

## Stage 01: Modification

# 0417S:

## Notice for Enduring Exit Capacity Reduction Applications

The proposal would remove the requirement for 14 month notice to apply for reductions in Enduring Annual NTS Exit (Flat) Capacity at July application windows, where the UCA has been satisfied in advance.



The Proposer recommends that this modification should be subject to the self-governance process and that it should proceed to Workgroup for assessment.



High Impact:  
Insert name(s) of impact



Medium Impact:  
Insert name(s) of impact



Low Impact:  
Insert name(s) of impact

At what stage is this document in the process?

01

Modification

02

Workgroup Report

03

Draft Modification Report

04

Final Modification Report

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## About this document:

This document is a proposal, which will be presented by the Proposer to the Panel on 16 Feb 2012. The Panel will consider the Proposer's recommendation, and agree whether this modification should proceed to consultation or be referred to a Workgroup for assessment.



### 3 Any questions?

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# 1 Summary



## Definitions

### **Enduring Annual NTS Exit (Flat) Capacity**

(TPD B 3.1.5.c)  
is Annual NTS Exit (Flat) Capacity which may be applied for and registered as held (in a given amount) by a User with effect from the Day for which it is allocated, on the basis that the User will continue to hold such amount of capacity subject only to:  
(i) a reduction;  
(ii) the User ceasing to hold the capacity;  
(iii) any System Capacity Assignment

### **Reduction Application Window**

(TPD B 3.2.15)

A notice of reduction of Enduring Annual NTS Exit (Flat) Capacity may be given no earlier than 08:00 hours or later than 17:00 hours on a Business Day in the period 1 July to 15 July (inclusive) in any Gas Year (Y).

## Is this a Self-Governance Modification

The modification fulfils the self-governance requirements since it is not expected to have a material impact on consumers, competition, system operation, sustainable development, safety or security of supply, the management of market or network emergencies, nor code governance procedures. Therefore it should be considered as a self-governance modification.

## Why Change?

When Exit Capacity charges are reviewed and, as a consequence, Users holding Enduring Annual NTS Exit (Flat) Capacity face higher charges, this may lead to an early satisfaction of their relevant User Commitment Amounts (UCA). However, due to the "14 months notice" rule, these Users would be prevented from applying for any reduction in their capacity holdings with effect before 12 months from the first day of booking, potentially exposing them to unforeseen but significant increases in their operating cost.

## Solution

It is proposed to amend the "14 months notice rule" such that Users holding Enduring Annual NTS Exit (Flat) Capacity and expecting to satisfy the UCA within 12 months from the first day of booking (given the actual charges) are allowed to make an application in the Reduction Application Window preceding the first day of booking for any reduction with effect from the 1<sup>st</sup> of any month after the UCA has been satisfied.

## Impacts & Costs

Eventual systems implications resulting from the proposed change has to be assessed by National Grid NTS (NG).

## Implementation

While no implementation timescale is proposed, it would be beneficial if this modification is implemented in advance of the next July application window, in order to allow Users who are exposed to the above condition to be allowed to submit a relevant reduction application.

## The Case for Change

The Proposer believes that, where a User Commitment Amount is expected to be satisfied then NG should not unreasonably prohibit a User from making a reduction with the possible benefit of releasing such capacity to other Users.

## Recommendations

We recommend that the modification proceed for assessment at the Transmission Workgroup.

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## 2 Why Change?



### Definitions

#### **User Commitment Amount**

(NTS Exit Capacity Release Methodology Statement)

In respect of a User, the User Commitment Amount (UCA) shall be determined by:

$$UCA (\text{£}) = P_{\text{ind}} / 100 \times Q \times (365 \times 4 + 1) - \text{Charges}_{\text{actual}}$$

where

$P_{\text{ind}}$  = the indicative NTS Exit Capacity price

$Q$  = total amount (existing plus total incremental) of Enduring Annual NTS Exit (Flat) Capacity allocated to the User (kWh/Day) over the commitment period, **Charges<sub>actual</sub>** means Exit Capacity Charges (£) paid solely in respect of Enduring Annual NTS Exit (Flat) Capacity and shall exclude all other charges.

### Implementation of 195AV

In the notice of implementation of 195AV, the Authority noted that: all of the 116/195 proposals (except 0116A) would introduce user commitment under which users triggering new investment would be required to commit to pay the prevailing transmission charge at that offtake point for a period of four years. This principle is known as "User Commitment" and it has been introduced into both the UNC and the ExCR.

Under this principle, any User applying for Incremental Exit Capacity, should:

- pay, by way of exit capacity charges, an amount no less than four years indicative (at the time of the application) exit capacity charges [i.e. not the prevailing]; and
- give a minimum of 14 months notice of a reduction in its capacity allocation [i.e. at least one years prevailing charge].

### Implications

When Exit Capacity charges are reviewed and, as a consequence, Users holding Enduring Annual NTS Exit (Flat) Capacity face higher charges, this may lead to an early satisfaction of their relevant User Commitment Amounts. However, due to the "14 months notice", these Users would be prevented from applying for any reduction in their capacity holdings with effect before 12 months from the first day of booking, potentially exposing them to unforeseen but significant increase in their operating cost.

#### **Worked example (Moffat and Mod 356)**

Jul 2009 application for 1 GWh incremental capacity at indicative price (0.0001 p/kWh/d), resulting in a UCA of £1 per day for 4 years, i.e. £1440  
Apr 2012 Mod 356 set actual price at 0.0021 p/kWh/d, resulting in £21 per day  
Oct 2012 User starts paying exit charges  
Dec 2012 User satisfy the UCA (after 68.5 days)  
Jan-Oct 2013 User is exposed for additional 292 days of actual charges, i.e. £6132

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### 3 Solution

It is proposed to amend the “14 months notice rule” such that Users

1. holding Enduring Annual NTS Exit (Flat) Capacity at an NTS Exit Point where the registration of some, or all, of that Enduring Annual NTS Exit (Flat) Capacity commences (i.e. the User Commitment starts) in Gas Year Y, and
2. expecting to satisfy the UCA within the Gas Year Y

are allowed to make an application during the Reduction Application Window in Gas Year Y-1 for a reduction of their registered capacity at that NTS Exit Point with effect from the 1<sup>st</sup> of any month after the UCA has been satisfied.

NG will not reject such an application unless NG determines that:

1. the UCA will be unfulfilled before the requested date for the reduction to take effect (given the charges for Year Y, as stated in the Notice of Gas Transmission Transportation Charges, which is published in advance of the Reduction Application Window); or
2. the requested date is not 1<sup>st</sup> of the month; or
3. the requested date is not in Gas Year Y.

## 4 Relevant Objectives

Impact of the modification on the **Relevant Objectives:**

Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	YES
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.	NO
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.	YES
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	YES
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	YES

### Achievement of relevant objective (a) "Efficient and economic operation of the pipe-line system"

Enabling Users to adjust downward their signals for Enduring Annual NTS Exit (Flat) Capacity (given with a fairly long 38-months notice) to reflect their actual needs potentially results in more efficient investment by National Grid NTS and lower costs to customers. In particular, this would be true in cases where the firm capacity released cannot be used by the relevant User because of a legitimate impediment. Releasing National Grid NTS from the obligation to make such capacity available anyway at the relevant point on a firm basis would allow National Grid NTS to maximise the release of non-obligated firm and interruptible capacity at nearby locations, making a more efficient use of existing capacity.

### Achievement of relevant objective (c) "Efficient discharge of the licensee's obligations"

Releasing National Grid NTS from the obligation to make available non-needed capacity, which would allow a better facilitation of Relevant Objective (c) with respect to licence obligations relating to economic and efficient system development.

### Achievement of relevant objective (d) "Securing of effective competition"

Shippers and DN Operators (both as Users) would benefit from the implementation of

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this modification by avoiding the unnecessary holding of Enduring Annual NTS Exit (Flat) Capacity when it is not needed (or cannot be used). Such holding of capacity would cause the relevant User to incur additional costs (by way of NTS Exit (Flat) Capacity Charges) that could have a detrimental financial impact upon their business.

### **Achievement of relevant objective (f) "Promotion of efficiency in the implementation and administration of the Code"**

Implementation of Modification 0290 enabled National Grid NTS to release additional Annual NTS Exit (Flat) Capacity, where it is available, to the market in response to industry demand. By allowing National Grid NTS to make available additional capacity, this Modification facilitates the implementation of Modification 0290.

### **Achievement of relevant objective (g) "Compliance with European Regulation"**

This modification would facilitate National Grid NTS to comply with article 16(2) of EC Regulation 715/2009, which obliges the "*transmission system operator [to] implement [...] non-discriminatory and transparent capacity-allocation mechanisms, which shall:*

*(a) provide appropriate economic signals for the efficient and maximum use of technical capacity [...];"*

## 5 Impacts and Costs



### Consideration of Wider Industry Impacts

Eventual systems implications resulting from the proposed change has to be assessed by National Grid NTS.

### Costs

Indicative industry costs – User Pays	
Classification of the modification as User Pays or not and justification for classification	tba
Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification	tba
Proposed charge(s) for application of Users Pays charges to Shippers	tba
Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from Xoserve	tba

### Impacts

Impact on Transporters' Systems and Process	
Transporters' System/Process	Potential impact
UK Link	• tba
Operational Processes	• tba
User Pays implications	• tba

Impact on Users	
Area of Users' business	Potential impact
Administrative and operational	• Users will be able to apply for reductions of incremental Enduring Annual NTS Exit (Flat) Capacity with effect anytime after the UCA has been exhausted
Development, capital and operating costs	• none

**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](http://www.gasgovernance.co.uk/sites/default/files/0565.zip)

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Impact on Users	
Contractual risks	<ul style="list-style-type: none"> <li>Removes the risk of paying substantially more than the UCA to the extent that capacity can be released in response to changing prices</li> </ul>
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> <li>none</li> </ul>

Impact on Transporters	
Area of Transporters' business	Potential impact
System operation	<ul style="list-style-type: none"> <li>improved signals of capacity requirements support efficient system development and operation</li> </ul>
Development, capital and operating costs	<ul style="list-style-type: none"> <li>tba</li> </ul>
Recovery of costs	<ul style="list-style-type: none"> <li>tba</li> </ul>
Price regulation	<ul style="list-style-type: none"> <li>none</li> </ul>
Contractual risks	<ul style="list-style-type: none"> <li>none</li> </ul>
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> <li>none</li> </ul>
Standards of service	<ul style="list-style-type: none"> <li>none</li> </ul>

Impact on Code Administration	
Area of Code Administration	Potential impact
Modification Rules	<ul style="list-style-type: none"> <li>none</li> </ul>
UNC Committees	<ul style="list-style-type: none"> <li>none</li> </ul>
General administration	<ul style="list-style-type: none"> <li>none</li> </ul>

Impact on Code	
Code section	Potential impact
UNC TPD Section B 3.2.17	<ul style="list-style-type: none"> <li>addition of a paragraph</li> </ul>

Impact on UNC Related Documents and Other Referenced Documents	
Related Document	Potential impact
Network Entry Agreement (TPD I1.3)	<ul style="list-style-type: none"> <li>none</li> </ul>

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Impact on UNC Related Documents and Other Referenced Documents	
Network Exit Agreement (Including Connected System Exit Points) (TPD J1.5.4)	<ul style="list-style-type: none"> <li>• none</li> </ul>
Storage Connection Agreement (TPD R1.3.1)	<ul style="list-style-type: none"> <li>• none</li> </ul>
UK Link Manual (TPD U1.4)	<ul style="list-style-type: none"> <li>• none</li> </ul>
Network Code Operations Reporting Manual (TPD V12)	<ul style="list-style-type: none"> <li>• none</li> </ul>
Network Code Validation Rules (TPD V12)	<ul style="list-style-type: none"> <li>• none</li> </ul>
ECQ Methodology (TPD V12)	<ul style="list-style-type: none"> <li>• none</li> </ul>
Measurement Error Notification Guidelines (TPD V12)	<ul style="list-style-type: none"> <li>• none</li> </ul>
Energy Balancing Credit Rules (TPD X2.1)	<ul style="list-style-type: none"> <li>• none</li> </ul>
Uniform Network Code Standards of Service (Various)	<ul style="list-style-type: none"> <li>• none</li> </ul>

Impact on Core Industry Documents and other documents	
Document	Potential impact
Safety Case or other document under Gas Safety (Management) Regulations	<ul style="list-style-type: none"> <li>• none</li> </ul>
Gas Transporter Licence	<ul style="list-style-type: none"> <li>• none</li> </ul>

Other Impacts	
Item impacted	Potential impact
Security of Supply	<ul style="list-style-type: none"> <li>• none</li> </ul>
Operation of the Total System	<ul style="list-style-type: none"> <li>• none</li> </ul>
Industry fragmentation	<ul style="list-style-type: none"> <li>• none</li> </ul>
Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties	<ul style="list-style-type: none"> <li>• none</li> </ul>

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## 6 Implementation

While no implementation timescale is proposed, this modification should be implemented in advance of the next July application window, in order to allow Users who are exposed to the above condition to be allowed to submit a relevant reduction application.

## 7 The Case for Change

None in addition to that identified the above.

## 8 Legal Text

To be provided.

## 9 Recommendation

The Proposer invites the Panel to:

- DETERMINE that Modification 0417 progress to the Transmission Workgroup for assessment.