

## Stage 04: Final Modification Report

# 0485:

## Introduction of Long-term use-it-or-lose-it mechanism to facilitate compliance with the EU Congestion Management Procedures

This proposal seeks to facilitate compliance with Annex I to Regulation (EC) No 715/2009 of the European Parliament and of the Council on conditions for access to the natural gas transmission networks with regards the use of a long-term use-it-or-lose-it mechanism as part of Congestion Management Procedures.



The Panel recommends implementation



High Impact: Shippers, National Grid NTS



Medium Impact: -



Low Impact: -

At what stage is this document in the process?



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## About this document:

This Final Modification Report will be presented to the Panel on 17 July 2014.

The Authority will consider the Panel's recommendation and decide whether or not this change should be made.



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# 1 Summary

## Is this a Self-Governance Modification?

The Modification Panel determined that this is not a self-governance modification because it may have a material impact on a User's entitlements at interconnection points.

## Why Change?

On 24 August 2012 the European Commission adopted rules to reduce congestion in European gas transmission pipelines; this has been identified as an obstacle to a well functioning, open and integrated gas market across the European Union. The rules amend the existing Annex I to the Gas Regulation (EC) no. 715/2009 and require a number of Congestion Management Procedures to be implemented. This includes the requirement to have a long-term use-it-or-lose-it (LTUIOLI) mechanism to be available from 1 October 2014.

## Solution

National Grid NTS will monitor Users' utilisation of their Available System Capacity at Interconnection Points (IP(s)).

After each 6 month period, consisting of 1 April to 30 September and the 1 October to 31 March, National Grid NTS will then, in accordance with the principles set out in the CMP LTUIOLI Guidance Document, identify whether or not a User(s) at an IP has underutilised its Available System Capacity and provide notification to that User of its utilisation.

Where National Grid NTS provides a notification to a User in any two consecutive 6 month periods it shall alert the User that they are at risk of withdrawal and that the Authority shall require justification of utilisation (any such justification process shall be outside the UNC). The Authority shall require National Grid NTS to partially or fully withdraw a User's Available System Capacity where a User fails to justify their utilisation.

Where Available System Capacity is to be withdrawn from a User this will be done via the CMP Surrender processes as introduced by UNC Modification 0449.

As the CMP regulation is closely linked to the proposed Capacity Allocation Mechanism (CAM) Regulation this LTUIOLI solution will need to be reviewed in anticipation of the implementation of CAM due to be effective from 1 November 2015.

## Relevant Objectives

Implementation of this modification would better facilitate the following relevant objective:

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.

## Implementation

No implementation timescales are proposed. The EU has specified that its measure to address congestion through the use of a long-term use-it-or-lose it process should be implemented by 1 October 2014.

Introduction of new processes will be necessary to facilitate implementation of this modification and will be based on the use of existing system functionality, with no material impact on costs anticipated.

## 2 Why Change?

On 24 August 2012 the European Commission adopted rules to reduce congestion in European gas transmission pipelines; this has been identified as an obstacle to a well functioning, open and integrated gas market across the European Union. The rules amend the existing Annex I to the Gas Regulation (EC) no. 715/2009 and require a number of the Congestion Management Procedures to be implemented. This includes the requirement to have a long-term use-it-or-lose-it (LTUIOLI) mechanism available from 1 October 2014.

LTUIOLI is a requirement of the Congestion Management Procedures and as such is to be applied only at Interconnection Points. Please note that the LTUIOLI mechanism introduced by this modification will need to be reviewed as part of the implementation of the Capacity Allocation Mechanism (CAM) Regulation.

## 3 Solution

It is proposed that a number of new processes and defined terms be introduced into the UNC:

### New Defined Terms

- **“CMP LTUIOLI Guidance Document”** is the document of such name prepared by National Grid NTS[ and published on its website from time to time];
- **“directed withdrawal amount”** is in relation to a withdrawal offer, the amount of the relevant User’s Available NTS Entry Capacity or NTS Exit (Flat) Capacity (as the case may be) that National Grid NTS has been directed to withdraw by the Authority;
- **“underutilisation notification”** is a notification issued by National Grid NTS to a User in accordance with the CMP LTUIOLI Guidance Document, where such User has underutilised its Available System Capacity held at an Interconnection Point;
- **“utilisation monitoring period”** is the consecutive period of six (6) months commencing on 1 April up to and including 30 September and 1 October up to and including 31 March;
- **“withdrawal offer”** is an offer to surrender Available System Capacity that is submitted by National Grid NTS on behalf of a User following direction by the Authority;  
**“withdrawal user”** is a User whose Available System Capacity is (or will be) the subject of a withdrawal offer;

### Monitoring of Utilisation

National Grid NTS will monitor Users utilisation of their Available System Capacity at Interconnection Points (IP(s)).

After each 6 month monitoring period, consisting of 1 April to 30 September and the 1 October to 31 March, National Grid NTS will then, in accordance with the principles set out in the CMP LTUIOLI Guidance Document, identify whether or not a User(s) at an IP has underutilised its Available System Capacity and provide notification to that User of its utilisation.

National Grid NTS will provide an Underutilisation Notification to each relevant User within twenty (20) Business Days of the close of each 6 month monitoring period informing them of their level of utilisation.

Where National Grid NTS provides 2 consecutive Underutilisation Notifications to a User in respect of two consecutive 6 month monitoring periods (at the same IP) it shall include an alert to the User that they are at risk of withdrawal and that the Authority shall require information from the User (in a time specified by the Authority to the User) as to the reason(s) for the identified underutilisation as well as any anticipated change to the User’s future utilisation of the relevant System Capacity held at the Interconnection Point and the reason(s) for this. This justification process is strictly a matter between the User and the Authority and as such, the process sits outside the UNC.

The Authority shall require National Grid NTS to partially or fully withdraw a User’s Available System Capacity where a User fails to justify their utilisation.

National Grid NTS will provide all the data required by the Authority to monitor the underutilisation of Available System Capacity via a capacity underutilisation report, this

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report will be provided to the Authority within twenty (20) Business Days of the closure of each 6 month monitoring period.

This will be used by the Authority (in conjunction with information received from Users to provide justification for their level of utilisation) to facilitate their determination whether or not Available System Capacity will be withdrawn from a User and if so the quantity and duration.

For the avoidance of doubt where an IP is an ASEP, the Available System Capacity monitored and if required withdrawn will be NTS Entry Capacity and where the IP is an NTS Exit Point it will be NTS Exit (Flat) Capacity.

### **Withdrawal Process**

Where Available System Capacity is to be withdrawn from a User this will be done via an existing CMP Surrender process, as introduced by UNC Modification 0449 and contained within UNC TPD B Annex B-3. For the purposes of reporting any Available System Capacity withdrawn will form part of the surrender information published in accordance with UNC TPD B Annex B3.

Upon instruction by the Authority, National Grid NTS will undertake a withdrawal process which may result in a User(s) having a quantity of its Available System Capacity withdrawn for a period of time, this will feed into the first available relevant Annual Release Process after National Grid NTS has received the direction from the Authority. The relevant Annual Release Processes shall be, for NTS Entry Capacity the Annual Monthly System Entry Capacity auction and, for NTS Exit Capacity, the Annual NTS Exit Capacity Application process.

Please note that Available System Capacity may only be withdrawn where:

- For an IP that is an ASEP the Unsold NTS Entry Capacity (this includes any NTS Entry Capacity surrendered in accordance with UNC TPD Annex B-3) made available in the relevant Annual Release Process, for which the Withdrawal Offer, will be applied is exceeded by the aggregate Capacity Bids received in the relevant Annual Release Process.
- For an IP that is an NTS Exit Point the Remaining Available NTS Exit (Flat) Capacity (this includes any NTS Exit Capacity surrendered in accordance with UNC TPD Annex B-3) for the period in the relevant Annual Release Process, for which the Withdrawal Offer will be applied is exceeded by the aggregate applications received in the relevant Annual Release Process.

Any withdrawal and subsequent allocation of Available System Capacity to a User(s) at an IP that is an ASEP will be as additional Annual Monthly System Entry Capacity and will feed into the entry capacity neutrality arrangements as a Relevant Capacity Revenue.

Any withdrawal of Available System Capacity at an IP that is an NTS Exit Point will, if allocated, be as additional Annual NTS Exit (Flat) Capacity.

### NTS Entry Capacity Withdrawal Process utilising the AMSEC Auction

- This withdrawal process shall use the existing CMP Surrender process for the AMSEC auction as introduced by UNC Modification 0449 and contained within UNC TPD B Annex B-3, with the following modifications:
  - National Grid NTS will no less than five Business Days after receiving direction from the Authority of any requirement to withdraw capacity and prior to a notification of the Surrender Invitation for Monthly System Entry Capacity in a capacity Year, will notify Withdrawal Users, on an individual basis, of any withdrawal quantity and duration as directed by the Authority pertaining to that User's Available System Capacity at an IP.
  - National Grid shall also inform all Users on an aggregate basis the withdrawal quantity(ies) and their duration(s) within the same time period as any individual notifications.
  - National Grid NTS will submit a Withdrawal Offer on behalf of a Withdrawal User at the end of the end of the Surrender Window. All Withdrawal Offers at the same IP feeding into the same relevant Annual Release Process will have the same timestamp which will be

after the last time stamp of any Surrender Offer submitted by any User for the relevant calendar month(s) at the relevant IP i.e. no Withdrawal Offer will be accepted ahead of a Surrender Offer.

- After the Surrender Window closes Users will be informed by the first AMSEC invitation letter issued after the Surrender Window of the Available System Capacity that has been offered for surrender and the month(s) in which it has been offered **including the aggregate Withdrawal Capacity as directed by the Authority**.
- The Forward Agreement(s) used to adjust a Withdrawal Users Available System Capacity which reflects the Users quantity of withdrawn Available System Capacity that was allocated as Discretionary NTS Entry Capacity will have a Capacity Management Charge, the amount payable to the User for the surrendered Available System Capacity which in this instance will be the Weighted Average Price (WAP) in respect of all Capacity Bids allocated with surrendered Available System Capacity for the relevant month in the AMSEC Surrender and Oversubscription Auction
  - A separate WAP may be applicable for each relevant month.
- Discretionary NTS Entry Capacity that is allocated shall be included in the allocated User's aggregate Available NTS Entry Capacity (determined as fully adjusted) to determine the User's Overrun Quantity and be considered when calculating the System Entry Overrun Charge.
- A Withdrawal Users Available System Capacity that is withdrawn and allocated as Discretionary NTS Entry Capacity shall be deducted from their aggregate Available NTS Entry Capacity (determined as fully adjusted) for the period for which it has been withdrawn, to determine the User's Overrun Quantity and be considered when calculating the System Entry Overrun Charge.
- The Forward Agreement will be treated as a Relevant Capacity Cost and feed into the Capacity Neutrality Arrangements in accordance with UNC TPD B2.13.2. For the avoidance of doubt the Relevant Capacity Costs feed into the National Grid NTS constraint management incentive.
- Amounts payable from the Forward Agreement will be treated as NTS Entry Capacity Surrender Charges and be invoiced and payable in accordance with UNC TPD Section S.
- The Withdrawal User will continue to be invoiced for their Registered NTS Entry Capacity (which is unaffected by the withdrawal of Available System Capacity).

#### NTS Exit (Flat) Capacity Surrender Process utilising the Annual NTS Exit (Flat) Capacity Application

- This withdrawal process shall use the existing CMP Surrender process for the Annual NTS Exit (Flat) Capacity application process as introduced by UNC Modification 0449 and contained within UNC TPD B Annex B-3, with the following modifications:
  - National Grid NTS will no less than five Business Days after receiving direction from the Authority of any requirement to withdraw capacity and prior to a notification of the Surrender Invitation for the Annual NTS Exit (Flat) Capacity annual application window, will notify Withdrawal Users, on an individual basis, of any Withdrawal Offers as directed by the Authority pertaining to that Withdrawal User's Available System Capacity at an IP.
  - National Grid NTS will submit a Withdrawal Offer(s) on behalf of a Withdrawal User at the end of the Surrender Window. All Withdrawal Offers will have the same timestamp which will be after the last time stamp of any Surrender Offer submitted by any User at the relevant IP i.e. no Withdrawal Offer will be accepted ahead of a valid Surrender Offer.
  - After the Surrender Window closes Users will be informed of the aggregate quantities of Available System Capacity that have been offered for surrender **including the aggregate Withdrawal Capacity**

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**as directed by the Authority** via the notification to participate in the July Application Window.

- The Forward Agreement(s) used to adjust a Withdrawal Users Available System Capacity which reflects the Users quantity of withdrawn Available System Capacity that was allocated as additional Annual NTS Exit (Flat) Capacity will have a Capacity Management Charge based on the prevailing charge for the period for which the Available System Capacity was surrendered
  
- Additional NTS Exit Capacity that is allocated shall be included in the allocated User's aggregate Available NTS Exit Capacity (determined as fully adjusted) to determine the User's Overrun Quantity and be considered when calculating the System Exit Overrun Charge.
- A Withdrawal Users Available System Capacity that is withdrawn and allocated as NTS Exit Capacity shall be deducted from their aggregate Available NTS Exit Capacity (determined as fully adjusted) for the period for which it has been withdrawn, to determine the User's Overrun Quantity and be considered when calculating the System Exit Overrun Charge.
- Amounts payable from the Forward Agreement will be invoiced and payable in accordance with UNC TPD Section S.
- The Withdrawal User will continue to be invoiced for their Registered NTS Exit (Flat) Capacity (which is unaffected by the withdrawal of Available System Capacity).

User Pays
Classification of the modification as User Pays, or not, and the justification for such classification.
This modification is not to be User Pays as existing system functionality will be utilised.
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 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.	None
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.	None
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.	Positive

Implementation of this modification would better facilitate the following relevant objective:

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."

## 5 Implementation

No implementation timescales are proposed. The EU has specified that its measure to address congestion through the use of a long-term use-it-or-lose it procedure should be implemented such by 1 October 2014.

## 6 Legal Text

### Text

The Text published alongside this report has been prepared by National Grid NTS, and no issues were raised by the Workgroup regarding its content.

This Text was confirmed as final Text at the UNC Modification Panel meeting 19 June 2014.

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## 7 Consultation Responses

Of the two representations received implementation was unanimously supported.

Representations are published alongside the Final Modification Report.

Representations were received from the following parties:

Organisation	Response	Relevant Objectives	Key Points
British Gas Trading	Support	g - positive	<ul style="list-style-type: none"> <li>The modification provides, essentially, a transitional set of arrangements until more enduring rules are put in place for bundled capacity at interconnection points, being captured through the development of modification 0500.</li> <li>Have a preference for the provision of monthly capacity utilisation reports rather than receiving these only every 6 months. Whilst recognising that National Grid have said that shippers can readily create their own monthly reports, British Gas Trading believe it would be better and more customer focused to have these created and provided directly by National Grid.</li> <li>Ofgem will play a significant role in deciding if capacity is to be withdrawn from a shipper and, if it is, what the quantity and duration will be. British Gas have asked at the workgroup if Ofgem would consider publishing a guidance note relating to capacity withdrawal decisions to provide the industry with some measure of transparency and help to manage shippers' expectations. Whilst decisions by Ofgem will be made on a case-by-case basis, British Gas believes some general principles might prove useful.</li> </ul>

National Grid NTS	Support	g - positive	<ul style="list-style-type: none"> <li>The European Commission adopted rules to reduce congestion in European gas transmission pipelines; this has been identified as an obstacle to a well functioning, open and integrated gas market across the European Union. The rules amend the existing Annex I to the Gas Regulation (EC) no.715/2009 and require a number of Congestion Management Procedures to be implemented. This includes the requirement to have a long-term use-it-or-lose-it (LTUIOLI) mechanism to be available from 1 October 2014. As proposer, National Grid NTS believes that implementation of this Modification will facilitate compliance with the Regulation.</li> <li>Note that an implementation date of 1 October 2014 is required to be compliant with the Regulation. To implement the Modification for the 1 October 2014 will require a minimum lead time of 1 business day. Dependent upon when a decision to implement is made i.e. after the 1 October 2014, a minimum lead time of 1 business day may also be sufficient, however a 2 month lead time will be required to apply the CMP withdrawal processes to the existing AMSEC auction and NTS Exit (Flat) Capacity Application processes to ensure that appropriate industry notifications can be issued. The first potential application of the new process will be for the February 2015 AMSEC auction.</li> </ul>
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## 8 Panel Discussions

The Panel Chair summarised that Modification 0485 would seek to facilitate compliance with Annex I to Regulation (EC) No 715/2009 of the European Parliament and of the Council on conditions for access to the natural gas transmission networks with regards the use of a long-term use-it-or-lose-it mechanism as part of Congestion Management Procedures.

Members considered the representations made noting that, in the two representations received, implementation was unanimously supported.

Members agreed that implementation would be expected to further relevant objective (g).

Members voted unanimously to recommend implementation of Modification 0485.

## 9 Recommendation

### Panel Recommendation

Having considered the Modification Report, the Panel recommends:

- that proposed Modification 0485 should be made.

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