

Stage 03: Draft Modification Report

0419:

Redefining the capacity of the Specified Exit Point used in the calculation of the NTS Optional Commodity tariff

This Modification seeks to redefine the capacity of the Specified Exit Point used in the calculation of the NTS Optional Commodity Tariff (also known as "NTS Shorthaul").



Responses invited by 11 June 2012.



High Impact: None

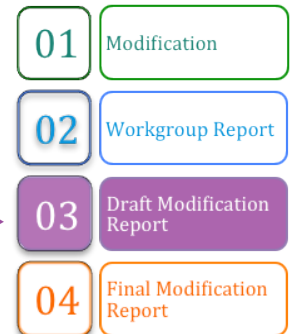


Medium Impact: None



Low Impact: Gas Shippers (particularly those who wish to elect Shorthaul after 01 October 2012), gas consumers and interconnector operators.

At what stage is this document in the process?



0419

Draft Modification Report

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Version 1.0

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About this document:

This document is a Draft Modification Report, which was issued for consultation responses, at the request of the Panel on 17 May 2012. The close out date for responses is 11 June 2012. The Panel will consider the responses and agree whether or not this modification should be made.



3 Any questions?

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1 Summary

Is this a Self-Governance Modification?

The Modification Panel determined that this is not a self-governance modification.

Why Change?

Users may elect the NTS Optional Commodity Rate at NTS Exit Points and the tariff is calculated using the following equation...

$$1203 \times [(SOQ)^{-0.834}] \times D + 363 \times (SOQ)^{-0.654} \text{ (p/kWh)}$$

...where SOQ (Standard Off-take Quantity) is a capacity related element at the NTS Exit Point.

The UNC definition equates to the obligated level in the Enduring Exit Period as defined under National Grid's NTS Licence. However, there are a number of sites that have obligated levels of zero in the Enduring Exit Period, and a value of zero cannot be used in the tariff equation as it would mathematically give a rate effectively equal to infinity and hence be undefined.

Solution

For NTS Exit Points, it is proposed that the capacity of the Specified Exit Point, defined in UNC TPD Section B3.12.10(b), be redefined as the Maximum NTS Exit Point Offtake Rate ("MNEPOR") converted to kWh/day. For NTS Exit Points in respect of an interconnector which has no physical capability to offtake gas from the NTS, the capacity of the Specified Exit Point will be defined as an amount (where positive) determined as the instantaneous rate of flow into the NTS (in kWh/hour) which the Transporter determines to be the maximum instantaneous rate at which it is feasible to input gas into the NTS at the relevant System Entry Point, converted to kWh/day.

Impacts and Costs

The modification requires a change to NTS internal manual processes only and hence there are no system impacts and no implementation costs have been identified for Users.

Implementation

While no implementation timescale is proposed, National Grid NTS is required to publish charges two months prior to their application, such that a decision by 01 August 2012 would be helpful.

The Case for Change

The modification would result in a definition of the capacity of the Specified Exit Point in TPD Section B3.12.10(b) which would enable calculation of the NTS Optional Commodity Rate.

Recommendations

All parties are invited to consider whether they wish to submit views regarding this modification.



What is the MNEPOR?

UNC TPD Section B, 3.6.6 defines the MNEPOR as "an amount (where positive) determined as the instantaneous rate of offtake (in kWh/hour) which the Transporter determines to be the maximum instantaneous rate at which it is feasible to make gas available for offtake at the NTS Exit Point".

As the MNEPOR is an instantaneous rate of offtake (in kWh/hour) this would need to be converted into a kWh/day value for it to be used in the shorthaul equation.

2 Why Change?

An issue has been identified with respect to the calculation of the NTS Optional Commodity Rate ("NTS Shorthaul") after the introduction of exit reform on 1 October 2012.

Currently, the NTS Optional Commodity Rate at NTS Exit Points is calculated using the following equation...

$$1203 \times [(SOQ)^{-0.834}] \times D + 363 \times (SOQ)^{-0.654} \text{ (p/kWh)}$$

...where SOQ (Standard Off-take Quantity) is a capacity related element at the NTS Exit Point.

The capacity of the Specified Exit Point is referred to in UNC TDIIC 9.5.5(c) and determined, for Supply Meter Points and Shared Supply Meter Points, in accordance with UNC TPD G5.4.1 & G5.4.4 and is the Shipper(s) nomination/booking as provided in the Supply Point Administration process. For NTS Connected System Exit Points (NTS CSEPs), the capacity is defined in UNC TDIIC 9.5.5(c)(iv) as the maximum aggregate amount of gas that it is feasible for National Grid NTS to make available for offtake at the Connected System Exit Point in a period of 24 hours.

With the introduction of NTS exit reform on 1 October 2012, the capacity of the Specified Exit Point is defined in UNC TPD Section B3.12.10(b) as the sum of the Baseline NTS Exit (Flat) Capacity and Baseline NTS Exit (Flexibility) Capacity. The definition equates to the obligated level in the Enduring Exit Period as defined under National Grid's NTS Licence.

There are a number of sites that have obligated levels of zero in the Enduring Exit Period, however a value of zero cannot be used in the tariff equation as it would mathematically give a rate effectively equal to infinity and hence be undefined.

3 Solution

For NTS Exit Points, it is proposed that the capacity of the Specified Exit Point, defined in UNC TPD Section B3.12.10(b), be re-defined as the Maximum NTS Exit Point Offtake Rate ("MNEPOR") converted to kWh/day. For NTS Exit Points in respect of an interconnector which has no physical capability to offtake gas from the NTS, the capacity of the Specified Exit Point will be defined as an amount (where positive) determined as the instantaneous rate of flow into the NTS (in kWh/hour) which the Transporter determines to be the maximum instantaneous rate at which it is feasible to input gas into the NTS at the relevant System Entry Point, converted to kWh/day.

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.	None
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.	Positive
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

Efficient discharge of the licensee's obligations

Implementation would remove the possibility of an equation in the charging methodology being undefined as a result of zero as the divisor. Ensuring that, while remaining cost reflective, the charging methodology is workable and generates defined charges ensures efficient discharge of the licence obligations to maintain an appropriate charging methodology.

Securing effective competition

The use of MNEPOR as the capacity of the Specified Exit Point would provide a visible and transparent number with which to calculate the NTS Optional Commodity Rate, and enable Users to elect the NTS Optional Commodity Rate in respect of sites where it would otherwise be undefined after the introduction of NTS exit reform. Ensuring that the option is available helps to avoid undue discrimination and provide the same opportunity to Users to adopt the tariff. Since the tariff is set to be cost reflective, ensuring it is available would be expected to improve the allocation of costs between Users. Implementation of this modification would therefore support the securing of effective competition between relevant shippers.

Promotion of efficiency in the implementation and administration of the Code

Implementation would remove the possibility of an equation in the UNC being undefined as a result of zero as the divisor. Introducing a practical solution promotes efficiency in the implementation and administration of the Code.

5 Impacts and Costs

Consideration of Wider Industry Impacts

No wider industry impacts have been identified.

Costs

Indicative industry costs – User Pays	
Classification of the modification as User Pays or not and justification for classification	
No systems changes are required to implement this modification and no User Pays service would be introduced nor amended and hence this is not a User Pays Modification.	
Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification	
n/a	
Proposed charge(s) for application of Users Pays charges to Shippers	
n/a	
Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from Xoserve	
n/a	

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"> Changes to internal manual price setting process
User Pays implications	<ul style="list-style-type: none"> 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:

<http://www.gasgovernance.co.uk/sites/default/files/0565.zip>

Impact on Users	
Area of Users' business	Potential impact
Administrative and operational	• None
Development, capital and operating costs	• None
Contractual risks	• None
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	• None
Recovery of costs	• None
Price regulation	• None
Contractual risks	• None
Legislative, regulatory and contractual obligations and relationships	• Positive
Standards of service	• None

Impact on Code Administration	
Area of Code Administration	Potential impact
Modification Rules	• None
UNC Committees	• None
General administration	• None

Impact on Code	
Code section	Potential impact
UNC TPD Section B	• For NTS Optional Commodity Rate setting from 1 st October 2012, the definition of the capacity of the Specified Exit Point will be redefined.

Impact on UNC Related Documents and Other Referenced Documents	
Related Document	Potential impact

Impact on UNC Related Documents and Other Referenced Documents	
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	• Positive

6 Implementation

While no implementation timescale is proposed, National Grid NTS is required to publish charges two months prior to their application, such that a decision prior to 01 August would be beneficial. Implementation by 01 October 2012 would ensure that the optional tariff will be available from 1 October to exit points where the existing calculation would not otherwise allow this.

7 The Case for Change

In addition to the impacts recorded elsewhere in this report, implementation of this modification would enable Users to elect the NTS Optional Commodity Rate in circumstances where it would otherwise be undefined after the introduction of NTS Exit Reform. A key objective of the NTS Optional Commodity rate is to dis-incentivise inefficient by-pass of the NTS, with the tariff being set at a level that is intended to generate efficient signals regarding whether or not by-pass is economically justified. Avoiding inefficient bypass avoid resources being used inefficiently and, as such, implementation offers the potential to have a positive benefit for the GB economy as a whole.

8 Legal Text

Text

In response to a request from Ofgem, National Grid NTS has provided the following legal text.

Amend UNC TPD Section B, Paragraph 3.12.10 as follows:

- 3.12.10 For the purposes of paragraphs 3.12.9 to 3.12.14 (inclusive), the capacity of the Specified Exit Point shall be the Supply Point Capacity, provided:
- (a) in the case of an LDZ Supply Point the capacity shall be determined in accordance with Section G5.4.1, except:
 - (i) for an LDZ Firm Supply Point the capacity shall be the sum of the DM Supply Point Capacity and the NDM Supply Point Capacity that the User is registered as holding from time to time in accordance with paragraphs 4.2 and 4.3 respectively;
 - (ii) for a LDZ Shared Supply Point the capacity shall be determined in accordance with Section G1.7.14;
 - (iii) for an LDZ CSEP the capacity shall be determined in accordance with paragraph 4.5.2;
 - (b) in the case of an NTS Exit Point the capacity shall be equal to 24 times the Maximum NTS Exit Point Offtake Rate, except: ~~sum of the Baseline NTS Exit (Flat) Capacity and the NTS Exit (Flexibility) Capacity~~
 - (i) for an NTS Exit Point in respect of a pipeline interconnector having no physical exit capability which is both a Connected Offtake System and a Connected Delivery Facility, the capacity shall be equal to 24 times the amount (where positive) determined as the instantaneous rate (in kWh/Hour) which the Transporter determines to be the maximum instantaneous rate at which it is feasible to deliver gas to the NTS at the System Entry Point associated with such Connected Delivery Facility.

9 Recommendation

All parties are invited to consider whether they wish to submit views regarding this modification. The close-out date for responses is 11 June 2012, which should be sent to enquiries@gasgovernance.co.uk. A response template which you may wish to use is at www.gasgovernance.co.uk/0419



Consultation Ends

On 11 June 2012