

| NC Final Modification Report  | At what stage is this document in the process?  |
|---|---|
| <h1>UNC 0752:</h1> <h2>Introduction of Weekly NTS Entry Capacity Auctions</h2>  | <div style="display: flex; flex-direction: column; gap: 5px;"> <div style="border: 1px solid #ccc; 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; 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; 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; 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>To introduce Weekly NTS Entry Capacity Auctions to allow for more economic and efficient capacity bookings.</p> |   |
|    | <p>Panel consideration is due on 20 May 2021 <i>(at short notice by prior agreement)</i></p>  |
|   | <p>High Impact:<br/>None</p>  |
|    | <p>Medium Impact:<br/>National Grid NTS</p>   |
|    | <p>Low Impact:<br/>Shippers</p>   |

| Contents  |                                | ?  | Any questions?   |
|---|--------------------------------|----|--|
| 1   | Summary                        | 3  | Contact:<br>Joint Office of Gas Transporters   |
| 2   | Governance                     | 3  |  <a href="mailto:enquiries@gasgovernance.co.uk">enquiries@gasgovernance.co.uk</a> |
| 3   | Why Change?                    | 4  |  0121 288 2107  |
| 4   | Code Specific Matters          | 6  | Proposer:<br>Adam Bates, South Hook Gas Company Ltd  |
| 5   | Solution                       | 6  |  <a href="mailto:abates@southhookgas.com">abates@southhookgas.com</a>             |
| 6   | Impacts & Other Considerations | 7  |  07787524566  |
| 7   | Relevant Objectives            | 12 | Transporter:<br>Darren Lond, National Grid   |
| 8   | Implementation                 | 13 |  <a href="mailto:darren.lond@nationalgrid.com">darren.lond@nationalgrid.com</a> |
| 9   | Legal Text                     | 13 |  07769 724 892  |
| 10  | Consultation                   | 13 | Systems Provider:<br>Xoserve   |
| 11  | Panel Discussions              | 23 |  <a href="mailto:UKLink@xoserve.com">UKLink@xoserve.com</a>                     |
| 12  | Recommendations                | 23 |  |
| Timetable   |                                |    |  |
| <b>Modification timetable:</b>                    |                                |    |  |
| Initial consideration by Workgroup                | 02 February 2021               |    |  |
| Workgroup Report presented to Panel               | 15 April 2021                  |    |  |
| Draft Modification Report issued for consultation | 16 April 2021                  |    |  |
| Consultation Close-out for representations        | 11 May 2021                    |    |  |
| Final Modification Report available for Panel     | 13 May 2021                    |    |  |
| Modification Panel decision                       | 20 May 2021                    |    |  |
|   |                                |    |  |
|   |                                |    |  |
|   |                                |    |  |

## 1 Summary

### What

Under the “ticket to ride” principle that underpins the GB capacity regime, Shippers are required to book a unit of National Transmission System (NTS) Entry Capacity (via one of the auctions prescribed within Uniform Network Code (UNC) Transporter Principals Document (TPD) Section B) for every unit of gas entered onto the NTS.

Under the current arrangements, only monthly or quarterly products are available outside of the daily product which restricts Shippers ability to book capacity efficiently where they:

- a) cannot rely on the Daily System Entry Capacity auctions because of the potential withholding of capacity by National Grid because of a constraint; or
- b) want to purchase capacity ahead of the Gas Day for planning purposes.

### Why

Any inefficient capacity bookings made by Shippers not only unnecessarily increase their overall cost of acquiring capacity but also restrict the amount of capacity available at the daily auctions for other Shippers.

The cost associated with these inefficient bookings has recently been increased by the implementation of UNC Modification 0678A - Amendments to Gas Transmission Charging Regime (Postage Stamp), which removed the commodity charge element (only payable on flows) and at all Entry Points increases the reserve price applicable to any capacity bookings.

### How

This Modification seeks to implement a Weekly NTS Entry Capacity auction which allows Shippers an additional opportunity to book capacity more efficiently, outside of the current Monthly, Daily and Daily Interruptible products.

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

## 2 Governance

### Justification for Self-Governance

Application of Self-Governance is sought because the changes proposed are unlikely to have an adverse effect on 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.

The Modification is unlikely to discriminate between different classes of parties to the UNC or Gas Shippers due to the changes having the same impact on UNC parties as per the current rules for NTS Entry Capacity Auctions.

### Requested Next Steps

This Modification should:

- be considered a non-material change and subject to Self-Governance.
- be assessed by a Workgroup.

### 3 Why Change?

#### Introduction

NTS Entry Capacity is required to be purchased<sup>1</sup> to allow a Shipper to enter gas onto the NTS and is made available through various NTS Entry Capacity auctions, which are prescribed within UNC TPD Section B2 (summarised within Table 1).

Following the implementation of UNC Modification 0678A<sup>2</sup>, which changed the charging methodology associated with NTS Capacity, it is widely acknowledged that Shippers are now incentivised to book capacity more efficiently, whereby their capacity bookings will better reflect their anticipated gas flows.

Currently, only quarterly, monthly, and daily NTS Entry Capacity products are available, which is not necessarily reflective of how gas is traded and subsequently flowed onto the NTS, especially for flexible assets such as LNG Terminals and Storage. Therefore, if a Shipper has expected gas flows which are not rateable across a quarterly or monthly strip, they are required to rely on either the Daily System Capacity auction or book capacity in the Quarterly / Monthly System Capacity auctions, which leads to additional costs of acquiring NTS Entry Capacity versus that which should be required.

**Table 1:** Summary of NTS Entry Capacity Auctions

| Capacity Product           | Product               | Timeline    | Capacity offered   |
|----------------------------|-----------------------|-------------|--|
| Quarterly (QSEC)           | Flat quarterly strips | Q+2 to Q+64 | <ul style="list-style-type: none"> <li>90% of Obligated Baseline minus sold Firm NTS Entry Capacity</li> </ul>   |
| Annual Monthly (AMSEC)     | Flat monthly strips   | M+2 to M+20 | <ul style="list-style-type: none"> <li>Obligated baseline minus solid Firm NTS Entry Capacity</li> </ul>   |
| Monthly (RMTNTSEC)         | Flat monthly strips   | M+1         | <ul style="list-style-type: none"> <li>Obligated baseline minus sold Firm NTS Entry Capacity</li> </ul>  |
| Daily (DSEC)               | Daily                 | D+1 / D     | <ul style="list-style-type: none"> <li>Obligated baseline minus sold Firm NTS Entry Capacity</li> <li>Quantity may be withheld should NGG foresee a capacity constraint</li> </ul> |
| Daily Interruptible (DISE) | Daily                 | D+1 / D     | <ul style="list-style-type: none"> <li>Use It or Lose It quantity</li> </ul>   |

<sup>1</sup> Where a Shipper's flow exceeds their entry capacity entitlement, they will become subject to overrun charges as per UNC TPD Section B2.12

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

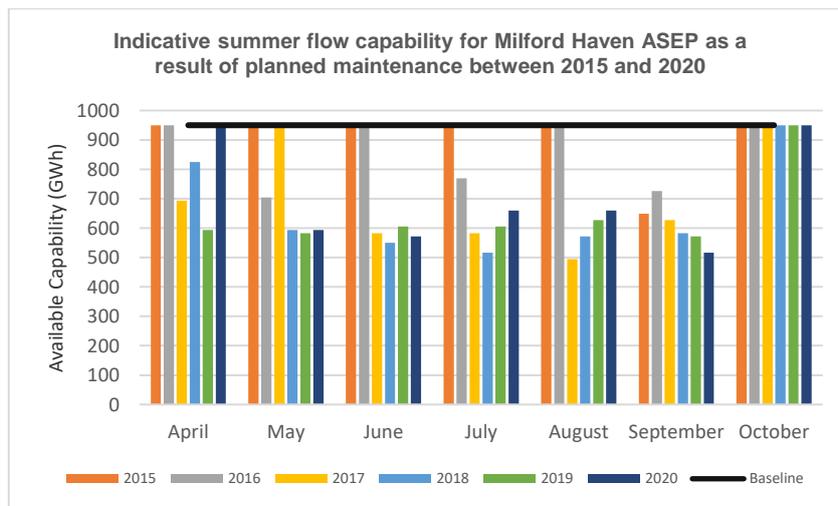
## Daily (DSEC) and Monthly (MSEC) System Entry Capacity Auctions

Whilst the DSEC Auction allows 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 Aggregated System Entry Point (ASEP) should it foresee a capacity constraint occurring<sup>3</sup>. We understand that National Grid does not in the ordinary course notify the market of any potential scale backs ahead of time.

Whilst withholding NTS capacity for unplanned maintenance and outages is naturally unpredictable, constraints can occur because of planned maintenance on the NTS. National Grid publishes the indicative flow capabilities for all NTS Entry Points within their Maintenance Plans; however, these are aggregated to a monthly figure, despite the reductions potentially only being for a single day. This low level of granularity makes it very difficult to rely on the DSEC auctions for certain Entry Points that have significant amounts of planned maintenance. It is worth noting that there are no commercial remedies available from National Grid for a constraint where capacity has not been purchased.

Figure 1 shows the indicative summer flow capability levels at Milford Haven ASEP because of planned maintenance contained within the Summer Maintenance plans between 2015 and 2020 (inclusive). The maintenance plan shows significant levels of capability reductions at Milford Haven ASEP versus the baseline in numerous months over multiple years, therefore highlighting the uncertainties of relying on DSEC Auctions and the potential risk of capacity being withheld as a result.

Figure 1



Source: National Grid Summer Maintenance Plans; 2015 to 2020

As a result, Shippers at those NTS Entry Points which are at risk of having DSEC withheld are likely to be pushed to rely on the MSEC auctions to ensure the capacity is acquired. Whilst this may be acceptable for a Shipper which has a monthly rateable send out, it is not attractive for Shippers at flexible assets, such as LNG Terminals, where gas can be traded outside of monthly strips and may result in inefficient and excessive capacity bookings which reduce both the competitiveness and attractiveness of the relevant Entry Points. In addition, there is a risk that having a reliance on MSEC auctions will lead to a reduction in flexibility at these Entry Points, due to the

<sup>3</sup> As per Paragraph 73 of the Entry Capacity Release Methodology Statement: <https://www.nationalgrid.com/uk/gas-transmission/document/128001/download>

high cost of buying additional Entry Capacity to accommodate any flexibility which would increase the unit cost of delivering a therm of gas at those Entry Points.

## Implications

To mitigate against the inefficient booking and increased costs of acquiring NTS Entry Capacity at the MSEC auction, this Modification seeks to supplement UNC TPD Section B2 by introducing a new Weekly NTS Entry Capacity auction. This would:

- a) Allow Shippers to book capacity more accurately to reflect their flows onto the NTS; and
- b) Increase the amount of DSEC capacity made available.

This product would be available to all NTS Entry Points which within the scope of the current NTS Entry Capacity auctions as prescribed within UNC TPD Section B2.

There are no resultant impacts on the current NTS Entry Capacity auctions contained within UNC.

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

Entry Capacity Release Methodology Statement:

[https://www.gasgovernance.co.uk/sites/default/files/ggf/page/2020-12/4%20TPD%20Section%20B%20-%20System%20Use%20%26%20Capacity\\_0.pdf](https://www.gasgovernance.co.uk/sites/default/files/ggf/page/2020-12/4%20TPD%20Section%20B%20-%20System%20Use%20%26%20Capacity_0.pdf)

National Grid Summer Maintenance Plans (landing page): <https://www.nationalgrid.com/uk/gas-transmission/data-and-operations/maintenance>

National Grid Gas Transmission Capacity Guidelines document:

[https://www.nationalgrid.com/sites/default/files/documents/45759-Capacity%20Guidance%20Doc\\_v1\\_0-140616.pdf](https://www.nationalgrid.com/sites/default/files/documents/45759-Capacity%20Guidance%20Doc_v1_0-140616.pdf)

### Knowledge/Skills

No additional knowledge or skills required.

## 5 Solution

For this Modification to be implemented the provisions for a Weekly NTS Entry Capacity Auction would need to be included within UNC TPD Section B, including:

1. The capacity available at the Weekly NTS Entry Capacity auction is:
  - Unsold NTS Entry Capacity (if any); plus
  - Incremental NTS Entry Capacity (if any).
2. The Weekly NTS Entry Capacity auction would take place between 08:00 and 17:00 at D-10 (where D is the first gas day of the weekly period, being a Monday).

3. The Weekly NTS Entry Capacity would be allocated by D-9. For the avoidance of doubt, this allocation needs to be completed before the opening of the DSEC window at D-7.
4. 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 within the weekly auction invitation. For the avoidance of doubt, the weekly auction invitation will be issued no later than 5 business days before the auction date.
5. For the avoidance of doubt, the same reserve prices will be applied as for other products, upon implementation the prevailing Reserve Price and a Duration Multiplier of one (1) ( as defined prescribed within the UNC TPD Section Y for the current NTS Auctions) will be applied to the Weekly NTS Entry Capacity Auctions.
6. 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-IP entry, this is reflective of the extent of the amendments that can be made by way of UNC amendment.

## 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.

### Cross Code Impacts

None identified.

### EU Code Impacts

None

### Central Systems Impacts

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

### Workgroup Impact Assessment

04 March 2021

#### TAR NC<sup>4</sup> compliance

National Grid has an obligation to publish prices in May for the beginning of each new Gas Year in October. Workgroup Participants wished to understand the effect of this Modification on this year's prices (TAR NC Art. 29).

The Proposer believed that National Grid has decided to publish all prices at the same time – prior to the Interconnector auctions. He believed this is not obligated in TAR NC, so for example domestic prices could be published separately to the interconnector prices. Introduction of this new product as a result of this Modification should not impact the timing of publication of prices. The Modification does not impact the FCC.

National Grid requested that this timing aspect should be included within the solution.

The Ofgem representative at Workgroup was asked if they had a view on this aspect. Their response was to potentially consider offline liaison with the Proposer and potentially in between Workgroups.

01 April 2021

The Ofgem representative present at the Workgroup confirmed offline discussions had taken place and referred to Ofgem's Modification 0728 decision amongst other decisions.

The Proposer confirmed he had taken Ofgem's comments into account and added TAR NC Art 29 refers to publication of prices relates to IPs, but since this Modification does not apply to IPs, the view of the Proposer is that this Modification is compliant in this respect.

National Grid confirmed that the charging methodology is set up to calculate all charges at the same time. Following on from this and taking into account the Proposer's view that the amount of capacity is not affected, the methodology will still fit with the current UNC Section Y process. The Proposer's view is that FCC is not affected, and no new prices will be required to be calculated for this new auction.

National Grid agreed with the Proposer that the FCC will not be affected since it refers to the historical situation.

Some Workgroup Participants agreed. The price will not be changed through implementation of this Modification. The change is that there is another opportunity to buy capacity closer to delivery, when better quality forecasts are available.

#### Charging Relevant Objectives

01 April 2021

Workgroup Participants agreed with the Proposer that this Modification introduces a new capacity product which uses the existing charging methodology to determine prices, therefore consideration of the Charging Relevant Objectives is not applicable.

#### A week spanning two Gas Years

On 04 March 2021 National Grid requested clarification from the Proposer for any week which spans two Gas Years - what would be the price effect and there was a request for this be clarified in the solution of the Modification.

Three options were outlined by the Proposer:

1. Suspend any auction that spans 2 Gas Years
2. Take the price from the preceding Gas Year (this appeared to be preferred as a pragmatic approach)

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<sup>4</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32017R0460>

3. Have pricing split for that week according to which Gas Year each day is in.

The Proposer preferred whichever has simplest system aspects. There was a question to be considered offline: Is the calculation done on a daily basis in the system?

The Xoserve representative confirmed that charges are calculated based on the transaction period. (E.g. monthly price x number of days in that month). This may lend itself to Option 2.

01 April 2021

Workgroup noted that in v3.0 of the amended Modification 0752 dated 26 March 2021, the Proposer has added clarification of what will happen during any week spanning two Gas Years and has utilised Option 3 above.

The Proposer clarified that Option 3 was chosen because Option 2 was previously considered on the basis that billing was assumed to be done on a weekly basis. However, it was clarified that billing can be facilitated on a daily basis so therefore Option 3 was considered to be both feasible and more fair.

#### Publication of Prices

01 April 2021

The Proposer and National Grid clarified that publication of prices will be in accordance with UNC Section Y 1.3.2. j). This means that if an implementation decision is made on or after 01 August 2021 then National Grid will publish the reserve price for this new auction in accordance with National Grid Special Licence Condition A11(18).

#### Interruptible Capacity effect

04 March 2021

In terms of 'Use-It-Or-Lose-It' capacity, also known as 'UIOLI', National Grid confirmed that the amount of interruptible capacity available for release is not limited; the quantity of capacity not used is part of the determination as to how much interruptible capacity can be released.

A Workgroup Participant made a general observation that if some bookings move away from monthly capacity bookings to weekly bookings, the amount of Interruptible capacity available (through the effect on UIOLI - an anti-hoarding mechanism) may reduce. With the interruptible discount this means that there could be less capacity available at this discounted rate.

#### Governance

01 April 2021

Workgroup Participants considered whether the Modification should be subject to Self-Governance. Referring to Panel discussions on the Modification from UNC Panel January 2021<sup>5</sup> Workgroup considered three areas:

- Introduction of a new product
- Applicability of Charging Relevant Objectives
- Compliance with TAR NC.

Workgroup had already discussed the latter two bullets above (on page 8) and then turned their attention to the new product question.

#### Introduction of a new product

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<sup>5</sup> <https://www.gasgovernance.co.uk/panel/210121>

Workgroup considered the Self-Governance criteria as published by Ofgem in 2016<sup>6</sup>. Workgroup Participants agreed that though this Modification introduces a new capacity product, it does not introduce any new prices. The existing charging methodology will be used as is currently the case to calculate prices.

Workgroup Participants discussed the costs associated with this Modification. The costs to be considered appear to only be the system change costs (£280-350,000) and the costs to National Grid to introduce the auction. These costs are borne by National Grid as part of Allowed Revenue. These costs need to be considered against the potential benefits of the Modification. The benefits of this Modification are such that they appear to positively impact Relevant Objective d) (competition).

The Proposer reiterated their strong belief that this Modification does not warrant Authority Direction as it does not meet the criteria laid out by the Authority for this purpose.

Therefore, those Workgroup Participants who expressed their view at Workgroup agreed that this Modification satisfies the Self-Governance criteria.

## Consumer Impacts

The Proposer's view is that implementing a Weekly NTS Entry Capacity Auction is likely to reduce the cost of delivering gas onto the NTS by allowing Shippers to book capacity more efficiently. This has the potential to improve the attractiveness of GB for imported gas, therefore providing Security of Supply benefits for consumers.

Workgroup completed the following table on 04 March 2021:

| <b>Consumer Impact Assessment</b><br><i>(Workgroup assessment of proposer initial view or subsequent information)</i> |  |
|---|--|
| <b>Criteria</b>   | <b>Extent of Impact</b>  |
| Which Consumer groups are affected?   | Potentially all consumers could be impacted.   |
| What costs or benefits will pass through to them?   | More efficient bookings lead to lower costs to bring gas onto the system, and this should lead to lower prices at the NBP. In turn this should mean a price benefit for consumers, assuming the savings are passed through (which will depend somewhat on the contracts in place). |
| When will these costs/benefits impact upon consumers?   | Upon implementation of the Modification.   |
| Are there any other Consumer Impacts?   | Increased benefit to Security of Supply from more favourable conditions for LNG Entry into the GB market.  |
| <b>General Market Assumptions as at December 2016 (to underpin the Costs analysis)</b>                                |  |
| <i>Number of Domestic consumers</i>   | <i>21 million</i>  |
| <i>Number of non-domestic consumers &lt;73,200 kWh/annum</i>  | <i>500,000</i>   |
| <i>Number of consumers between 73,200 and 732,000 kWh/annum</i>   | <i>250,000</i>   |
| <i>Number of very large consumers &gt;732,000 kWh/annum</i>   | <i>26,000</i>  |

<sup>6</sup> Authority Direction/Self Governance Materiality Guidance <https://www.gasgovernance.co.uk/mods>

### Rough Order of Magnitude (ROM) Assessment

|                         |                     |
|-------------------------|---------------------|
| Cost estimate from CDSP | £280,000 - £350,000 |
| Timescale estimate      | 20 to 22 weeks      |

Workgroup noted that the ROM submitted (which can be found here: <https://www.gasgovernance.co.uk/0752> ) contained additional requirements that are not stated in the Modification itself therefore a revised ROM will be required. However, Workgroup Participants heard from Correla representing Xoserve that the likelihood was that removal of these aspects would not upwardly impact the cost nor the timeline for delivery.

Workgroup Participants noted that Xoserve have an obligation to give a minimum of 6 months’ notice for any system change that has an external impact. The current assumption is that new charge types<sup>7</sup> would be needed for the weekly auction product and therefore file format changes would be required. The current timescales in the ROM combined with the desired delivery would mean 6 months could not be met. This would need to be agreed at DSC Change Management Committee.

### Outstanding Actions

Workgroup noted that a Workgroup Report would be submitted to the April UNC Panel. In addition, the Proposer will submit a final amended Modification (v4.0) on 01 April 2021 which will:

- Clarify that National Grid will state where a week goes across two GYs, and will include this when it sends out the invitation to participate in the auction (this change will be in the solutions section of the Modification)
- Clarify that the intention is that the Modification should be implemented as soon as possible and that the implementation does not need to wait for the start of a Gas Year (this change will be in the implementation section of the Modification).

Workgroup noted that the ROM submitted contained additional requirements that are not stated in the Modification itself therefore a revised ROM will be required. However, Workgroup Participants heard from Correla representing Xoserve that the likelihood was that removal of these aspects would not upwardly impact the cost nor the timeline for delivery.

As of 01 April 2021, Legal Text has not yet been fully drafted and Workgroup has not yet seen the text to comment upon it. The Proposer and the Legal Text provider, National Grid will check the Legal Text once provided and it will be published alongside the Modification here <https://www.gasgovernance.co.uk/0752> .

The assumption is that Legal Text will be available in time for Panel Consideration on 15 April 2021. Further, Workgroup noted that the Legal Text must be available in order for the Modification to be sent out for consultation.

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<sup>7</sup> The new charge type relates to Xoserve system documentation and relates to the invoicing file format. This does not impact the charging methodology nor the reserve price calculations.

## 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.   | <b>Positive</b>   |
| 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. | <b>Positive</b>   |
| 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              |

### Proposer consideration of Relevant Objectives

#### **Relevant Objective a)**

This proposal furthers Relevant Objective (a) as implementing a Weekly NTS Entry Capacity auction will provide Shippers 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.

#### **Relevant Objective d)**

This proposal furthers Relevant Objective (d) by allowing Shippers to book NTS Entry Capacity that better reflects their anticipated gas flows (versus the current RMTNTSEC auction). This will reduce the cost of acquiring unwanted NTS Entry Capacity, especially for flexible assets (such as LNG terminals and Storage) and provide security of supply benefits. In turn, reducing the unit cost of supply at those Entry Points which are currently purchasing monthly products will facilitate competition among Shippers and potentially reduce the cost of gas to consumers. The implementation of a Weekly NTS Entry Capacity product also increase the capacity available at DSEC.

### Workgroup consideration of Relevant Objectives

#### **Relevant Objective a)**

Several Workgroup Participants agreed with the Proposer.

Other Workgroup Participants voiced concern in terms of a negative impact on Relevant Objective a).

### Relevant Objective d)

On 04 March 2021 a Workgroup Participant noted that the changes may impact revenue to National Grid which could have an impact on competition (Relevant Objective d).

The Proposer responded that the behavioural changes to bookings are difficult to predict and there could be increases or decreases in revenue associated with this. The Modification is looking to ensure Users can book at a level which better reflects their actual requirements.

On 01 April 2021 some Workgroup Participants considered that the benefits of introducing this Modification are such that they are likely to have a positive impact on competition, thus furthering Relevant Objective d).

## 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.

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.

## 9 Legal Text

As of 01 April 2021, Legal Text has not yet been fully drafted and Workgroup has not yet seen the text to comment upon it. The Proposer and the Legal Text provider will check the Legal Text once provided and it will be published alongside the Modification here: <https://www.gasgovernance.co.uk/0752>.

### Text Commentary

Can be found here: <https://www.gasgovernance.co.uk/0752>

### Text

Can be found here: <https://www.gasgovernance.co.uk/0752>

## 10 Consultation

Panel invited representations from interested parties on 19 April 2021. The summaries in the following table are provided for reference on a reasonable endeavours' basis only. It is recommended that all representations are read in full when considering this Report. Representations are published alongside this Final Modification Report.

Implementation was unanimously supported in the seven representations received.

Representations were received from the following parties:

| Organisation | Response | Relevant Objectives | Key Points |
|--------------|----------|---------------------|------------|
|--------------|----------|---------------------|------------|

|  |                |  |  |
|--|----------------|--|--|
| <p>ExxonMobil Gas Marketing Europe Limited</p> | <p>Support</p> | <p>a) - positive<br/>d) - positive</p> | <ul style="list-style-type: none"> <li>• Notes the current auction processes for acquiring entry capacity were established many years ago. At that time, there was an expectation that there would be competition amongst shippers for entry capacity, and that this would create a strong incentive on shippers to book over the longer term. The situation is now very different. There is generally an excess of entry capacity with limited competition amongst shippers to book it. Further, considering the reduction in available discounts since the introduction of Modification 0678A - Amendments to Gas Transmission Charging Regime (Postage Stamp), capacity unit charges at entry points are now (potentially much) higher than those seen in recent years.</li> <li>• Points out that higher capacity prices mean that Shippers will pay increased attention to their capacity bookings, to ensure that these match actual flow requirements as closely as possible.</li> <li>• Uncertainties over supply and demand patterns means that the most accurate booking profile is achieved as close to the gas day as possible, with the added benefit of a discounted capacity reserve price applying to interruptible capacity. Indeed, sales of this capacity have increased markedly since the implementation of UNC 678A in October 2020.</li> <li>• Notwithstanding this, there are specific circumstances when leaving capacity bookings to the day ahead or within day causes a significant increase in a shipper's risk. Most notably, in the event of network maintenance, short-term capacity products may not be made available by National Grid, sometimes with very little notice being provided.</li> <li>• In proposing the introduction of a weekly capacity product, Modification 0752 offers a practical, low cost and timely capacity product. It provides an alternative to monthly capacity, which may entail unnecessary cost to the shipper (e.g. where only a limited number of capacity days are required in the month), and a daily product which may not be available when needed, providing the Shipper with no recourse to constraint management payments. This proposal would also allow Shippers to respond more efficiently to wholesale market signals particularly about importing spot LNG cargos to meet unforeseen market demand.</li> <li>• Agrees that implementation should be as soon as possible and supports self-governance processes for this proposal,</li> </ul> |
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|           |         |  | <p>which should further speed up the delivery of this solution to the industry.</p> <ul style="list-style-type: none"> <li>• Is of the opinion that the Modification meets the Self-Governance criteria on the grounds that this is a low-cost opportunity to introduce a valuable enhancement to the suite of capacity products currently available. The Workgroup Report demonstrates that this proposal is seen as largely uncontentious, with little or no scope for unintended consequences.</li> </ul>   |
| Grain LNG | Support | <p>a) - positive<br/>d) - positive</p> | <ul style="list-style-type: none"> <li>• Notes that LNG terminals provide the UK with security and diversity of gas supply, and the flexibility to store and regasify LNG in response to market demand.</li> <li>• Believes that introducing a weekly NTS entry capacity auction would allow LNG terminal customers to book capacity more efficiently, in a way that better reflects their anticipated gas flows. This will reduce unnecessary costs, help attract LNG to the UK, and improve competition in the market.</li> <li>• Suggests that Shippers wishing to use flexibility assets, including LNG terminals, to respond to market demand currently have a choice of two short-term capacity products: daily or monthly.</li> <li>• Points out that a cargo of LNG cannot be unloaded and regasified in a single day, but the process does not take a whole month. This means that a shipper wishing to bring a cargo of LNG to the UK must either make multiple capacity bookings, one day at a time, and risk being unable to access the capacity they need, or book much larger tranches of capacity than they require and be faced with unnecessary costs. One shipper inefficiently over-booking capacity means that the capacity cannot be made available to other shippers, who may have wanted to access it.</li> <li>• Notes that LNG is an increasingly significant part of the UK's energy mix and it is important that the suite of NTS entry products made available to shippers is adapted to meet the market's needs where this is possible.</li> <li>• Believes that implementation of the Modification should be immediate rather than waiting for the start of a Gas Year.</li> <li>• Does not anticipate incurring any additional costs associated with implementation of the Modification. However, Grain LNG believes that existing and potential future customers may face additional costs if the Modification is not implemented, because the current range of capacity products may lead to inefficient over-</li> </ul> |

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|               |         |                                | <p>booking or because capacity may be unavailable when needed.</p> <ul style="list-style-type: none"> <li>• Is satisfied that the Legal Text will deliver the intent of the Solution.</li> <li>• Is of the opinion that the Modification meets the Self-Governance criteria on the grounds that: <ul style="list-style-type: none"> <li>○ the proposed changes will have a positive impact on competition by allowing shippers more choice and facilitating more efficient bookings; there will be no increase in complexity of processes or confusion for customers; there are no additional costs beyond the initial systems changes; and there is no different treatment according to class of parties, and also</li> <li>○ notes that the proposed change would supplement the existing product range but would not amend or impact the current pricing, auction or transparency arrangements.</li> </ul> </li> <li>• Notes that the Draft Modification Report refers to a TAR NC compliance query. Grain LNG is of the view that, since TAR NC Art 29 refers only to the publication of prices at IPs, and since this Modification does not apply at IPs, the proposed change cannot be in contravention of the TAR NC Art 29 requirement.</li> </ul>                 |
| National Grid | Support | a) - positive<br>d) - positive | <ul style="list-style-type: none"> <li>• Agrees that the introduction of a weekly Entry product provides Users with increased flexibility to purchase NTS Entry Capacity and allows capacity bookings to match anticipated flows more efficiently.</li> <li>• Believe this modification furthers Relevant Objective a) efficient and economic operation of the pipeline system. This modification also furthers Relevant Objective d) securing effective competition as it allows those Users with a flexible flow pattern more opportunity to effectively align their capacity bookings with their anticipated flows and therefore compete with other Users at entry points where there is a flatter source of supply. This has a positive impact on competition.</li> <li>• Highlights there are significant system changes required to implement this modification as well as other considerations related to publication of prices; <ul style="list-style-type: none"> <li>○ Implementation of system changes, estimated in the ROM as 25-27 weeks plus a 3- month lead time for start-up/sanction/mobilisation, would mean this modification would not be implemented, and the Weekly auction not available to use, before circa January 2022.</li> </ul> </li> </ul> |

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|  |  |  | <p>This is on the basis that Panel classifies the modification as self-governance. This also does not include 5 weeks of post implementation support which is included in the overall timescale but is applicable once the system changes have gone live.</p> <ul style="list-style-type: none"> <li>○ Due to this timeline, implementation of the legal text into the UNC needs to be considered. We see that there are two options;             <ol style="list-style-type: none"> <li>1. upon decision to implement the modification (or following the 16 days appeals window if the modification is classified as self-governance by the Panel). In this situation the legal text would appear in the UNC but the physical ability to use the product would not be available until the system solution is implemented; or,</li> <li>2. upon implementation of the system changes. In this situation the legal text would appear in the UNC when the auction is physically available to use in the system, removing the period of having an unusable section of code.</li> </ol> </li> <li>○ Related to the implementation of the legal text, publication of the reserve price for the new weekly product also needs to be considered:</li> <li>○ UNC TPD Section Y paragraph 1.3.2(j) states “...Charges Publication Date is 1 August in the preceding Gas Year, or such other date as National Grid may, with Condition A11(18) Approval of the Authority, decide”. Therefore, the reserve price could be published,             <ol style="list-style-type: none"> <li>1. by 1 August if a decision to implement this modification is made prior to the end of July; or,</li> <li>2. on or after 1 August with Ofgem approval in accordance with the Gas Transporter Licence Special Condition A11(18) if:                 <ol style="list-style-type: none"> <li>i. a decision to implement this modification is made on or after 1 August; or,</li> <li>ii. the decision to implement is made prior to end of July but it is decided to implement the legal text into the UNC concurrently with completing the implementation of the system changes as outlined in point 2 above. The reserve price cannot be published without the legal text being present in UNC.</li> </ol> </li> </ol> </li> <li>○ Considering these points, should this modification be approved, National Grid NTS proposes implementation should follow these steps:             <ol style="list-style-type: none"> <li>1. Following decision, a Notice of Implementation shall be issued which states the implementation date as “to be determined”.</li> <li>2. In the next Code update as close to the decision date as is operationally possible, a footnote would be added to the impacted sections of the UNC text that identifies</li> </ol> </li> </ul> |
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|  |  |  | <p>the future implementation of the modification which would amend that section.</p> <ol style="list-style-type: none"> <li>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.</li> <li>4. Concurrently to the legal text being implemented into the UNC, the reserve price for the Weekly auction shall be published with Ofgem approval.</li> </ol> <ul style="list-style-type: none"> <li>• Highlighted that National Grid will be subject to the costs of system implementation as outlined in the ROM, which are expected to be in the range of £335,000 to £415,000 to implement.</li> <li>• National Grid NTS are satisfied that the legal text delivers the intent of the Solution. However, an assumption was required in the legal text around the time by which National Grid NTS will inform Users of their capacity bids which have been accepted and the amount of Weekly NTS Entry Capacity which that User is registered as holding pursuant to each accepted capacity bid as the Solution in the modification was silent on this. This is a period which is defined for all other auctions within the UNC and so it was deemed necessary to also specifically define this period for the Weekly auction. This timescale was assumed to be on or before D-8, ahead of the daily auction commencing on D-7.</li> <li>• National Grid NTS believe this Modification is suitable for self-governance. The Modification will not result in increased costs for consumers, it does not have material impact on competition, and it does not significantly increase complexity in the regime.</li> <li>• Notes that the Solution section omitted the time in which National Grid NTS will inform Users of their capacity bids which have been accepted and the amount of Weekly NTS Entry Capacity which that User is registered as holding pursuant to each accepted capacity bid.</li> <li>• Over gas years 2018/19, 2019/20 and 2020/21 (to date), less than 1% of total Entry capacity sold in those years was purchased as monthly capacity. As per the Entry Capacity Release methodology statement, National Grid NTS may withhold daily capacity from sale at an ASEP if a capacity constraint is foreseen. UNC 0752 Page 4 of 4 Version 1.0 Representation 19 April 2021 National Grid NTS withholds daily capacity very rarely, and when it is withheld, often it can subsequently be released later in the gas day. When planning long-term maintenance activities, National Grid NTS considers previous capacity bookings made and</li> </ul> |
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|                                    |                |  | <p>communicates with relevant Users to understand expected flows to attempt to ensure any maintenance activities do not cause capacity constraints. Following this, if maintenance activities still result in flows stemming from capacity bookings exceeding the capability of the network, then National Grid NTS may take constraint management actions to resolve, and the User will be compensated for this.</p>  |
| <p>PETRONAS Energy Trading Ltd</p> | <p>Support</p> | <p>a) - positive<br/>d) - positive</p> | <ul style="list-style-type: none"> <li>• Believe that daily capacity auctions offer no guarantee of availability. For planning purposes, LNG Shippers require certainty that they will be able to discharge gas into the NTS for several days pre &amp;/or post-delivery of a vessel to a Terminal. There are often operational reasons for this.</li> <li>• Notes that currently, only monthly (or even longer term) auctions can provide this certainty. However, monthly auctions require Shippers to commit to the whole monthly strip when only several days of capacity may be required. Additionally, the frequency and timing of monthly auctions may lead to LNG Shippers not committing to short term opportunities to source LNG cargos if the monthly auction has already passed.</li> <li>• Following the implementation of Modification 678A, the purchase of excess capacity via monthly auctions can be prohibitively expensive, discouraging Shippers from contracting for LNG cargos and reducing the competitiveness of the UK entry points. If the excess capacity were to be purchased, then this results in an inefficient allocation of capacity to Shippers that do not require it.</li> <li>• Is of the opinion that weekly capacity auctions will help to address these issues by encouraging supply via providing certainty to LNG Shippers in terms of being able to discharge the gas into the NTS, reducing entry costs by allowing for capacity purchases that are more closely aligned with anticipated gas flows and preventing inefficient and unnecessary capacity bookings.</li> <li>• Agrees with the Legal Text and suggests it would be preferable if the auctions were held at D-11 or D-12. As the text stands, with the auctions taking place at D-10, the allocations at D-9 would occur on a weekend. Allocations on a business day would be more helpful.</li> <li>• Agrees that the Modification is suitable for self-governance procedures on the basis that PETRONAS Energy Trading Ltd do not believe any parties will be discriminated against by implementation.</li> </ul> |

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| <p>RWE Supply and Trading GmbH</p> | <p>Support</p> | <p>a) - positive<br/>d) - positive</p> | <ul style="list-style-type: none"> <li>• Agree that the provision of a new Weekly NTS Entry Capacity auction provides shippers with an additional opportunity to book capacity to more accurately to reflect their flows onto the NTS. This therefore should result in more efficient and economic operation of the system and lead to more effective market competition.</li> <li>• Has no specific requirements in terms of implementation timeline.</li> <li>• Highlights that since this is an additional opportunity for shippers to book capacity using an existing platform, we do not expect to incur any additional costs or for any development or analysis to be required on our part. However, it is important that the overall market cost/benefit justifies the existence of this auction: if the participation is low then the administrative costs may not be outweighed by the market benefits.</li> <li>• Has no comments on the legal text.</li> <li>• Agrees that this modification is suitable for self-governance procedures.</li> <li>• Notes that the proposed weekly auction is to mitigate against the inefficient booking and increased costs of acquiring NTS Entry Capacity at the MSEC auction and is not intended to have any adverse impacts on the current auctions. However, RWE Supply and Trading GmbH believe that as a result of the introduction of this auction there is a risk that capacity might be more frequently sold out before the DSEC and DISE auctions. In that scenario, shippers such as RWE Supply and Trading GmbH may be encouraged to book blocks of weekly capacity to secure our forecasted requirements, rather than matching their gas flow more accurately by participating in the day ahead auctions. This would result in less efficient and economic operation of the system.</li> </ul> |
| <p>South Hook Gas Company Ltd</p>  | <p>Support</p> | <p>a) - positive<br/>d) - positive</p> | <ul style="list-style-type: none"> <li>• Understands that following the implementation of Modification 0678A, Shippers are incentivised to book capacity as efficiently as possible to match their gas flows (versus previous methodology where zero priced capacity could be purchased, and the commodity charges were only paid on flows if capacity were utilised). Currently the only “short-term” auctions available for Shippers to book capacity are the RMTNTSEC (monthly strip of capacity released at M-1) and the DSEC (daily capacity released at day ahead and within day). This is not necessarily reflective of how gas is traded, especially for flexible assets such as LNG Terminals and Storage. Therefore, if the</li> </ul>  |

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|  |  |  | <p>Shippers' flows are not rateable across a month, they are required to either book capacity as a monthly strip, which could lead to excess capacity being purchased or wait until the DSEC auctions, which face possible constraints from NGG. Any inefficient capacity bookings lead to unnecessary costs for the Shippers purchasing the capacity whilst also restricting the amount of capacity available in future auctions for other Shippers at that entry point. Implementation of UNC Modification 0752 ("Modification") would provide an additional short-term auction, between the RMTNTSEC and DSEC auction, which would allow Shippers to book capacity that better reflects their predicted flows. This would have a positive impact on the operation of the NTS, as National Grid NTS can better plan and operate the NTS, whilst also improving competition between Shippers by reducing the risk of potential inefficient capacity bookings</p> <ul style="list-style-type: none"> <li>• Suggests the Modification should be implemented as soon as reasonably possible and is not required to be implemented at the start of a Gas Year. The Modification should be subject to self-governance (as proposed) and implementation should be within sixteen business days after a Modification Panel decision to implement.</li> <li>• South Hook Gas does not foresee incurring any additional costs resulting from implementation of this Modification. If this Modification is not implemented, then South Hook Gas believes that the current methodology may lead to inefficient capacity bookings by Shippers, which unnecessarily increases the overall cost of acquiring capacity.</li> <li>• South Hook Gas believes that the Modification meets the self-governance criteria and therefore should follow the self-governance process on the bases that:             <ul style="list-style-type: none"> <li>○ The Modification facilitates more choice for Shippers when purchasing capacity and allows for more efficient capacity bookings, thereby having a positive impact on competition. Whilst the Modification does introduce a new capacity product, it does not introduce any new prices or seek to amend the current charging methodology used to calculate prices. As such there is no impact on the existing auctions and is purely supplementary to the current processes.</li> </ul> </li> <li>• South Hook Gas believes that the Modification is compliant with EU TAR, particularly Article 29, as the Modification has no impact on the calculation or publication of prices for Interconnector Points (as prescribed within Art 29).</li> </ul> |
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|                   |         |                                | <p>Furthermore, as this Modification does not require new prices to be published (other than the new Weekly NTS Entry product prescribed within the Modification), has no impact on UNC 0752 Page 3 of 3 Version 1.0 Representation 19 April 2021 any current charges and has no impact on the Forecasted Contracted Capacity (FCC), South Hook Gas sees no reason why this Modification could not be implemented after National Grid NTS has published the NTS Entry Capacity prices for the current capacity products.</p>  |
| Total Gas & Power | Support | <p>a) - none<br/>d) - none</p> | <ul style="list-style-type: none"> <li>• Believes that Weekly NTS Entry Capacity auctions will allow shippers to book capacity more efficiently, outside of the current Monthly, Daily and Daily Interruptible products.</li> <li>• Observes that at some entry points there can be network constraints that lead to National Grid reducing the amount of Daily capacity available for shippers. To mitigate this constraint risk, shippers currently have no other choice than to buy monthly capacity. However, if shippers' circumstances then change, following the purchase of monthly, this leads to inefficient allocation of capacity as it is not then available for other shippers to procure. Weekly capacity would address these issues of booking efficiency and allocation of capacity.</li> <li>• Highlights that considering the substantial price increase to entry capacity products observed since the implementation of Modification 0678A, they would like this Modification implemented as quickly as possible and certainly no later than 1st October 2021.</li> <li>• Points out that as Modification 0678A applies the same reserve price to all durations of firm entry capacity, there are no price implications for National Grid to address for Modification 0752, and additionally, as this modification only applies to non-interconnection points, the Modification does not need to comply with the Tariff Network Code.</li> <li>• Believes that Weekly NTS Entry Capacity auctions will enable more efficient capacity bookings and therefore offer shippers more choice versus booking monthly capacity products.</li> <li>• Is satisfied that the Legal Text will deliver the intent of the Solution.</li> <li>• Considers that the Modification satisfies Self-Governance criteria on the grounds that it does not discriminate against any party and facilitates more choice for users.</li> </ul> |

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

### Discussion

### Consideration of the Relevant Objectives

### Determinations

## 12 Recommendations

### Panel Recommendation

Panel Members recommended that Modification 0752 [should [should not] be implemented.