

Workstream Report
Treatment of Capacity affected by Force Majeure
Modification Reference Number 0262
Version 1.0

This Workstream Report is presented for the UNC Modification Panel's consideration. The Transmission Workstream considers that the Proposal is sufficiently developed and should now proceed to the Consultation Phase. The Workstream does not recommend that the Panel requests the preparation of legal text for this Modification Proposal.

1 The Modification Proposal

Where capitalised words and phrases are used within this Modification Proposal, those words and phrases shall usually have the meaning given within the Uniform Network Code (unless they are otherwise defined in this Modification Proposal). Key UNC defined terms used in this Modification Proposal are highlighted by an asterisk () when first used. This Modification Proposal*, as with all Modification Proposals, should be read in conjunction with the prevailing Uniform Network Code* (UNC).*

Background

Under the current Uniform Network Code* (UNC) arrangements where National Grid NTS issues a Force Majeure* (FM) notice (UNC General Terms Section B General), National Grid NTS is relieved from its UNC requirement to make payment for any delay or failure in the performance of its obligations under the UNC.

In relation to NTS Entry Capacity and Annual NTS Exit (Flat) Capacity such provisions relieve National Grid NTS of its obligation to buy back capacity where it is unable to meet its obligations as outlined within the FM notice, whilst Users* remain liable for the full value of their Capacity holdings at the affected ASEP* or NTS Exit Point*. This Modification Proposal* seeks to address the impact on Users at either an ASEP or NTS Exit point at which FM has been called which affects Users Capacity rights.

Nature of the Proposal

For the avoidance of doubt this Modification Proposal will only cover the treatment of capacity (that is Quarterly NTS Entry Capacity*, Monthly NTS Entry Capacity* and Annual NTS Exit (Flat) Capacity*) at ASEPs and NTS Exit Points where FM has been called by National Grid NTS and Users are unable to utilise some or all of their registered capacity due to the FM declaration.

Please note that for the purposes of this Modification Proposal:

- Capacity will be used in proxy of Firm Quarterly NTS Entry Capacity, Monthly NTS Entry Capacity and Firm Annual NTS Exit (Flat) Capacity unless otherwise stated
- Network Point will be used in proxy of both ASEP and NTS Exit Point unless

otherwise stated

National Grid NTS proposes that in these instances of FM that Users registered as holding Firm Capacity* at a Network Point will be issued with a FM Rebate.

Force Majeure Rebate

The FM Rebate will be based on the amount by which the Capacity at the affected network point is to be reduced, as outlined in the FM notification, prorated between those Users registered as holding Capacity (excluding any impacts of Capacity acquired/sold via Capacity Trades) at the Network Point. The proration will be based on the Users registered capacity holdings (for the purposes of this modification proposal Registered Capacity Holdings will mean NTS Entry Capacity acquired through the Annual and Rolling Monthly NTS Entry Capacity Auctions and Annual NTS Exit (Flat) Capacity) at that point in time divided by the total amount of Capacity held at the Network Point multiplied by an Adjusted Force Majeure Amount (for the purposes of this proposal an adjusted FM amount will mean the FM amount as outlined within the FM notification minus any Unsold Capacity minus any Capacity released on the day of the FM notification) .

The value of the FM Rebate will be the Weighted Average Price (p/kWh/day) of each specific Users registered Capacity holdings (excluding any impacts of Capacity acquired/sold via Capacity Trades) at the Network Point multiplied by the prorated Capacity quantity (kWh) for each day that the FM is in force. For clarification the Weighted Average Price at an ASEP will be calculated as follows:

Sum of each successful bid quantity * bid price / Users registered holding

Note: at an NTS Exit Point (for Annual NTS Exit (Flat) Capacity) the WAP will equal the actual price for that month.

The FM Rebate will be calculated monthly and invoiced via an Ad-hoc invoice issued in the same month, on a reasonable endeavours basis, as the relevant Capacity invoice applicable for the Users registered Capacity holdings on which the rebate is calculated. Please note that the Ad-hoc invoice will be issued after the relevant capacity invoice for the FM Rebate period.

For clarification Users will continue to retain full liability for all Capacity that they are registered as holding (i.e. Capacity that Users have acquired from National Grid NTS) at the affected Network Point and will be invoiced accordingly irrespective of the FM notification.

Please note that a Modification to the NTS Transportation Charging Methodology is not required to define the calculation of the FM rebates as they will be based on charges already calculated in accordance with the charging methodology i.e. capacity charges. The UNC will define the rebate and the Charging Methodology effectively already maps the charges that are rebated on to the relevant price control terms e.g. obligated/baseline capacity is TO whereas incremental and non obligated capacity is SO. The mapping of the FM rebates onto TO and SO actual revenue allows the consequential recalculation of other existing TO and SO charges.

The FM rebates would be mapped to the following licence terms;

- Standard Special Condition C8B 2(a); Definition of TORCOMt ~ TO revenue other than that collected through capacity charges
- Standard Special Condition C8C 2(a); Definition of RCOMt ~ SO revenue other than that collected through capacity and other Licence defined charges

FM rebates in regard to Capacity sales, which represent TO revenue, would be treated as TO revenue; this would result in increased TO Entry Commodity Charges and/or TO Exit charges.

FM rebates in regard to Capacity sales, which represent SO revenue, would be treated as SO revenue; this would result in increased SO Commodity Charges (Entry & Exit).

Where National Grid NTS issues an FM notification that triggers the requirement to issue a FM Capacity Rebate National Grid NTS shall inform all Users that such an instance of FM has occurred and the likely impact on charges via the NTS Quarterly Charge Setting Report issued via the Transmission Charging Methodology Forum.

Capacity Buy-back FM Option/Forward

At the earliest opportunity National Grid NTS will be obliged to invite offers from specific Users equivalent to each specific Users prorated FM quantity and Users will be obliged to offer that capacity to National Grid NTS at zero price. In the event that they don't reply by the end of the Option Window they will be deemed to have replied with an acceptance.

Please note that if a User refuses to confirm the Option National Grid NTS will not be liable to issue the FM Rebate.

The invitation issued by National Grid NTS shall specify:

- the prorated FM quantity
- the FM period
- the number of exercisable days relating to the Option (this shall equal the number of days in the FM period)
- the period during which Users can confirm offers

And Options shall be exercised when:

- there is a constraint below the FM buy back level
- National Grid NTS does not make gas available for offtake at an NTS Exit Point

Where National Grid NTS does not receive an offer from the User(s) within 1 business day of the invitation National Grid NTS will:

- place the details (as outlined above) of the Offer on the relevant system on behalf of the User(s)

- confirm the User(s) agreement of the details of the Offer
- accept the Offer

National Grid NTS will also consider the use of a Forward Agreement* where it deems it to be appropriate.

If the duration of the FM notification is extended National Grid NTS will be able to extend the FM Option/Forward accordingly.

For clarification all capacity bought back through this process shall feed into the Users Capacity entitlements and be considered in respect of calculating the Users Overrun Quantity* and Neutrality Charges*

For the avoidance of doubt any additional constraints beyond that declared under the FM notification will be subject to normal buyback principles unless covered by a further FM notification.

Please note that whilst a FM notification is in place National Grid NTS will not be obligated to make available any additional Firm Capacity.

2 User Pays

a) **Classification of the Proposal as User Pays or not and justification for classification**

No costs anticipated.

b) **Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification**

None

c) **Proposed charge(s) for application of Users Pays charges to Shippers**

None

d) **Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from xoserve**

Not applicable

3 Extent to which implementation of the proposed modification would better facilitate the relevant objectives

Standard Special Condition A11.1 (a): *the coordinated, efficient and economic operation of the pipe-line system to which this licence relates;*

Implementation would introduce additional certainty into the UNC. This would enable optimisation of Supply at an Entry Terminal under circumstances of Force Majeure affecting Capacity rights (whether or not such Force Majeure were agreed

between parties) and so facilitate the achievement of this objective.

Standard Special Condition A11.1 (b): *so far as is consistent with sub-paragraph (a), the (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters;*

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (c): *so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;*

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (d): *so far as is consistent with sub-paragraphs (a) to (c) the 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;*

Implementation would promote greater fairness in treatment to individual NTS Capacity holders in the event of Force Majeure. This would increase the certainty of return on investment and so facilitate the achievement of this relevant objective. This relevant objective would also be facilitated as implementation would ensure that Users at single points would not be inappropriately or disproportionately affected by Force Majeure.

Standard Special Condition A11.1 (e): *so far as is consistent with sub-paragraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards (within the meaning of paragraph 4 of standard condition 32A (Security of Supply – Domestic Customers) of the standard conditions of Gas Suppliers' licences) are satisfied as respects the availability of gas to their domestic customers;*

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (f): *so far as is consistent with sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code.*

Implementation would not be expected to better facilitate this relevant objective.

4 The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation

No implications on security of supply, operation of the Total System or industry fragmentation have been identified.

5 The implications for Transporters and each Transporter of implementing the Modification Proposal, including:

a) implications for operation of the System:

Implementation, by introducing additional certainty into the UNC, would enable optimisation of supply at an ASEP in the event of Force Majeure.

b) development and capital cost and operating cost implications:

No development or capital costs would be incurred. The operating costs associated with manual processes for calculating and issuing Force Majeure rebates are expected to be minor.

c) extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:

No additional cost recovery is proposed.

d) Analysis of the consequences (if any) this proposal would have on price regulation:

No such consequence is anticipated.

6 The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal

No such consequence is anticipated.

7 The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users

No changes to systems would be required as a result of implementation of this Proposal.

8 The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk

Administrative and operational implications (including impact upon manual processes and procedures)

Users wishing to claim a Force Majeure rebate would have to make an NTS Capacity buy-back offer.

Development and capital cost and operating cost implications

Implementation would potentially provide rebates to Users to balance against their continuing operating costs in the event of Force Majeure. There might also be an impact on NTS Commodity Charges.

Consequence for the level of contractual risk of Users

Implementation would reduce the current risk of Users continuing to pay for NTS Capacity that they are unable to utilise in the event of Force Majeure.

9 The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party

No such implications have been identified.

10 Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal

No such consequences have been identified.

11 Analysis of any advantages or disadvantages of implementation of the Modification Proposal

Advantages

- Users at single points would not be inappropriately or disproportionately affected by Force Majeure.
- Users would have a greater degree of certainty with regards to their treatment once Force Majeure had been called

Disadvantages

Users might see an increase in their Commodity Charges.

12 Summary of representations received (to the extent that the import of those representations are not reflected elsewhere in the Workstream Report)

No written representations have been received.

13 The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation

No such requirement has been identified.

14 The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence

No such requirement has been identified.

15 Programme for works required as a consequence of implementing the Modification Proposal

No programme for works has been identified.

16 Proposed implementation timetable (including timetable for any necessary information systems changes)

Implementation could be immediate on receipt of a decision.

17 Implications of implementing this Modification Proposal upon existing Code Standards of Service

No implications of implementing this Modification Proposal upon existing Code Standards of Service have been identified.

18 Workstream recommendation regarding implementation of this Modification Proposal

The Transmission Workstream considers that the Proposal is sufficiently developed and should now proceed to the Consultation Phase. The Workstream does not recommend that the Panel requests the preparation of legal text for this Modification Proposal.