities **and Exit Allocation quantities** (for which the Entry Point is the relevant Entry Point for the nominated routes);

## Current UNC Legal Text

Section UNC TPD B9.3.8 would require amendment to reflect proposed business rules. The current legal text, for reference, is as follows:

*9.3.8 The "Election Entry Proportion" for a CNCCD Election and a Day is:*

*(a) subject to paragraph (b), one (1);*

*(b) where the User has made more than one CNCCD Election in relation to the same Eligible Entry Point, for the purposes of each such election, the proportion determined as:*

$$RQEx / \Sigma RQEx$$

*where*

*RQEx is*

*(i) for the purposes of paragraphs 9.3.3(b), 9.3.5 and 9.3.7(a), the User's Fully Adjusted Available Firm NTS Exit Capacity at the Nominated Exit Point;*

*(ii) for the purposes of paragraph 9.3.7(c), the User's UDQO at the Nominated Exit Point;*

*$\Sigma$  is the sum over all of the User's CNCCD Elections for the Nominated Entry Point.*

## 6 Impacts & Other Considerations

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

No

Workgroup Participants did not disagree.

### Consumer Impacts

The CNCCD discount arrangements are intended to avoid Inefficient bypass of the NTS. Inefficient bypass would reduce the capacity charges cost base and result in increased NTS Capacity reserve tariffs which would then be passed through to consumers. This proposal improves eligibility for the CNCCD discount to help avoid inefficient bypass and increased tariffs and prevent higher bills for consumers.

Impact of the change on Consumer Benefit Areas:	
Area	Identified impact
Improved safety and reliability N/A	None
Lower bills than would otherwise be the case The CNCCD discount arrangements are intended to avoid Inefficient bypass of the NTS. Inefficient bypass would reduce the capacity charges cost base and result in increased NTS Capacity reserve tariffs which would then be passed through to consumers. This proposal improves eligibility for the CNCCD to help avoid inefficient bypass and increased tariffs.	Positive
Reduced environmental damage Reduce probability of inefficient pipeline construction and bypass of the NTS	Positive
Improved quality of service N/A	None
Benefits for society as a whole N/A	None

### Workgroup discussions

Workgroup Participants debated the principles of the CNCCD ‘short-haul discount’. A Workgroup Participant acknowledged the appropriateness of short-haul arrangements in so far as they are intended to avoid inefficient bypass of the NTS. All Workgroup Participants agreed that there was no call to review the underlying principles for short-haul.

A Workgroup Participant argued that the Proposal here seeks to amend the extent of Eligible Amounts to which the discount is applied and the decision about implementation of this proposal would therefore have to assess the merit of the change against the status quo i.e. retaining the current method of determination of the Election Entry Proportion. The Workgroup Participant suggested three necessary conditions that would indicate a consumer benefit.

- Firstly, that without the proposal some load would bypass.
- Secondly that if implemented then at least some of the bypass would be avoided.
- Thirdly that the resulting reserve prices would be more favourable (i.e., lower) than they would be if the proposal was not implemented.

Some Workgroup Participants argued that these criteria are not appropriate in the consideration of this Proposal.

A Workgroup Participant asked which Consumers would receive the benefits; the points here are whether the benefit would flow through to the consumers receiving gas from a Shipper using the short-haul service. The Proposer responded that it would be likely that the short-haul Shipper would pass through the benefit.

A Workgroup Participant added that the current arrangements are not transparent, and it is difficult for any customer to understand. The National Grid representative responded that Shippers are able to determine their use of NTS services and the flow of benefits to Consumers is a commercial matter.

A Workgroup Participant pointed out that many large offtake Consumers are well aware of the UNC arrangements and are aware that the contracts available from NTS Shippers are largely based on UNC principles. The Proposer added however that whilst Consumers may be aware of these headline arrangements they may not know if their Shipper is operating a multi-route.

The issue is then the transparency of the arrangements for a Consumer because the level of eligible quantity subject to discount will depend on whether their Shipper is operating a single or multiple route; under the status quo a Consumer of a multi-route Shipper wouldn't be able to anticipate that their capacity costs would be impacted by the capacity costs and flows of another Consumer that the Shipper serves. The Proposer argued that the lower predictability of the eligible quantity for a multi-route Shipper may make that Shipper's offer less competitive. The Proposer argued that this Modification would change the interaction between the two Consumers' discounts and resolve this situation.

A Workgroup Participant stated that were there to be any additional short-haul eligible volumes as a result of implementing this Modification then there would be an impact on other users through an increase to Transportation capacity charges. The National Grid representative confirmed that where a discount has been provided to some Parties then other User Parties will pick up the difference because the total target revenue must be collected. The Workgroup Participants agreed on a conclusion that purpose of the short-haul arrangements is to avoid inefficient bypass of the NTS and where throughput is retained that would otherwise bypass the System then Consumers in general would avoid disbenefit.

The Ofgem representative at the December meeting asked that the following paragraph from the Authority's decision letter for Modification 0779/A<sup>1</sup> be provided within this Workgroup Report;

*“Finally, the Alternative Proposer argues that there is currently a risk of Users bypassing the NTS and that their proposed Modification would discourage this. They claim that an ‘increased incidence of inefficient bypass’ would result in higher Entry Capacity Reserve Prices than the increased accessibility to discounts available through the implementation of UNC779A. We are not convinced by this argument. First, we note that no at-risk routes have been identified by the Alternative Proposer. Secondly, as stated in our UNC678A and UNC728B decisions, the principle of a short-haul discount should be to “reduce the number of routes which continue to present a credible bypass risk, while minimising the amount of discount that is provided to achieve this”. When we approved UNC728B, we found that the CNCCD would be effective in disincentivising bypass for the vast majority of routes that we considered to be at risk of bypass without a short-haul discount.”*

## Cross-Code Impacts

None

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<sup>1</sup> UNC779/A Ofgem decision (page 7):

## EU Code Impacts

None

## Central Systems Impacts

Some Central Systems development is likely to be required.

## ROM

Analysis presented by National Grid suggests a cost of approximately £102,000 – £132,000 to implement the change.

No expected ongoing costs.

Delivery time approximately 13-15 weeks including Post Implementation Support. Project stand up time will be dependent on whether this is a stand-alone project or if it is incorporated in to ongoing system enhancements (Gemini Sustain Plus).

## Panel Questions

**Q1.** Given it was the principle that exit and entry were not tied together, this seems to define entry capacity by reference to exit capacity or usage. Can Workgroup comment on this please?

**Workgroup response** - The consensus view reached by the Workgroup is that historically, at the highest level, the regime was designed with separate entry and exit. However, the concept of a short-haul service was approved by the Authority (as Modification 0728B) as a deviation from this principle and established an opportunity for Users to receive discounted entry and entry capacity charges on eligible quantities associated with eligible and nominated routes. In this way the short-haul service links specific entry and exit points and this Modification does not amend or contradict the special exception endorsed by the Authority.

**Q2.** Consider appropriate Governance route.

**Workgroup response** - The Workgroup was made aware that the decision by the Panel to consider the Modification under Self-Governance procedures had not been unanimous. The discussion at the October Workgroup meeting considered whether there was sufficient information available to properly assess the potential materiality of the Proposal. A Workgroup Participant indicated the desirability of analysis to identify potential risks of not implementing the proposal; another Workgroup Participant indicated that it would be helpful that analysis demonstrate an expectation that implementation would lead to lower reserve prices.

At the November and December meetings the Workgroup received further analysis and the discussion is noted below;

The Proposer observed that the analysis provided by National Grid shows that the materiality of implementing this Proposal is approximately £1.6m based on capacity holdings and flows for the current gas year.

The National Grid representative noted that whilst the Modification rules do not have precise criteria for 'materiality' for determining whether a Proposal should be assessed as Self Governance, there is also a need to consider whether there is an impact on other Users. The analysis showed a potential outcome, but this could be higher or lower and there might be a greater impact on other Users. With this in mind there is an unknown impact of this proposal.

In addition, the Workgroup Participant argued this Proposal should be considered as changing the nature of the short-haul service and for these reasons should be referred to the Authority. Another Workgroup Participant agreed that this Proposal should be subject to Authority Direction.

Workgroup Participants agreed that there was a split of opinions on this question.

**Q3.** What analysis is required to assess this Modification?

**Workgroup consideration of question whether the Proposal corrects an error**

The Workgroup noted that the proposal states *“The current allocation calculation is believed to be incorrect because it does not reflect how the Entry Capacity is used in practice i.e., where the gas actually flows. This means that the current arrangements do not reflect the operation, costs and benefits of access to and use of a pipeline that is owned and operated by the User, which is the intent of the current CNCCD arrangements.”*

The October Workgroup discussed whether the current arrangements represent an error in the implementation of the intent of Modification 0728B. The National Grid representative stated National Grid’s view that there was no historical error in implementation and that the proposal now was looking at changing the arrangements.

At the December meeting Workgroup Participants reflected that the current arrangements (Modification 0728B) had been implemented following Urgent procedures. The National Grid representative countered that a lengthy review group process has preceded the raising of the urgent Modification proposal (0728). A Workgroup Participant observed that the number of alternatives submitted reflected that the issues had not been settled.

**Workgroup consideration of question on the Materiality of implementing the Proposal**

National Grid provided analysis to illustrate the effect of implementation of Modification 0785 (Application of UNC processes to an aggregated Bacton (exit) Interconnection Point).

The National Grid analysis (presented in November) showed;

**High Level Figures – Post Modification 0785 period if Modification 0823 was in place**

- Invoicing data for the period Mar-22 to Jul-22 has been used to calculate the following:
- The 24 multi-routes initially highlighted contributed circa £1.96m in combined Entry & Exit Revenues from Eligible Quantities over this five-month period.
- Approximately £17.55m was socialised due to the discounts applied.
- This contribution is generated from approx. 17.86 TWh of Eligible Quantities.
- This is approximately 37% of the potential Entry Eligible Quantities and 20% of the potential Exit Eligible Quantities observed across those routes.

**Provisional Conclusions**

- Due to the changes approved and implemented via UNC0785 the number of potential multi routes decreases to single figures with effect from 1st March 2022. \*\*
- By aggregating the two Bacton IP Exit points, the level of Eligible Quantities as a percentage of Entitlement has increased significantly.
  - o Exit Points benefit as much as Entry, suggesting this is not impacted by variations in levels of Existing Contract bookings across the periods pre and post 1st March.
  - o Much of the benefit that UNC0823 could have granted to shorthaul users may have already been realised in existing routes. We will run analysis to the end of the Gas Year and provide details for the final workgroup to ensure we have the most up to date data prior to submission.
- There is potential for new combinations with the framework of Modification 0728B & Modification 0785, but would require assumptions around future Shipper behaviour to predict.
- Without prior knowledge of any potential behavioural changes, a range of impact for this Modification is difficult to estimate.

\*\* During discussions National Grid elaborated on the analysis (first bullet point above) to point out that the effect of implementing Modification 0785 is that the availability would now corresponds to 2 multi-routes, one at Bacton and one at Teesside.

A further refinement of the analysis was considered at the December meeting.

## Potential Future Impacts

Making the supposition that Modification UNC0823 was implemented on 1<sup>st</sup> October 2022, using the known long term bookings for GY 2022/23 and overlaying historical flows from GY 2021/22, a forecast of the potential impacts for the current GY have been calculated,

The aggregated figures across the routes over the current Gas Year suggest an increase in access to the discount for applicable Users, and a corresponding impact to others, of around **£1.62m**.

This is nearly ten times higher for the calculated figure for Gas Year 2021/22, the **£186k** suggested by the historical booking data.

Using the actual flow data available for the current Gas Year to date (1<sup>st</sup> Oct to 13<sup>th</sup> Nov at time of production) benefits for affected Users of approximately **£283k** may have been missed.

Over the same period using the forecasted flow data, the expected value was **£151k**, suggesting that the forecasts for GY2022/23 may downplay the benefits and subsequent impacts if the same trends are seen across the year.

National Grid

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## Potential Future Impacts

It's possible that a figure of **£1.62m** across a full year would be enough to impact Transmission Services Rates when calculated for future years.

It is likely however, that this impact will only be around **0.0001 or 0.0002 p/kWh** depending on rounding and other factors at play in the calculation of the Allowed Revenues.

Based on timescales to implementation, it's unlikely that any significant impact would be felt in the current Gas Year, therefore a Revenue Recovery Charge is unlikely to be triggered.

Any impacts in the first year of implementation will instead roll in to the "K" value for the following year.

Impacts for years beyond GY 2022/23 are difficult to calculate at this time as there are no known long term bookings in place for future Gas Years.

National Grid

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National Grid confirmed that this potential adjustment would apply for future year Capacity Reserve Prices.

### Workgroup consideration of question whether there is potential discrimination in the arrangements

The Proposer provided the following powerpoint to illustrate the different effect for single and multi-route Shippers.

**Shippers operating one shorthaul route each with a common entry point can currently get a larger discount for their customers than a single Shipper operating two routes**

(Capacity in millions kwh/day)

	Shippers operate a route each			1 Shipper operates 2 out of 3 routes	
	Route 1	Route 2	Route 3	Route 1&2	Route 3
Entry Capacity	0	20	20	20	20
Entry Flow	0	20	20	20	20
Entry Capacity Apportionment				10	10
Entry Flow Apportionment				10	10
Exit Flow	0	20	20	0	20
Exit Capacity	20	20	20	20	20
Eligible Quantity (Entry & Exit)	0	20	20	0	20
Daily Cost of Capacity @ Reserve Price	£4,360	£21,380	£21,380	£4,360	£21,380
Daily Discount (Eligible Quantity @ 90%)	£0	-£19,242	-£19,242	£0	-£19,242
Daily Cost of Capacity After Discount	£4,360	£2,138	£2,138	£4,360	£11,759

- Booking exit capacity gives users the right, but not the obligation, to flow gas
- For Users managing capacity for customers with intermittent, variable or uncertain offtake, there is a trade off to be made in the decision to either:
  - buy flat annual capacity to peak requirements (knowing that some will not be needed) to mitigate the risk that NTS capacity is not made available day ahead (e.g. Exit Capacity in pre-emergency stages); or
  - buy capacity at the day ahead stage to more closely match actual flows and minimise the cost of unused capacity
- These alternative decisions have different costs and risks at Entry and Exit.
- We think that at most locations, variable Users are much more likely to buy annual flat NTS Exit Capacity than annual flat Entry Capacity, so UNC823 allocates the proportions of Entry Capacity in the same way as two different shippers operating two routes would because they would typically procure Entry Capacity day ahead to match offtake flows, not Exit Capacity
- Where there is only one customer at an Exit point, otherwise unused capacity cannot be sold

The Proposer added that there is nothing in the previous analysis undertaken for Modification 0728 that indicates that this effect was considered.

National Grid responded to the same request to consider whether the current arrangements are potentially discriminatory between single route and multi-route Shippers and presented the following analysis in December;

## Current Process for Proration of Multi routes

0823 Mod Example: Calculated as separate Shippers using the current methodology

Shipper A Entry Point E				Shipper A Entry Point E Exit Point 1		Shipper B Entry Point E				Shipper B Entry Point E Exit Point 2	
Date Booked	Source	Type	kWh	Type	kWh	Date Booked	Source	Type	kWh	Type	kWh
01/04/2017	Existing	Firm	0	CAP <sub>En1</sub>	50	01/04/2017	Existing	Firm	0	CAP <sub>En2</sub>	50
01/01/2020	Auction	Firm	50	EC <sub>En1</sub>	0	01/01/2020	Auction	Firm	50	EC <sub>En2</sub>	0
01/04/2020	Auction	Interruptible	0	A <sub>En1</sub>	50	01/04/2020	Auction	Interruptible	0	A <sub>En2</sub>	50
01/07/2020	Trade	Firm	0	AQ <sub>En1</sub>	50	01/07/2020	Trade	Firm	0	AQ <sub>En2</sub>	50
		Entry Flow	50					Entry Flow	50		
				IEQ <sub>En</sub>	10					IEQ <sub>En</sub>	40
				IEQ <sub>Ex</sub>	10					IEQ <sub>Ex</sub>	40
		Exit Point 1						Exit Point 2			
Date Booked	Source	Type	kWh			Date Booked	Source	Type	kWh		
01/01/2020	Auction	Firm	150	EQ <sub>En</sub>	10	01/01/2020	Auction	Firm	50	EQ <sub>En</sub>	40
01/04/2020	Auction	Interruptible	0	EQ <sub>Ex</sub>	10	01/04/2020	Auction	Interruptible	0	EQ <sub>Ex</sub>	40
01/07/2020	Trade	Firm	0			01/07/2020	Trade	Firm	0		
		Entry Flow	10					Entry Flow	40		

Shipper A has overbooked when compared with their flow (i.e. 150 capacity v 10 flow).

Shipper B is independent and so not impacted by the actions of Shipper A.

National Grid

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## Current Process for Proration of Multi routes

0823 Mod Example: Calculated as single Shipper using the current methodology

The Single Shipper in this scenario has matched the combined booking levels of Shipper A and Shipper B.

In this scenario because the single shipper has overbooked at Exit Point 1 (150), the apportionment calculation is skewed towards Route E1 and so the EQ<sub>Ex</sub> value for Route E2 is impacted.

The EQ<sub>Ex</sub> for Route E2 (between Entry Point E and Exit Point 2) is decreased from 40 to 25.

National Grid

Single Shipper Entry Point E				Entry Point E Exit Point 1		Entry Point E Exit Point 2	
Date Booked	Source	Type	kWh	Type	kWh	Type	kWh
01/04/2017	Existing	Firm	0	CAP <sub>En1</sub>	75	CAP <sub>En2</sub>	25
01/01/2020	Auction	Firm	100	EC <sub>En1</sub>	0	EC <sub>En2</sub>	0
01/04/2020	Auction	Interruptible	0	A <sub>En1</sub>	20	A <sub>En2</sub>	80
01/07/2020	Trade	Firm	0	AQ <sub>En1</sub>	75	AQ <sub>En2</sub>	25
		Entry Flow	100				
				IEQ <sub>En</sub>	10	IEQ <sub>En</sub>	25
				IEQ <sub>Ex</sub>	10	IEQ <sub>Ex</sub>	25
		Exit Point 1					
Date Booked	Source	Type	kWh				
01/01/2020	Auction	Firm	150	EQ <sub>En</sub>	10	EQ <sub>En</sub>	25
01/04/2020	Auction	Interruptible	0	EQ <sub>Ex</sub>	10	EQ <sub>Ex</sub>	25
01/07/2020	Trade	Firm	0				
		Entry Flow	10				
		Exit Point 2					
Date Booked	Source	Type	kWh				
01/01/2020	Auction	Firm	50				
01/04/2020	Auction	Interruptible	0				
01/07/2020	Trade	Firm	0				
		Entry Flow	40				

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## Current Process for Proration of Multi routes

### 0823 Mod Example: Calculated as single Shipper using the current methodology

Reducing the Capacity booking for Exit Point 1 to any value less than or equal to 76 in this scenario (still more than 7 times higher than flow) gives the Single Shipper exactly the same EQ<sub>Ex</sub> values as Shipper A and Shipper B had in the initial example.

A Decrease, Trade or Assignment of 74 units or more of Capacity at Exit Point 1 would achieve the same result in this scenario.

The Single Shipper in this scenario has acted to address an imbalance between their bookings and their flows at Exit Point 1 so hasn't missed out on the benefit at Route E2.

Single Shipper Entry Point E				Entry Point E Exit Point 1		Entry Point E Exit Point 2	
Date Booked	Source	Type	kWh	Type	kWh	Type	kWh
01/04/2017	Existing	Firm	0	CAP <sub>En1</sub>	60	CAP <sub>En2</sub>	40
01/01/2020	Auction	Firm	100	EC <sub>En1</sub>	0	EC <sub>En2</sub>	0
01/04/2020	Auction	Interruptible	0	A <sub>En1</sub>	20	A <sub>En2</sub>	80
01/07/2020	Trade	Firm	0	AQ <sub>En1</sub>	60	AQ <sub>En2</sub>	40
		Entry Flow	100				
				IEQ <sub>En</sub>	10	IEQ <sub>En</sub>	40
				IEQ <sub>Ex</sub>	10	IEQ <sub>Ex</sub>	40
Exit Point 1							
Date Booked	Source	Type	kWh				
01/01/2020	Auction	Firm	76	EQ <sub>En</sub>	10	EQ <sub>En</sub>	40
01/04/2020	Auction	Interruptible	0	EQ <sub>Ex</sub>	10	EQ <sub>Ex</sub>	40
01/07/2020	Trade	Firm	0				
		Entry Flow	10				
Exit Point 2							
Date Booked	Source	Type	kWh				
01/01/2020	Auction	Firm	50				
01/04/2020	Auction	Interruptible	0				
01/07/2020	Trade	Firm	0				
		Entry Flow	40				

National Grid

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## Side by side view

Overbooking of capacity at an Exit Point, whether intentional or not, can lead to lower Entry and Exit discount Eligibility

This is not a penalty in the way that an under -booking can lead to an Overrun charge, it is a missed opportunity, a consequence of booking to match peak flow rather than expected flow.

The same opportunity was available to all Shippers and so this should **not** be seen as discrimination.

		Separate Shippers		Single Shipper	
		Shipper A	Shipper B	Shipper A	Shipper A
		Entry Point E to Exit Point 1	Entry Point E to Exit Point 2	Scenario 1	Scenario 2
Entry Point E	Firm Capacity	50	50	100	100
	Flow	50	50	100	100
Exit Point 1	Firm Capacity	150		150	76
	Flow	10		10	10
Exit Point 2	Firm Capacity		50	50	50
	Flow		40	40	40
EQ <sub>En</sub> Route 1		10		10	10
EQ <sub>Ex</sub> Route 1		10		10	10
EQ <sub>En</sub> Route 2			40	25	40
EQ <sub>Ex</sub> Route 2			40	25	40

National Grid

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National Grid concluded that Shippers have a number of tools with which to manage their capacity position.

The Proposer pointed out that currently the arrangements require a multi-route Shipper to match their capacity holding for a gas day to their flows for that gas day in order to avoid the effect of entry capacity being mismatched to flow requirements. The solution proposed (by National Grid) is that Shippers should not overbook capacity. A mechanism to achieve this is that capacity could be secured close to the time of use to aid such matching. The Proposer argued that this is not viable for a Shipper serving Consumers with a variable offtake as Shippers and Users require more certainty prior to making offtake commitments and the risk that capacity may not be available would mean hedging their gas offtake is more risky and thus less competitive.

## 7 Relevant Objectives

Impact of the Modification on the Transporters' Relevant Objectives:	
Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	Positive
b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters.	None
c) Efficient discharge of the licensee's obligations.	None
d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	Positive
e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers.	None
f) Promotion of efficiency in the implementation and administration of the Code.	None
g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	None

The CNCCD discount arrangements are intended to avoid Inefficient bypass of the NTS. Inefficient bypass would reduce the capacity charges cost base and result in increased NTS Capacity reserve tariffs which would then be passed through to consumers. This proposal improves eligibility for the CNCCD discount to help avoid inefficient bypass and improve effective competition.

### Workgroup discussions

#### Relevant Objective a)

A Workgroup Participant argued that this Proposal is neutral unless/until a bypass is built.

#### Relevant Objective d)

Some Workgroup Participants agreed that inefficient bypass of the NTS would lead to higher charges for Users and that mitigation of this risk is therefore beneficial.

A Workgroup Participant argued that this proposal could be positive for competition because offers to (short-haul) Consumers would not need to reflect the disadvantage of multi-route short-haul to the shipper depending on their exit capacity bookings relative to flows.

A Workgroup Participant argued that unless there was a realistic risk of bypass then the effect of this Proposal would be to enhance the benefit of the short-haul discount to a small number of Users and that would be to the detriment of the generality of Users thereby having a negative effect in respect of competition.

## 8 Implementation

As Self-Governance procedures are proposed, implementation could be sixteen business days after a Modification Panel decision to implement, subject to no Appeal being raised.

Implementation timescales will be subject to Central Systems development, to be determined.

### Workgroup discussions

The Workgroup noted the timescale quoted in the ROM and did not raise any other concerns.

## 9 Legal Text

### Legal text

#### TPD Section B

8.3.8 The “Election Entry Proportion” for a CNCCD Election and a Day is:

- (a) subject to paragraph (b), one (1);
- (b) where the User has made more than one CNCCD Election in relation to the same Eligible Entry Point, for the purposes of each such election, the proportion determined as:

$$\text{RQEx} / \sum \text{RQEx}$$

where RQEx is the lesser of

- (i) ~~for the purposes of paragraphs 8.3.3(b), 8.3.5 and 8.3.7(a),~~ the User’s Fully Adjusted Available Firm NTS Exit Capacity at the Nominated Exit Point;
- (ii) ~~for the purposes of paragraph 8.3.7(c),~~ the User’s UDQO at the Nominated Exit Point;

### Text Commentary

The proposal effectively uses the same value to apportion all terms, minimum of capacity and flow, and so could potentially be written into the legal text as above.

Removing the differentiation between Capacity and flow based calculations and including the minimum of clause.

A Workgroup Participant agreed that the Legal Text meets the intent of the solution.

## 10 Recommendations

### Panel’s Recommendation to Interested Parties

The Panel have recommended that this report is issued to consultation and all parties should consider whether they wish to submit views regarding this Modification.

Panel have also asked respondents to consider the following questions:

1. Does this Modification meet the Self Governance criteria?
2. Do you have any views regarding risk of bypass?
3. Do you have views regarding the analysis provided in the DMR?