

## Stage 01: Modification

# 0460:

## Alignment of capacity and revenue treatment within the NTS Charging Methodology with RIIO-T1 arrangements

At what stage is this document in the process?



This Modification will fully align the NTS Charging Methodology with the new RIIO-T1 Licence definitions of Entry and Exit Capacity. The Modification will facilitate the appropriate modelling of entry and exit capacity, and associated revenues, within National Grid's charge setting NTS Transportation Model. The Modification will also update and tidy-up the NTS Charging Methodology where this has been identified as being necessary by the proposer.



The Proposer recommends that this Transportation Charging Methodology modification should be (delete as appropriate):

- subject to self-governance
- assessed by a workgroup



High Impact:



Medium Impact:



Low Impact:

Gas Shippers, Distribution Network Operators, Gas Consumers & Interconnector Operators

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## About this document:

This modification will be presented by the proposer to the panel on 20<sup>th</sup> June 2013.

The panel will consider the proposer's recommendation, and agree whether this modification should be subject to self-governance; and whether it should be issued for consultation or be referred to a workgroup for assessment.


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# 1 Summary

## Is this a Self-Governance Modification?

The Proposer believes that this Modification meets the criteria for self-governance in that, if implemented, it is unlikely to:

(a) have a material effect on

- existing or future gas consumers; or
- competition in the shipping, transportation or supply of gas conveyed through pipes or any commercial activities connected with the shipping, transportation or supply of gas conveyed through pipes; or
- the operation of one or more pipe-line system(s); or
- matters relating to sustainable development, safety or security of supply, or
- the management of market or network emergencies; or
- the uniform network code governance procedures or
- the network code modification procedures; or

(b) discriminate between different classes of parties to the uniform network code / relevant gas transporters, gas shippers or DN operators.

## Why Change?

NTS Exit Capacity Charges are administered rates designed to recover 50% of allowed TO revenue and, prior to 1<sup>st</sup> April 2013, were applied to baseline<sup>1</sup> NTS Exit (Flat) Capacity levels. From 1<sup>st</sup> April 2013, under RIIO-T1;

- Revenue from Non-incremental Obligated Exit Capacity & Funded Incremental Obligated<sup>2</sup> Exit Capacity (whether satisfied through substitution or investment) is treated as Transmission Owner (TO) revenue within the Price Control formulae stated in the Licence (TORExct).
- Revenue from Legacy Incremental Exit Capacity<sup>3</sup> is treated as System Operator (SO) revenue as a component of the Price Control formulae stated in the Licence (SORExct).

Therefore, in respect of exit capacity charge setting, changes are required to reflect the RIIO-T1 Licence terms (and any associated revenues) which make up the charging base of the Exit Tariff Model within the NTS Transportation Model.

NTS Entry Capacity Reserve Prices represent purely locational prices with no adjustment for allowed revenue and are derived from the charge setting NTS Transportation Model. From 1<sup>st</sup> April, under RIIO-T1;

- Revenue from Non-incremental Obligated Entry Capacity & Funded Incremental Obligated Entry Capacity<sup>4</sup> (whether satisfied through substitution or investment) is treated as Transmission Owner (TO) revenue within the Price Control formulae stated in the Licence (TOREnct).

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<sup>1</sup> TPCR-4, Special Condition C8E, Table 2, "NTS baseline exit flat capacity"

<sup>2</sup> RIIO-T1, Special Condition 2A

<sup>3</sup> RIIO-T1, Special Condition 3A

<sup>4</sup> RIIO-T1, Special Condition 2A

- Revenue from Legacy Incremental Entry Capacity<sup>5</sup> is treated as System Operator (SO) revenue as a component of the Price Control formulae stated in the Licence (SOEnCt).

Therefore, in respect of entry capacity reserve price setting the following clarifications will be required within UNC TPD Y Section C;

- For existing NTS Entry Points which have a zero baseline capacity level (as defined in the Licence), but where Legacy Incremental Entry Capacity or Funded Incremental Obligated Entry Capacity has been sold in a previous auctions, the level of (“permanent obligated capacity”) Legacy Incremental Entry Capacity or Funded Incremental Obligated Entry Capacity release within the Gas Year in question is used as the obligated entry capacity level; and for
- New NTS Entry Points, where no Legacy Incremental Entry Capacity or Funded Incremental Obligated Entry Capacity has been sold the entry capacity reserve price is set at the transportation model derived annuitised long run marginal cost for the relevant entry point with that entry point flowing at the obligated level.

Therefore, in respect of Entry capacity charge setting, changes are required to reflect the RIIO-T1 Licence entry capacity terms that makes up the obligated entry capacity level within the NTS Transportation Model.

## Solution

It is proposed UNC TPD Section Y is amended to reflect that;

1. Exit charges are administered rates designed to recover 50% of allowed TO revenue when they are applied to Non-incremental Obligated Exit Capacity and Funded Incremental Obligated Exit Capacity levels. To this end, the majority of changes required are in respect of UNC TPD Section Y, 2.5.3 “The Tariff Model for the Determination of NTS Exit (Flat) Capacity Charges”. The changes will be in order to reflect the RIIO-T1 Licence terms (and any associated revenues) which make up the charging base of the Exit Tariff Model within the NTS Transportation Model.
2. The obligated entry capacity terms, used to derive the obligated entry capacity level within the NTS Transportation Model, are consistent with the entry capacity terms within the RIIO-T1 Licence.
3. Legacy Incremental Exit Capacity revenue is treated as SO revenue.

Other minor changes, where identified as being necessary, are proposed in order to maintain consistency and update UNC TPD Section Y.

## Relevant Objectives

This modification seeks to update UNC TPD Section Y so that it properly reflects entry & exit capacity, and associated revenue arrangements under RIIO-T1 from 1st April 2013. To that extent, implementation of this modification would better facilitate relevant objectives;

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<sup>5</sup> RIIO-T1, Special Condition 3A

- a) Save in so far as paragraphs (aa) or (d) apply, that compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its transportation business; and
- b) that, so far as is consistent with sub-paragraph (a), the charging methodology properly takes account of developments in the transportation business.

## Implementation

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

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## 2 Why Change?

From 1<sup>st</sup> April, under RIIO-T1 the following applies;

- Revenue from Non-incremental Obligated Entry/Exit Capacity & Funded Incremental Obligated Entry/Exit Capacity (whether satisfied through substitution or investment) is treated as Transmission Owner (TO) revenue within the Price Control formulae stated in the Licence (TORExct/TOREnct), which is a change from the pre-RIIO-T1 treatment.
- Revenue from Legacy Incremental Entry/Exit Capacity (i.e. Incremental capacity released prior to RIIO-T1 implementation) is treated as System Operator (SO) revenue as a component of the Price Control formulae stated in the Licence (SORExct/SOREnct), so that there is no change to the treatment except for the naming convention.

NTS Exit Capacity Charges are administered rates designed to recover 50% of allowed TO revenue and, prior to 1<sup>st</sup> April 2013, were applied to baseline NTS Exit (Flat) Capacity levels.

Therefore, in respect of exit capacity charge setting, changes are required to reflect the RIIO-T1 Licence terms (and any associated revenues) which make up the charging base of the Exit Tariff Model within the NTS Transportation Model.

NTS Entry Capacity Reserve Prices represent purely locational prices with no adjustment for allowed revenue and are derived from the charge setting NTS Transportation Model. From 1<sup>st</sup> April 2013, under RIIO-T1;

- Existing NTS Entry Points which have a zero baseline capacity level (as defined in the Licence), but where Legacy Incremental Entry Capacity or Funded Incremental Obligated Entry Capacity has been sold in a previous auctions, the level of (permanent obligated capacity) Legacy Incremental Entry Capacity or Funded Incremental Obligated Entry Capacity release within the Gas Year in question is used as the obligated entry capacity level.
- New NTS Entry Points, where no Legacy Incremental Entry Capacity or Funded Incremental Obligated Entry Capacity has been sold the entry capacity reserve price is set at the transportation model derived annuitized long run marginal cost for the relevant entry point with that entry point flowing at the obligated level.

## 3 Solution

It is proposed that a number of changes are made to UNC TPD Section Y. The proposed updates can be seen in the mark-up draft of UNC TPD Section Y, which is a part of this Modification but provided separately from this document (due to the size of the electronic file).

### Part A – NTS Charging Methodologies

#### 1. Chapter 2, 2.5.3 “The Tariff Model for the Determination of NTS Exit (Flat) Capacity Charges”

1.1. 1<sup>st</sup> paragraph under main heading – clarifies that, in RIIO-T1, NTS Exit Capacity Charges are administered rates designed to recover 50% of allowed TO revenue when applied to Non-incremental Obligated Exit Capacity & Funded Incremental Obligated Exit Capacity levels.

#### 1.2. “TO Revenue Recovery Adjustment”

1.2.1.1<sup>st</sup> paragraph – deletion of “baseline” as not required.

1.2.2.2<sup>nd</sup> paragraph – deletion of “Target” as not required.

1.2.3.3<sup>rd</sup> paragraph

1.2.3.1. Deletion of “Obligated” to form “Legacy Incremental Exit Capacity”, with new footnote.

1.2.3.2. Insertion of bracketed term “LIExCt” with new footnote.

1.2.4.4<sup>th</sup> paragraph – clarifies that that revenue from Non-incremental Obligated Exit Capacity & Funded Incremental Obligated Exit Capacity is treated as TO revenue under RIIO-T1 with footnote.

1.2.5.5<sup>th</sup> paragraph – clarifies the principle of setting NTS Exit (Flat) Capacity prices within the charge setting NTS Transportation Model after deducting non-capacity charges.

1.2.6.6<sup>th</sup> paragraph

1.2.6.1. Clarifies that the Revenue Adjustment Factor is being calculated within the Tariff Model for exit charges such that the total revenue recovered is from Non-incremental Obligated Exit Capacity & Funded Incremental Obligated Exit Capacity.

1.2.6.2. Clarifies that SO revenues can be calculated from the price produced from the Transportation Model where Legacy Incremental Exit Capacity is released.

1.2.7. “SOExCt” term is replaced with “LIExC<sub>t</sub>” (see footnote 6).

1.2.8.  $ExitRev_{t,Dj}$  is redefined as revenue from Non-incremental Obligated Exit Capacity & Funded Incremental Obligated Exit Capacity demands

1.2.9.  $ExitRev_{t,Dj,inc}$  is redefined as revenue from Legacy Incremental Exit Capacity demands

1.2.10. TOExCt is redefined as revenue from Non-incremental Obligated Exit Capacity & Funded Incremental Obligated Exit capacity for year t

1.2.11. SOExCt deleted and replaced with LIExCt which is defined as revenue from Legacy Incremental Exit Capacity for year t

1.2.12.  $ExitCap_{Dj}$  is redefined as the nodal Non-Incremental Obligated Exit Capacity and Funded Incremental Obligated Exit Capacity for demand j, with new footnote

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1.2.13. Exit Cap<sub>Dj,inc</sub> is redefined as the nodal Legacy Incremental Exit Capacity for demand j, with new footnote

## **2. Chapter 2, 2.5.4 “The Tariff Model for Determination of NTS Entry Capacity Charges”**

### **2.1. “Supply/Demand Scenario”**

2.1.1.2<sup>nd</sup> paragraph – updating of the principle for deriving the obligated level in the NTS Transportation Model for the calculation of NTS Entry Capacity reserve prices to reflect RIIO-T1 Licence definitions, with new footnote

### **2.2. “Estimated Project Values”**

2.2.1.1<sup>st</sup> paragraph - reference to “IECR” changed to “ECR”.

### **2.3. “New Entry Points”**

2.3.1.1<sup>st</sup> paragraph - updating of the principle for deriving the obligated level in the NTS Transportation Model for new NTS Entry Points where no Legacy Incremental Entry Capacity or Funded Incremental Obligated Entry Capacity has been sold (effectively zero).

The following changes are proposed in order to further align the NTS charging methodology with the RIIO-T1 Licence, to maintain consistency with the changes outlined in “1” & “2” above.

## **Part A – NTS Charging Methodologies**

### **3. Chapter 1, 1.1 “Price Control Formula”**

3.1. 3<sup>rd</sup> paragraph – deletion of “historical” as no longer applicable

3.2. Figure 1 - deletion of “Incremental” and insertion of “Legacy”

### **4. 1.2 “Structure of NTS Transportation Charges”**

4.1. 4<sup>th</sup> paragraph

4.1.1. Amended footnote in respect of metering revenue to reference Statement of the Gas Transmission Transportation Charges.

4.1.2. Amended to reflect revenues being derived from Non-incremental Obligated Entry/Exit Capacity & Funded Incremental Obligated Entry/Exit Capacity as applicable.

### **5. Chapter 2, 2.3.1 “Reserve Prices in System Entry Capacity Auctions”**

5.1. 2<sup>nd</sup> paragraph – deletion of “Incremental” from “Incremental Entry Capacity Release methodology statement and “IECR” changed to “ECR”.

### **6. Chapter 2, 2.3.2 “Entry Capacity Buy-Back Offset Mechanism”**

6.1. 1<sup>st</sup> bullet point “TOMR<sub>t</sub>” amended to “MR<sub>t</sub>”

### **7. Chapter 2, 2.4 “Constrained LNG (CLNG)”**

7.1. Insertion of end bracket.

### **8. Chapter 2, 2.5 “Derivation of NTS Capacity Charges”**

8.1. Final paragraph – deletion of “NTS”

### **9. Chapter 2, “Application of Entry Prices”**

9.1. Update of dates within Table 2 and following paragraph

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**10. Appendix B – “Timeline for Indicative & Actual Prices”**

- 10.1. 1<sup>st</sup> paragraph – update of dates
- 10.2. Insertion of new tables

**11. Appendix C – “Classification of Supply Points”**

- 11.1. Amendment of reference to Ten Year Statement

**12. Glossary**

- 12.1. Insertion of “Entry Capacity Release methodology statement” & definition
- 12.2. Deletion of “IECR Statement” & definition

**13. - 2 “The Gas Transmission Connection Charging Methodology”**

- 13.1. Deletion of “IECR” and insertion of “ECR”
- 13.2. **Appendix B – Additional Points Relating to Capacity**
  - 13.2.1. Deletion of “IECR” and insertion of “ECR”

User Pays
Classification of the modification as User Pays, or not, and the justification for such classification.
No industry implementation or system costs have been identified and, for this reason, this is not a User Pays Modification.
Identification of Users of the service, the proposed split of the recovery between Gas Transporters and Users for User Pays costs and the justification for such view.
n/a
Proposed charge(s) for application of User Pays charges to Shippers.
n/a
Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.
n/a

## 4 Relevant Objectives

Impact of the modification on the Relevant Charging Methodology Objectives:	
Relevant Objective	Identified impact
a) Save in so far as paragraphs (aa) or (d) apply, that compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its transportation business;	Positive
aa) That, in so far as prices in respect of transportation arrangements are established by auction, either: <ul style="list-style-type: none"> <li>(i) no reserve price is applied, or</li> <li>(ii) that reserve price is set at a level -               <ul style="list-style-type: none"> <li>(I) best calculated to promote efficiency and avoid undue preference in the supply of transportation services; and</li> <li>(II) best calculated to promote competition between gas suppliers and between gas shippers;</li> </ul> </li> </ul>	None
b) That, so far as is consistent with sub-paragraph (a), the charging methodology properly takes account of developments in the transportation business;	Positive
c) That, so far as is consistent with sub-paragraphs (a) and (b), compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers; and	None
d) That the charging methodology reflects any alternative arrangements put in place in accordance with a determination made by the Secretary of State under paragraph 2A(a) of Standard Special Condition A27 (Disposal of Assets).	None
e) 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

### **a) Save in so far as paragraphs (aa) or (d) apply, that compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its transportation business;**

The implementation of this Modification would align the NTS Charging Methodology and the inputs to the setting of both entry and exit charges, with the NTS TO Activity as defined in the Licence revised as part of the RIIO-T1 price control settlement. The NTS TO activity is defined as;

*“the activities of the Licensee connected with the development, administration and maintenance of the NTS and with the Supply of NTS Services”*

where “Supply of NTS Services” is defined as:

*“means the undertaking and performance for gain and reward of engagements:*

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- (a) *in connection with the conveyance of gas through the NTS other than engagements in connection with activities within the definition of the NTS SO activity; and*
- (b) *for the prevention of the escape of gas, which has been taken off the NTS, other than to the Distribution Network or any pipe-line system operated by a person holding a gas transporter's licence or who is exempted from holding such a licence which but for such pipeline not being operated by the Licensee, would fall within the definition of the Distribution Network; and*
- (c) *for the provision of Funded Incremental Obligated Entry Capacity and Funded Incremental Obligated Exit Capacity”*

The modelling of the capacity terms, consistent with the RIIO-T1 Licence, that make up Non-incremental Obligated Entry/Exit Capacity and Funded Incremental Obligated Entry/Exit Capacity (and associated revenue allowances) would result in charges that reflect the costs incurred by the Licensee in its transportation business.

**b) That, so far as is consistent with sub-paragraph (a), the charging methodology properly takes account of developments in the transportation business;**

This modification seeks to update UNC TPD Section Y so that it properly reflects entry & exit capacity, and associated revenue arrangements under RIIO-T1 from 1st April 2013.

The modification does not conflict with paragraphs 2, 2A and 3 of Standard Special Condition A4 of the Transporter's Licence as the modification is consistent with setting NTS Exit (Flat) Capacity charges from 1<sup>st</sup> October 2012 and from the 1 October in each subsequent year. The modification does not conflict with paragraphs 8, 9, 10 and 11 of Standard Condition 4B of the Transporter's Licence.

## 5 Implementation

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

## 6 Legal Text

Due to the number of updates contained in this modification, legal text has been provided in a marked-up draft of UNC TPD Section Y and published separately alongside this document.

## 7 Recommendation

The Proposer invites the Panel to:

- Determine that this modification should be subject to self-governance;
- Determine that this modification should progress to Workgroup assessment.

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