



| UNC Modification  | At what stage is this document in the process?  |
|---|---|
| <div>UNC 0860:</div> <div>Clarify impact of exit capacity holdings on offtake rights</div>  | <div><div>01Modification</div><div>02Workgroup Report</div><div>03Draft Modification Report</div><div>04Final Modification Report</div></div> |
| <div><div>Purpose of Modification:</div><div>To clarify that NTS Registered Capacity holdings <u>at NTS Supply Points and NTS Connected System Exit Points</u> are a financial instrument, and should not affect the operational NTS offtake rights of the holder. The proposal includes removing the limit <del>linked to</del> a User's exit capacity holdings <u>at NTS Supply Points and NTS Connected System Exit Points</u> from the Permitted Rate of Offtake in an Offtake Profile Notice. Additionally, it is proposed that a clause be added to clarify, for the avoidance of doubt, that the reduction or discontinuance of the offtake of gas at Exit Points may only be enforced in accordance with the provisions of TPD Section-Q – Emergencies <u>or where the Permitted Rate of Offtake is exceeded</u>.</div></div> |   |
| <div><div>Next Steps:</div><div>The Proposer recommends that this Modification should be:<ul style="list-style-type: none"><li>considered a material change and not subject to Self-Governance</li><li>assessed by a Workgroup</li></ul>This Modification will be presented by the Proposer to the Panel on 19 October 2023. The Panel will consider the Proposer's recommendation and determine the appropriate route.</div></div>   |   |
| <div><div>Impacted Parties:</div><div>High: Shippers, Gas Transporters, Distribution Network Operators</div></div>  |   |
| <div><div>Impacted Codes:</div><div>None</div></div>  |   |

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| Timetable   |   |  0121 288 2107   |
| Modification timetable:   |   |  <a href="mailto:enquiries@gasgovernance.co.uk">enquiries@gasgovernance.co.uk</a>  |
| Pre-Modification Discussed  | July 2023   |  <a href="mailto:lauren.jauss@rwe.com">lauren.jauss@rwe.com</a>  |
| Date Modification Raised  | 05 October 2023   |  07825 995497  |
| New Modification to be considered by Panel                                      | 19 October 2023   | Transporter:<br><b>David Mitchell</b><br><b>SGNPhil Lucas</b><br><b>NGT</b>   |
| First Workgroup Meeting   | 02 November 2023  |  <a href="mailto:david.mitchell@sgn.co.uk">david.mitchell@sgn.co.uk</a> <a href="mailto:phil.lucas@nationalgas.com">phil.lucas@nationalgas.com</a> |
| Workgroup Report to be presented to Panel                                       | <del>15 February 2023</del> <sup>18</sup><br><u>July 2024</u> |  07799 343082  |
| Draft Modification Report issued for consultation                               | <del>15 February 2023</del> <sup>19</sup><br><u>July 2024</u> | Systems Provider:<br><b>Xoserve</b>   |
| Consultation Close-out for representations                                      | <del>07 March 2023</del> <sup>08</sup><br><u>August 2024</u>  |  <a href="mailto:UKLink@xoserve.com">UKLink@xoserve.com</a>  |
| Final Modification Report available for Panel <a href="#">(at short notice)</a> | <del>11 March 2023</del> <sup>12</sup><br><u>August 2024</u>  |   |
| Modification Panel decision   | <del>18 April 2023</del> <sup>15</sup><br><u>August 2024</u>  |   |

# 1 Summary

## What

UNC TPD Section J – Exit Requirements - includes clauses specifying that Transporters are not “obligated to make gas available” to Users at Exit Points or Supply Points if they do not hold Registered Exit Capacity, and that the rate of offtake in an Offtake Profile Notice shall not exceed 1/24<sup>th</sup> of the User’s Registered Exit Capacity.

This text implies that Transporters might:

- be permitted to differentiate between Users based on their Registered Exit Capacity holdings when planning gas deliveries to Exit Points in the short term; or
- reject Offtake Profile Notices (OPNs) on the basis of a User’s Registered Exit Capacity holdings; or
- instruct, enforce or take action against power generators and industrial Users to reduce or discontinue offtake of gas before a Stage 2 Network Gas Supply Emergency (NGSE) if they do not hold the corresponding capacity

The above points were discussed at an Exit Constraints webinar held by National Gas on 16 December 2022, and clarified in a [Q&A Document](#), subsequently written and published by National Gas.

The Q&A Document says “OPNs are not considered in relation to capacity entitlements as both may change during a Gas Day” and “We can only legally direct a CCGT to cease taking gas when a Stage 2 NGSE is in force. Other forms of disconnection would be market or contract based.”

This webinar and Q&A document largely confirms what the proposer believes is common understanding and common practice for NTS operation, but appears to be inconsistent with the rights and obligations set out in the UNC.

The proposer believes that the obligations of Transporters to “make gas available” need to be clarified in UNC TPD Section J, so it is clear to Users what rights their Exit Capacity holdings convey, and therefore inform their capacity procurement strategy.

The points above were also discussed and are recorded in the [Transmission Workgroup minutes from 01 June 2023](#).

## Why

The National Emergency Plan for Downstream Gas and Electricity describes scaling-back release of daily firm exit capacity as a pre-Network Gas Supply Emergency (NGSE) measure. However, under the relatively new “Postage Stamp” gas transmission charging arrangements, NTS direct connect Users with variable offtake are incentivised and assumed to match their capacity requirements as accurately as possible by buying in short term day ahead or within day auctions. Therefore, if release of obligated exit capacity is restricted in the short term, and offtake is subsequently restricted to capacity holdings, then National Gas can curtail offtake of power stations and large industrial Users in pre-NGSE stages. The proposer believes that this is not the intention of the emergency arrangements, and that when drafted it was only non-essential offtake that was expected to be impacted pre-NGSE. The proposer understands that in pre-NGSE stages there is no coordination between National Gas and NESO to manage the whole energy system.

The proposer also believes that the Postage Stamp charging arrangements were developed to be an efficient cost recovery mechanism for a network with ample capacity, and were not designed for scenarios with restricted network access such as pre-NGSE. Nearly all the analysis that has been undertaken to support code modification decisions and to arrive at the most optimal solution have assumed that Users’ capacity procurement perfectly matches their actual flows. However, the low-probability/high-impact risk that National Gas might scale-

back release of daily firm exit capacity and restrict access to the network in pre-NGSE stages has been one of the main drivers of directly connected NTS Users' capacity procurement strategies over the last few years. As a result, many Users are over-buying gas Exit Capacity in long term auctions because they think it might reduce their risk of not being able to offtake gas in the short term. Users will be prepared to pay for an increasing amount of capacity, with decreasing probability of their customers flowing against it, if they think the cost of the risk of not having access to gas outweighs the cost of capacity. This risk and hence capacity cost might be borne by Shippers and passed through to customers in overall contract pricing or could be borne directly by some customers depending on contractual arrangements. Meanwhile, this increased Exit Capacity procurement contributes to an increased probability of over-recovery of allowed revenue. It is difficult to forecast this over-buying when setting Forecasted Contracted Capacity and calculating capacity Reserve Prices. If it is not anticipated, the increase in Exit Capacity costs for some Users will not translate into reduced Reserve Prices and hence reduced costs for all other Users During the same Gas Year.

## How

It is proposed that the legal text in UNC TPD Section J should be amended to clarify that a site that submits an Offtake Profile Notice (OPN) for an NTS Supply Points or a NTS Connected System Exit Point (CSEP) would not have this rejected for the reason of not holding the corresponding 1/24<sup>th</sup> Exit Capacity and that Exit Capacity holdings at these exit points do not affect a User's operational entitlement to offtake gas from the NTS (but may impact their charges).

It is further proposed that the rights and obligations of Transporters to "make gas available" need to be clarified by adding text to TPD Section Q – Emergencies – to clarify that the reduction or discontinuance of the offtake of gas at Exit Points may only be enforced in accordance with the provisions of that section of the UNC, or where the Permitted Rate of Offtake is exceeded and for the avoidance of doubt, is unaffected by whether a User holds the relevant Exit Capacity at NTS Supply Points or CSEPs ~~or not~~.

## 2 Governance

### Justification for Authority Direction

The proposer believes that this proposal would remove the right for National Gas to reject an OPN on the basis of capacity holdings at NTS Supply Points and CSEPs, and is therefore a material change.

### 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?

### Power stations and industrial Users can be effectively curtailed in pre-Network Gas Supply Emergency stages

UNC TPD Section J 4.5.2 specifies that *"rates of offtake set out in an Offtake Profile Notice (or revised such notice) shall not exceed the Permitted Offtake Rate "*, where the Permitted Offtake Rate for an NTS Supply Point and ~~for an NTS Connected System Exit Point~~ CSEP is currently limited to 1/24<sup>th</sup> of a User's Registered Exit Capacity holding. This clause, as drafted, does not permit submission of an OPN reflective of the Users expected

offtake when a User expects to overrun, or if a User does not yet hold capacity and intends to buy it in a forthcoming auction. The proposer believes that these circumstances arise frequently, and hence the submission of OPNs in excess of 1/24th capacity holding, not adhering to clause 4.5.2, is common practice. As a result, Users may be unaware of this potential restriction, or not expect it to be enforced, especially since it appears inconsistent with other rights and obligations in other parts of the UNC.

In a “Rules On” situation (UNC TPD C1.8), Users are required to follow their OPN, and the proposer understands that National Gas intends to correspondingly enforce Section J 4.5.2 and reject any OPNs that exceed a User’s 1/24th Exit Capacity holdings. The proposer believes that the scaling back of release of daily firm exit capacity in pre-NGSE stages for NTS Supply Points and CSEPS is intended as a commercial incentive and not as an operational restriction that will affect critical national infrastructure such as power generation.

### **Unnecessary increased costs are incurred by incentivising variable Users to buy capacity in long term auctions**

Clarity of the rights and obligations that holding Registered Exit Capacity conveys is essential in a User’s decision as to when and how much Exit capacity to buy for their customers’ offtake requirements. A key risk for Users and customers is whether they will be able to access Exit Capacity in short term auctions. This risk even exists at dedicated User Exit Points which have plenty of obligated capacity, because National Gas currently has the right, in pre-NGSE stages, to restrict the quantity of daily firm NTS Capacity made available.

If a User or customer believes there is a risk that they may not be able to access Exit Capacity in short term auctions, and that holding capacity might reduce their risk of not being able to offtake gas from the system, then the User or customer is incentivised to buy more Exit Capacity in long term auctions. Customers with uncertain future offtake are more likely to require their Shipper buy Exit Capacity that covers all their possible offtake, even if they consider that flowing against all that capacity is very unlikely.

The proposer believes that the current charging arrangements are designed with the intent and expectation that Users pay for their flow ~~on the system~~ at NTS Supply Points and CSEPs, and that they will not tend to significantly over-buy Exit Capacity. Ofgem’s decision to implement UNC678A was based on modelling results provided by CEPA, which included assumptions that market participants would be able to profile capacity bookings close to actual flows at these Exit Points using short-term capacity products (e.g. daily and within day capacity products), thus minimising the costs associated with over-booking of capacity.

Historically, gas-fired power generators have often operated with relatively high levels of output. As renewable penetration increases, gas-fired power generators will increasingly be operating as peaking plant, in some cases generating on average as little as 10% of their annual maximum possible generation. As described above, it is assumed that variable offtake Users will buy Exit Capacity to match their flows, and therefore it would be highly inefficient from a capacity charging perspective for these Users to procure as much as 10 times their total capacity requirement, but they may consider this to be the right strategy for them if they are concerned about the inability to offtake gas from the system.

The proposer believes that encouraging Users and customers to decide to buy more Exit Capacity further ahead in time, in overall quantities that are far greater than they are likely to need, is not beneficial for system operation or planning and is not likely to be cost efficient. Users who know they are likely to have over-bought Exit Capacity for their customers also know that they will pay a higher proportion of total transmission costs and will aim to recover those costs during that year. Other Users are not likely to be able to benefit from conversely paying a lower proportion during the same year because National Gas are unlikely to be able to accurately estimate over-buying in their Forecasted Contracted Capacity calculation in order to reduce Reserve Prices.

## NTS/LDZ Exit Points are not in scope of this change proposal

The proposer understands that, according to their licence, DN must secure the availability of gas for 1-in-20 peak domestic aggregate daily demand including within day gas variations providing reasonable economic incentives i.e. DN must procure exit capacity for a 1-in-20 demand scenario. To fulfil the within day variation obligation, DN may apply for NTS Exit (Flex) Capacity. Other Shippers do not have access to this product. NTS Exit (Flex) Capacity was introduced on the implementation of UNC195AVD. This modification was raised and implemented subsequent to the Competition Commission's ruling that the decision to implement UNC 0116V should be quashed and that different capacity procurement arrangements for different Users were appropriate.

Different obligations and expectations have continued to evolve for DN. Their Permitted Offtake Rate for an Offtake Profile Notice is 1/24<sup>th</sup> of the sum of their Flat and Flex capacity. However, Flex capacity overruns are priced at zero, and a 1/24<sup>th</sup> exit capacity holding is an obligation according to their licence. The proposer believes that the current exit capacity obligations for DN result in procurement behaviour that is in line with expectation and that the justification for this modification does not extend to DN and therefore NTS/LDZ Exit Points should not be in scope.

## 4 Code Specific Matters

### Reference Documents

[Transmission Workgroup minutes from 01 June 2023](#) (see section 1.3)

[National Gas Exit Constraints Webinar 16 December 2022 Q&A document](#)

[National Emergency Plan for downstream gas and electricity](#)

[UNC TPD Section J - Exit Requirements](#)

[UNC TPD Section Q - Emergencies](#)

## 5 Solution

Proposed business rules:

1. The role of NTS ~~Registered Exit (Flat) Capacity~~ for NTS Supply Points and NTS Connected System Exit Points ~~holdings are~~ is as a financial instrument and a hedge against overrun charges, and ~~they~~ should not impact the operational NTS offtake rights of the holder.
2. A User's entitlement to offtake gas from the system at NTS Supply Points and NTS Connected System Exit Points (i.e. the maximum permitted rate) should not be affected by a User's NTS Exit (Flat) Capacity holding.
3. The Permitted Offtake Rate for an Offtake Profile Notice (OPN) for any NTS Supply Point and NTS Connection System Exit Point shall not be restricted or affected by a User's NTS Exit (Flat) Capacity holding, but instead be determined by the rate specified in the Network Exit Provisions: an OPN should contain a User's best estimate of their expected offtake.

For the avoidance of doubt, the reduction or discontinuance of the offtake of gas at Exit Points may only be instructed and enforced in accordance with the provisions of UNC TPD Section Q – Emergencies or where the User exceeds the Permitted Offtake Rate.

## 6 Impacts & Other Considerations

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

No

### Consumer Impacts

- Improved safety and reliability due to increased security of supply of electricity
- Lower bills than would otherwise be the case due to reduced over-buying of Exit Capacity, and hence a more even distribution of transmission costs according to use of the system and reduction of over-recovery in revenues, is likely to lead to reduced prices and hence reduced costs to large consumers.

What is the current consumer experience and what would the new consumer experience be?

No impact

| Impact of the change on Consumer Benefit Areas:  |                   |
|--|-------------------|
| Area   | Identified impact |
| <p>Improved safety and reliability</p> <p>Increased security of supply of gas and electricity due to more coordinated cross-vector management of gas offtake and electricity generation as intended during a declared NGSE.</p>  | Positive          |
| <p>Lower bills than would otherwise be the case</p> <p>This Modification is most likely to impact Exit Capacity procurement strategies of Shippers for Very Large Consumers such as CCGTs or large industrials <u>at CSEPs</u>, who may as a result reduce their over-buying of Exit Capacity and in turn reduce the costs of their products to their customers.</p> | Positive          |
| <p>Reduced environmental damage</p> <p>None</p>  | None              |
| <p>Improved quality of service</p> <p>None</p>   | None              |
| <p>Benefits for society as a whole</p> <p>Increased security of supply of gas and electricity</p>  | Positive          |

### Cross-Code Impacts

None



EU Code Impacts

None

Central Systems Impacts

None

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.   | 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. | 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              |

8 Implementation

As this modification would bring the UNC in line with common practice, implementation could be ~~sixteen business days after a Modification Panel decision to implement, subject to no Appeal being raised.~~effective immediately on Authority Direction.

9 Legal Text

Legal text is provided at: <https://www.gasgovernance.co.uk/0860>



**10 Recommendations**

**Proposer’s Recommendation to Panel**

Panel is asked to refer this Modification Proposal to a Workgroup for assessment.