Joint Office of Gas Transporters

Stage 01: Proposal

0376:

Increased Choice when Applying for NTS Exit Capacity

What stage is this document in the process?

01 Proposal

02 Workgroup Report

03 Draft Modification Report

04 Final Modification Report

To increase the level of choice available to Users when applying for Enduring Annual NTS Exit (flat) Capacity. The proposal seeks to allow for adhoc applications beyond Y+4 up to Y+6, which is allowed for in ARCA applications and applications in the July window. Also to allow for applications in the July window to be from a non-October start date whilst remaining consistent with the 38 month lead-time and User commitment principles.

The Proposer recommends that this self-governance modification is sent for assessment in a UNC Workgroup

High Impact:
NTS Exit Users, DN Transporters & National Grid NTS

Medium Impact:

Contents

About this document:

This document is an amended modification. The changes reflect issues raised by the Workgroup assessing the modification.

Any questions?

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1 Summary

Is this a Self-Governance Modification?

It is proposed that this Proposal is treated as a Self-Governance Modification as it is anticipated that this proposal will only impact a small number of exit points and have minimal impact on competition activities between Developers, DN transporters and Users.

Why Change?

To increase the level of choice available to Users when applying for Enduring Annual NTS Exit (flat) Capacity. Currently, Exit capacity can be applied for during the Annual Application Window in July for an October year+3 start. If this does not meet the User's application date or first capacity date requirements then an ad-hoc process can be used. However, the ad-hoc process is restricted to Y+4 and only has a reasonable endeavours obligation on National Grid (NG) to provide the capacity. These limitations do not provide sufficient time or certainty to the User and is an unacceptable risk when investing in a Power Station or Storage development.

Solution

To provide more choice for Users the following changes to the UNC are proposed:

Ad hoc application Process:

- Extend the time for applications from Y+4 to Y+6;
- Reduce the minimum threshold application from 10 GWh/day to 1 GWh/day.

Annual Application Window:

- Allow applications during the July Annual Application Window for start dates of the 1st of any month between October Y+4 and September Y+6 rather than just 1st October.

Impacts & Costs

System testing & report changes are estimated at up to £190 k.

Implementation

Immediate implementation following approval of the modification is proposed.

Background

Q: What is "The Annual Application Window"?
A: In a Gas Year (Y) it is the period commencing a 08:00 hours and ending on 17:00 hours on each Business Day in July.

Q: What is "The Ad-Hoc Process"?
A: An application for Enduring Annual Exit (flat) capacity may be made at any time between 1 October and 30 June in Gas Year (Y) where the application is new or exceeds 10 GWh/day or is greater than 125 % of existing baseline.

The Case for Change

The current UNC does not provide the flexibility or certainty that Users require when applying for NTS Exit Capacity. Without improved flexibility greater costs and project uncertainty are incurred by Users. The proposal will therefore better facilitate the Relevant Objectives.

Recommendations

The proposal should be assessed in a workgroup to further define timescales and costs.

2 Why Change?

Currently, Enduring Annual NTS Exit (flat) Capacity can be applied for during the July Annual Application Window for capacity to be registered as held from Gas year Y+4, Y+5 and Y+6. However, this October start date might not suit the User's development time lines both for the application date or the registered start date of holding capacity. This lack of flexibility in choice for any start date other than October results in inefficient system investment and increased cost to customers because Users are constrained to timelines that might not be suitable. For example, a User may prefer to commission a power station during the lower priced summer months when gas and power prices are less volatile than at the start of winter.

Changing the Enduring Annual NTS Exit (flat) Capacity registered holding date to the first of any calendar month will result in more efficient network investment because capacity can be delivered on the date it is required, thus capacity does not have to be paid for when it is not required and this will result in lower cost to customers.

Users can also apply for Enduring Annual NTS Exit (flat) Capacity using an ad-hoc process. However, the ad-hoc process is restricted in time to not later than 1st October Y+4 and only has a reasonable endeavours obligation on National Grid to provide the capacity. These limitations do not provide sufficient time nor certainty to the User and this presents an unnecessary obstacle and risk when investing in a Power Station or Storage development.

Looking to the future, CCGTs will be replaced as they approach the end of their economic asset life. In this case the same site will be used and the plant might be replaced with plant that has increased electrical power output. This may require more gas throughput and exit capacity than the existing booking. The current limits of 10 GWh/day or 125 % of existing capacity that exist for eligibility of using the ad-hoc application approach are too high and unnecessarily restrict the choices available to support efficient development.

3 Solution

Solution

To provide more choice for Users the following changes to the UNC are proposed.

Ad hoc application Process:

- Extend the time for applications from Y+4 to Y+6,
- Reduce the minimum threshold application from 10 GWh/day to 1GWh/day.

The minimum threshold application has been proposed at 1 GWh/day in light of the data produced by National Grid NTS from action 0503, (http://www.gasgovernance.co.uk/0376/020611) which shows only 10 applications in 2010 for incremental capacity in excess of 1 GWh/day. In addition when replacing existing CCGT powerstations with new plant in the coming decade the combination of increased efficiency and increased electrical output will typically result in incremental capacity volumes of just over 1GWh/day.

	MWe	Efficiency	Gas Capacity kWh/day
Existing	795	0.5	38,160,000
Repowered Site	900	0.55	39,272,727
Incremental capacity			1,112,727

Annual Application Window:

- Allow applications made during the July Annual Application Window for Enduring Annual NTS Exit (flat) Capacity to have a registered holding date of the 1st of any month between October Y+4 and September Y+6 rather than just 1st October.

4 Relevant Objectives

Implementation is expected to better facilitate the achievement of **Relevant Objectives b and c.**

Proposer's view of the benefits against the Code Relevant Objectives	
Description of Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	No
b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters.	Yes
c) Efficient discharge of the licensee's obligations.	Yes
d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	No
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.	No
f) Promotion of efficiency in the implementation and administration of the Code	No

Section B 3.2.10

Ad hoc application Process:

- Extend the time for applications from Y+4 to Y+6.

This is expected to give more advance notice to National Grid NTS of Users', intentions to give User commitment signals. This increased notice should allow National Grid NTS to plan and invest in the network in a more efficient manner, undertaking activities at the most cost effective time. This would therefore facilitate achievement of GT Licence obligations, enabling better facilitation of Relevant Objective (c).

Annual Application Window

- Allow applications during the Annual Application Window for specified dates other than just 1st October.

This is expected to result in more efficient investment by National Grid NTS and lower costs to customers. If Users can specify a non 1st October start date because this suits their development time frame then investment by National Grid NTS can be

made on a more timely basis to meet the needs of the customer. This means that NG can invest "Just in Time" and costs can be minimised for customers because they do not have to pay for capacity during periods when they cannot make use of it.

For example, a User wants to commission a CCGT starting in April. Currently, exit capacity would have to be booked the previous July for an October start. The User has to pay exit capacity charges for 6 months even though they cannot use the Capacity.

Thus, the proposed change would enable better facilitation of Relevant Objective (b). For the avoidance of doubt the 38 month lead time and associated User Commitments would remain unaffected by this proposal.

5 Impacts and Costs

Consideration of Wider Industry Impacts

Costs

Indicative industry costs – User Pays
Classification of the proposal as User Pays or not and justification for classification
Classified as User Pays as Xoserve costs of up to £190k have been identified through a ROM.
Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification
The modification potentially benefits all NTS Exit (Flat) Capacity holders, ie Shippers and DNOs, by enhancing the flexibility of both the Ad Hoc Application Process and the Annual Application Process. The modification also potentially benefits National Grid NTS through more efficient investment decisions. With DNOs treated as Users, then it is proposed to apportion costs as follows: • 33% Shippers • 67% Transporters. The cost apportionment is based on the potential benefits accrued by different parties under the Relevant Objectives under Standard Special Condition A11 b and c..

Proposed charge(s) for application of Users Pays charges to Shippers
The proposed apportionment is one based on each User's (Shipper and DNO) NTS Exit Capacity holdings as at 01 October 2012. The apportionment of costs would be based on: • the ratio of aggregate DNO Users' NTS Exit (Flat) Capacity holdings to aggregate Shipper Users' NTS Exit (Flat) Capacity holdings • the resulting DNO User proportion then added to the 25% NTS allocation to form the total "Transporter" User Pays allocation of costs. Based on data provided by National Grid NTS at the September Workgroup 0376 meeting, costs of £190k, apportioned by the methodology described above, would result in costs of £47k for National Grid NTS, £80k for DNOs, and £33k for Shippers.
Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from Xoserve
Unknown at this time.

Impacts

Impact on Transporters' Systems and Process	
Transporters' System/Process	Potential impact
UK Link	• System changes of up to £190k identified.
Operational Processes	• Changes may be required to NG NTS planning
User Pays implications	• As above.

Impact on Users	
Area of Users' business	Potential impact
Administrative and operational	• No material impact.
Development, capital and operating costs	• Reduced costs due to capacity being booked on a more efficient basis.
Contractual risks	• Users' risk is reduced by requiring NG NTS to use best rather than reasonable endeavours to make capacity available

Impact on Users	
Legislative, regulatory and contractual obligations and relationships	• None.

Impact on Transporters	
Area of Transporters' business	Potential impact
System operation	• None.
Development, capital and operating costs	• More efficient development of the network due to capacity being signalled further in advance.
Recovery of costs	• Not applicable
Price regulation	• None.
Contractual risks	• Increased by obligation to use best rather than reasonable endeavours to make capacity available.
Legislative, regulatory and contractual obligations and relationships	• None.
Standards of service	• None

Impact on Code Administration	
Area of Code Administration	Potential impact
Modification Rules	• Change to rules required.
UNC Committees	• None
General administration	• None.

Impact on Code	
Code section	Potential impact
TPD section B section 3.	
• 3.2.1 • 3.2.3 (b) (ii) (2) • 3.2.4 (b) (ii) • 3.2.10 (c)	• Add: Gas Year or the 1st of any specified month • 10 GWh to 1GWh • Change from Y+4 to Y+6 • Change from Y+4 to Y+6

Where can I find details of the UNC Standards of Service?

In the Revised FMR for Transco's Network Code Modification **0565 Transco Proposal for Revision of Network Code Standards of Service** at the following location: www.gasgovernance.co.uk/sites/default/files/0565.zip

Impact on UNC Related Documents and Other Referenced Documents	
Related Document	Potential impact
Network Entry Agreement (TPD I1.3)	None
Network Exit Agreement (Including Connected System Exit Points) (TPD J1.5.4)	None
Storage Connection Agreement (TPD R1.3.1)	None
UK Link Manual (TPD U1.4)	None
Network Code Operations Reporting Manual (TPD V12)	None
Network Code Validation Rules (TPD V12)	None
ECQ Methodology (TPD V12)	None
Measurement Error Notification Guidelines (TPD V12)	None
Energy Balancing Credit Rules (TPD X2.1)	None
Uniform Network Code Standards of Service (Various)	None

Impact on Core Industry Documents and other documents	
Document	Potential impact
Safety Case or other document under Gas Safety (Management) Regulations	None
Gas Transporter Licence	None

Other Impacts	
Item impacted	Potential impact
Security of Supply	• Improved due to better facilitation of competition by better meeting customer needs
Operation of the Total System	None
Industry fragmentation	None
Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties	Increased certainty and better matching of requirements for developers of NTS exit capacity.

6 Implementation

As self-governance procedures are proposed, implementation could be 16 business days after a Modification Panel decision to implement.

7 The Case for Change

In addition to that identified above, the Proposer has identified the following:

Advantages

- Incremental Entry capacity applications benefit from flexible application dates and 1st of quarter start dates. This modification would better align Entry and Exit processes.

Disadvantages

- Changes to the ExCR might be required.

8 Legal Text

Suggested LEGAL TEXT

Increased Choice when Applying for NTS Exit Capacity

TPD Section B - SYSTEM USE AND CAPACITY

Amend paragraph 3.2.1, 3.2.3, 3.2.4, 3.2.8 and 3.2.10 as set out below:

3.2.1 In each Gas Year (Y) Users may apply for Enduring Annual NTS Exit (Flat) Capacity to be registered as held with effect from the first Day of any month within Gas Years Y+4, Y+5 or Y+6 or in accordance with the provisions of 3.2.3(b), at each NTS Exit Point, in accordance with the further provisions of this paragraph 3.2 and having regard to the Exit Capacity Release Methodology Statement.

3.2.3 An application for Enduring Annual NTS Exit (Flat) Capacity:

(a) during an Annual Application Window may be for an amount of Enduring Annual NTS Exit (Flat) Capacity equal to:

(i) where paragraph 3.2.25 applies in relation to a User and an NTS Exit Point, the sum of the deemed application amount and any additional Enduring Annual NTS Exit (Flat) Capacity (if any) which the User wishes to apply for at the NTS Exit Point; or

(ii) where paragraph 3.2.25 does not apply in relation to a User and an NTS Exit Point, the Enduring Annual NTS Exit (Flat) Capacity (if any) which the User wishes to apply for at the NTS Exit Point;

(b) may be made by a User at any time between 1 October and 30 June in Gas Year Y where the application is:

(i) in respect of a New NTS Exit Point; or

(ii) for an amount of Enduring Annual NTS Exit (Flat) Capacity which:

(1) if accepted would result in Users holding in aggregate an amount of Enduring Annual NTS Exit (Flat) Capacity in excess of 125% of the Baseline NTS Exit (Flat) Capacity at the NTS Exit Point in respect of the Gas Year for which the application is made; or

(2) exceeds 1 GWh/Day;

(c) shall specify:

(i) the identity of the User;

(ii) the NTS Exit Point in respect of which the application is made;

(iii) the Gas Year in respect of which the application is made; and

(iv) the amount of Enduring Annual NTS Exit (Flat) Capacity applied for (being not less than the minimum eligible amount);

and where the User makes applications for different Gas Years (or any part thereof) the amount of Enduring Annual NTS Exit (Flat) Capacity applied for in respect of any later Gas Year shall be expressed as the amount in excess of the amount applied for in respect of any earlier Gas Year.

3.2.4 A User:

(a) in the case of an application made under paragraph 3.2.3(a):

(i) may submit an application for Enduring Annual NTS Exit (Flat) Capacity during the Annual Application Window;

(ii) may apply for Enduring Annual NTS Exit (Flat) Capacity to be registered with effect from the first Day of any month within Gas Years Y+4, Y+5 and Y+6;

(iii) may have, at any one time, no more than one (1) application for each of Gas Year Y+4, Y+5 and Y+6 for Enduring Annual NTS Exit (Flat) Capacity capable of acceptance by National Grid NTS in respect of an NTS Exit Point; and

(iv) may withdraw or modify an application under paragraph 3.2.3(a)(ii) at any time during the Annual Application Window, but may only modify (and not withdraw) an application under paragraph 3.2.3(a)(i) during such period by reducing the amount of Enduring Annual NTS Exit (Flat) Capacity applied for to not less than the deemed application amount;

(b) in the case of an application made under paragraph 3.2.3(b):

(i) may apply for up to four (4) separate tranches of Enduring Annual NTS Exit (Flat) Capacity, specifying in each case the amount applied for in each separate tranche;

(ii) shall specify, in respect of each separate tranche applied for, the date with effect from which the User wishes to be registered as holding the Enduring Annual NTS Exit (Flat) Capacity, such date being not earlier than six (6) months from the date the application is made and not later than 1 October in Gas Year Y+6; and

(iii) in respect of a New NTS Exit Point, shall submit with its application such other documentation (as published by National Grid NTS from time to time) required by National Grid NTS for the purposes of commencing work on new connections to the NTS.

3.2.8 In respect of an application made under paragraph 3.2.3(a):

(a) where National Grid NTS has rejected or accepted in part only an application made by a DNO User pursuant to paragraph 3.7.5 for NTS Exit (Flexibility) Capacity or Section J2.5 in relation to an increase in the Assured Offtake Pressure in respect of Gas Year Y+4, Y+5 or Y+6, a DNO User may submit a revised application for Enduring Annual NTS Exit (Flat) Capacity on any of the five (5) Business Days following 15 September in Gas Year Y with effect from the first Day of any month within Gas Years Y+4, Y+5 and Y+6;

3.2.10 where an application is made under paragraph 3.2.3(b) (which is not rejected pursuant to paragraph 3.2.5 National Grid NTS will make an offer (in accordance with the principles in the Exit Capacity Release Methodology Statement) to the User which specifies:

(a) the amount of Enduring Annual NTS Exit (Flat) Capacity offered, being equal to the amount applied for under paragraph 3.2.4(b)(i);

(b) the date(s) with effect from which the User applied to be registered as holding the Enduring Annual NTS Exit (Flat) Capacity (or each separate tranche specified in the application);

(c) the date(s) with effect from which National Grid NTS is able to make Enduring Annual NTS Exit (Flat) Capacity available at the NTS Exit Point, such dates(s) being not earlier than the date(s) with effect from which the User applied to be registered as holding Enduring Annual NTS Exit (Flat) Capacity and not later than 1 October in the Gas Year

Y+6 ; and

(d) where applicable, the Demonstration Date;

and National Grid NTS will use its reasonable endeavours to make available Enduring Annual NTS Exit (Flat) Capacity at the NTS Exit Point with effect from the date(s) from which the User applied to be registered as holding the Enduring Annual NTS Exit (Flat) Capacity.

9 Recommendation

The Proposer invites the Panel to:

- DETERMINE that Modification 0376 progress to Workgroup Assessment.