

0417S:

Notice for Enduring Exit Capacity Reduction Applications

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



The Workgroup recommends that this self-governance modification should now proceed to Consultation.



High Impact:



Medium Impact:



Low Impact:

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About this document:

The purpose of this report is to make a recommendation to the Panel, to be held on 19 April 2012, on whether Modification 0417S is sufficiently developed to proceed to Consultation and to submit any further recommendations in respect of the definition and assessment of this self-governance modification.



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1 Summary



Is this a Self-Governance Modification?

The Modification Panel determined that this is 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 1st of any month after the UCA has been satisfied.

Impacts and Costs

Systems implications resulting from the proposed change are being 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.

As this is a self-governance modification, implementation could be 16 business days after a Modification Panel decision to implement.

The Case for Change

Allowing the reduction of exit capacity holdings when the User Commitment Amount is expected to be satisfied should facilitate Users holding the quantities of capacity they require, thereby better allocating costs between users and releasing otherwise sterilised capacity to potentially be held by other Users. Hence implementation would be expected to facilitate the securing of effective competition between Shippers, and better achievement of National Grid NTS’ licence obligations to the extent that investment is better informed and hence economic and efficient.

Recommendations

The Workgroup considers that this self-governance modification is sufficiently developed and should now proceed to Consultation.

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).

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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_{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_{actual} 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 for Modification 0195AV, the Authority noted that: all of the 0116/0195 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 equal to 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 0356 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 1st 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 1st 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.	Positive
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.	None
c) Efficient discharge of the licensee's obligations.	Positive
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.	Positive
e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers.	None
f) Promotion of efficiency in the implementation and administration of the Code	None
g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators	None

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 provides additional information to National Grid NTS that could allow National Grid NTS to release firm and discretionary off-peak capacity at that and/or nearby locations, making more efficient use of the pipe-line system.

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

Providing additional information to National Grid NTS regarding non-needed capacity would make the capacity available to other Users, avoiding sterilisation, and thereby 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 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

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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. Allowing Users to hold capacity rights that more closely match their actual requirements would help to ensure that costs are allocated appropriately and so facilitate the securing of effective competition. Capacity may also be released for other Users, also facilitating effective competition among Shippers.

By focussing on incremental capacity only, different treatment would be introduced for those who have no user commitment and those who discharge it early, which could be regarded as introducing discrimination in favour of those holding incremental capacity rather than enduring capacity.

5 Impacts and Costs



Consideration of Wider Industry Impacts

No wider industry impacts are anticipated

Costs

Indicative industry costs – User Pays	
Classification of the modification as User Pays or not and justification for classification	
National Grid NTS has indicated that implementation of the modification would not require systems changes. No user pays service would be created nor amended if the modification were implemented. It is not, therefore, classified as User Pays.	
Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification	
NA	
Proposed charge(s) for application of Users Pays charges to Shippers	
NA	
Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from Xoserve	
NA	

Impacts

Impact on Transporters' Systems and Process	
Transporters' System/Process	Potential impact
UK Link	<ul style="list-style-type: none"> None
Operational Processes	<ul style="list-style-type: none"> National Grid NTS anticipate minor process changes
User Pays implications	<ul style="list-style-type: none"> None

Impact on Users	
Area of Users' business	Potential impact
Administrative and operational	<ul style="list-style-type: none"> Users will be able to apply for reductions of incremental Enduring Annual NTS Exit (Flat) Capacity with effect anytime after the user commitment amount has been exhausted

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

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Impact on Users	
Development, capital and operating costs	<ul style="list-style-type: none"> • None
Contractual risks	<ul style="list-style-type: none"> • Removes the risk of paying substantially more than the user commitment amount to the extent that capacity can be released in response to changing prices
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> • None

Impact on Transporters	
Area of Transporters' business	Potential impact
System operation	<ul style="list-style-type: none"> • Improved signals of capacity requirements avoid sterilisation and support efficient system development and operation
Development, capital and operating costs	<ul style="list-style-type: none"> • Minor operating costs would be incurred by National Grid NTS
Recovery of costs	<ul style="list-style-type: none"> • NA
Price regulation	<ul style="list-style-type: none"> • None
Contractual risks	<ul style="list-style-type: none"> • None
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> • None
Standards of service	<ul style="list-style-type: none"> • None

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

Impact on Code	
Code section	Potential impact
UNC TPD Section B3.2.17	<ul style="list-style-type: none"> • See Draft Text, Section 8

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	• None
Operation of the Total System	• None
Industry fragmentation	• None
Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties	• None

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.

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

7 The Case for Change

None in addition to that identified the above.

8 Legal Text

The following draft Legal Text has been provided by National Grid NTS. National Grid NTS has also committed to putting forward a supporting change to their ExCR.

TPD Section B

Amend paragraph 3.2.17 to read as follows:

3.2.17 Where a User has applied for a reduction of Enduring Annual NTS Exit (Flat) Capacity specifying a User Reduction Date which is earlier than 1 October in Gas Year Y+2, National Grid NTS ~~may give effect to the reduction (acting in its sole discretion) from:~~

(a) may give effect to the reduction (acting in its sole discretion) from the User Reduction Date specified in the User's application, where:

- (i) a User has applied to be registered as holding Enduring Annual NTS Exit (Flat) Capacity at any NTS Exit Point; and
- (ii) National Grid NTS is able to satisfy such application by reason of giving effect to the reduction applied for; or

(b) will give effect to the reduction from the User Reduction Date specified in the User's application, where:

- (i) the User Reduction Date is after the end of the commitment period as determined in accordance with the principles in the prevailing Exit Capacity Release Methodology Statement (“Commitment Period”); and
- (ii) the Commitment Period commences in Gas Year Y+1; or

~~(b)(c)~~ may give effect to the reduction from 1 October in Gas Year Y + 2 where the circumstances in paragraphs (a) and (b) do not apply.

Amend paragraph 3.2.19 to read as follows:

3.2.19 National Grid NTS may reject a notice of reduction where:

(a) any of the requirements of paragraph 3.2.15 or 3.2.22 is not complied with;

(b) by reference to System Capacity Transfers notified prior to the notice of reduction, the User's Enduring Annual NTS Exit (Flat) Capacity would, on the basis of the reduced amount specified in such notice, be negative at any time in the future;

(c) the User Reduction Date is earlier than the end of the ~~e~~Commitment ~~p~~Period ~~as determined in accordance with the principles in the prevailing Exit Capacity Release Methodology Statement~~ and National Grid NTS is unable to utilise the reduction amount to satisfy a further application for Enduring Annual NTS Exit (Flat) Capacity at any NTS Exit Point.

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9 Recommendation

The Workgroup invites the Panel to:

- AGREE that this self-governance modification should be submitted for Consultation.