

## Stage 01: Modification

# 0510V:

## Reform of Gas Allocation Regime at GB Interconnection Points

At what stage is this document in the process?

- 01 Modification
- 02 Workgroup Report
- 03 Draft Modification Report
- 04 Final Modification Report

*This Modification Proposal seeks to facilitate compliance with European legislative changes via implementation of new rules regarding gas allocations at GB Interconnection Points.*



The Proposer recommends that this modification should be assessed by a Workgroup



High Impact: Shippers, National Grid NTS



Medium Impact: -











Low Impact: -

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## About this document:

This Modification Proposal was presented by the Proposer to the Panel on 16 July 2015.

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# 1 Summary

## Is this a Self-Governance Modification?

Self-Governance procedures are not envisaged because this Modification Proposal is likely to have a material effect on commercial activities connected with the shipping of gas by creating a new gas allocation regime at GB Interconnection Points (IPs).

## Is this a Fast Track Self-Governance Modification?

Fast Track Self-Governance procedures are not envisaged because the proposer does not believe that the Modification Proposal meets the self-governance criteria for the reasons stated above.

## Why Change?

This Modification Proposal is one of several Proposals which seek to implement relevant provisions of a number of new EU Network Codes. These Codes are being introduced in order to enable progress towards a competitive and efficient EU internal market in gas.

The EU Interoperability & Data Exchange Code ('the INT Code') requires Adjacent TSOs to agree several mandatory interconnection agreement terms, one of which is 'rules for the allocation of gas quantities'. The default (obligatory) allocation rule is that allocations equal confirmed nominated quantities (defined in EID as Nominated Quantities - allocate as nominate - should the Adjacent TSOs fail to agree an allocation rule. Allocate as nominate is also obligatory should a request be made for this rule by an Interconnection Point TSO to its Adjacent TSO. National Grid NTS has discussed the proposal with its Adjacent TSOs who each consider such a reform to be appropriate.

Allocate as nominate means that National Grid NTS would allocate gas quantities to each User at the IPs equal to its Nominated Quantities which will be the value determined by the Adjacent TSOs in response to the User's Input Nominations and/or Output Nominations<sup>1</sup>. National Grid NTS requires this allocation rule, for which there is currently no provision in the UNC. Therefore, the UNC needs to be amended to facilitate this type of allocation regime at GB IPs.

## Solution

National Grid NTS wishes to amend the UNC, and make changes to its systems, in order to facilitate this new allocation method at IPs, which will incorporate the following process steps:

- National Grid NTS communicates Confirmed Nomination Quantities to each IP User<sup>2</sup>
- National Grid NTS allocates gas to IP Users equal to their Nominated Quantities
- National Grid NTS and the Adjacent TSO allocate the difference between Measured Quantities and Net Aggregate Nominated Quantities to an Operational Balancing Account (OBA)<sup>3</sup>.
- In line with Article 9(3) of the INT Code, National Grid NTS may allocate Users in proportion to Measured Quantities if the Steering Tolerance in the OBA has been breached and where National Grid NTS and its Adjacent TSO agree it is necessary to do so in circumstances to be described in the relevant interconnection agreements. Given that different Adjacent TSOs may have differing methodologies for proportional allocation, it is not possible to have a uniform rule in the UNC. It is therefore proposed that (if the IA stipulates this) National Grid NTS allocates gas to Users in accordance with the Adjacent TSO's calculation, with a default rule in the UNC in the absence of an Adjacent TSO calculation.

<sup>1</sup> See UNC TPD C1.1.2(e)

<sup>2</sup> Following a nomination matching process carried out by National Grid NTS and the adjacent transporter

<sup>3</sup> Defined in the INT Code as 'an account between adjacent transmission system operators, to be used to manage steering differences at an interconnection point in order to simplify gas accounting for network users involved at the interconnection point'

It is also proposed that Scheduling Charges should not be levied in respect of the IPs but, for the avoidance of doubt, would continue to apply in respect of other relevant System Points.

## Relevant Objectives

Implementation of this Modification Proposal would better facilitate achievement of 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 specific implementation date is proposed. However, National Grid NTS is currently planning to implement the revised allocation arrangements in respect of IPs by 1<sup>st</sup> October 2015, in view of the interdependencies between the European Balancing, CAM and INT Codes and the need for National Grid NTS to make system changes in a timely fashion.

## 2 Why Change?

Regulation (EC) No 715/2009 of the European Parliament and the Council of the European Union came into force in September 2009 and introduced a European Network of Transmission System Operators for Gas (ENTSOG). One of ENTSOG's tasks was to prepare legally binding network codes in the form of European secondary legislation to the Gas Regulation (No 715/2009). The aim of the codes is to enable progress towards a competitive and efficient internal European market in gas by the creation of liquid markets, the efficient use of cross-border transmission capacity, and the integration between Member States' gas markets. The EU gas network codes to be established under the regulation include the Interoperability and Data Exchange Code (the INT Code'), which includes rules for the allocation of gas quantities. This Code has completed its comitology procedure and is expected to complete its transition into EU law by 1<sup>st</sup> May 2016.

In the current GB regime, Users are required (via UNC) to determine their allocations and then to notify National Grid NTS, whereby the net aggregate allocated quantity must be equal to the end of day physical measurement. Current arrangements in respect of IPs are that User Agents submit allocations to National Grid NTS on behalf of NTS Users for both entry and exit which, in aggregate, equal the measured gas flow<sup>4</sup>.

Within the INT Code, the default allocation rule is for the Adjacent TSOs to allocate gas to Users equal to their Nominated Quantities (commonly referred to as 'allocate as nominate') with the Steering Difference allocated to an Operational Balancing Account (OBA) between them. This means that such arrangements become obligatory if TSOs either side of an IP fail to agree an allocation rule or if one of them requests such a rule. National Grid NTS' Adjacent TSOs each consider such a reform to be appropriate, therefore both UNC and the Interconnection Agreements need to be amended to facilitate these new allocation arrangements at IPs.

### EU Code Provisions Addressed by this Proposal

This Proposal seeks to align the UNC with the relevant aspects of the following articles of the INT Code:

| Article (paragraph) | Description                                 |
|---------------------|---|
| 2(a)                | Definitions – exceptional event             |
| 2(f)                | Definitions – measured quantity             |
| 2(g)                | Definitions – operational balancing account |
| 2(i)                | Definitions – steering difference           |
| 9                   | Rules for the allocation of gas quantities  |

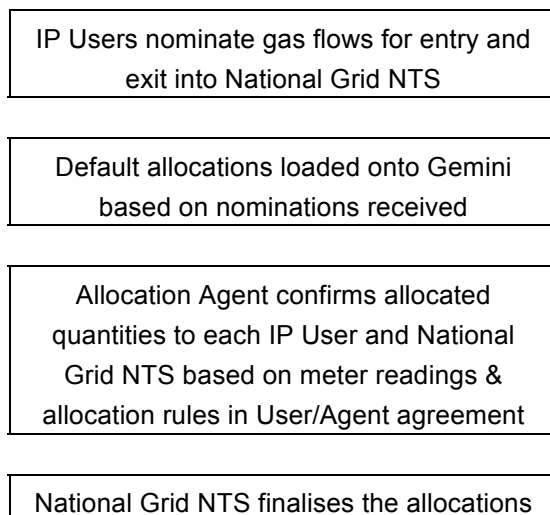
<sup>4</sup> Arrangements for the discontinuance of the User Agent role in respect of Interconnection Points are proposed to be made separately and do not require change to the UNC

### 3 Solution

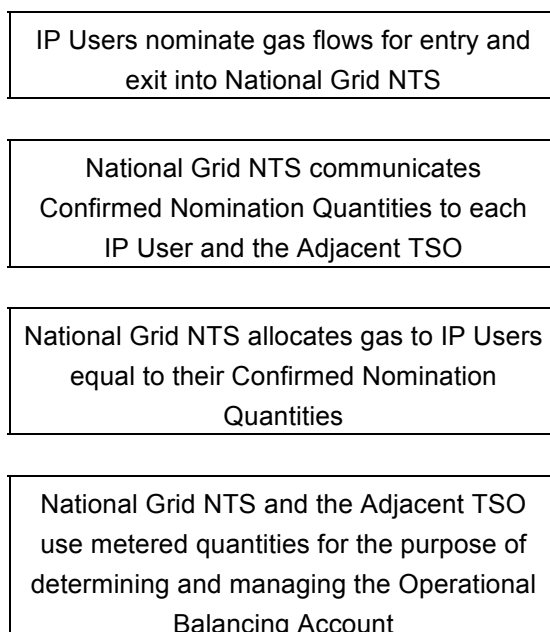
“Section E of the Transportation Principal Document includes the current arrangements for gas allocations for all NTS System Entry Points and NTS Connected System Exit Points (each IP comprising both). It is proposed that the UNC is amended to include arrangements between Users and National Grid NTS to facilitate an allocate as nominate regime at the IPs. For the reasons explained above, the proposed allocation regime at IPs, as required by the INT Code, will differ from arrangements in respect of other NTS System Entry Points and NTS Connected System Exit Points. National Grid NTS and its Adjacent TSOs will separately need to incorporate allocation rules into the Interconnection Agreements which will be subject to consultation with Users in due course.

The differences between the current and proposed allocations processes at IPs are shown in the following graphic:

#### Current Process



#### Allocate as nominate process



Under allocate as nominate, both National Grid NTS and the Adjacent TSOs will utilise Nominated Quantities from the nominations Matching Process across the IPs to determine Users' UDQIs or, as the case may be, UDQOs and the corresponding Counterparty IS Users allocations. The Steering Difference (the difference between the Measured Quantity and Net Aggregated Nominated Quantities) is proposed to be accounted for within an Operational Balancing Account (OBA). However, in circumstances where the Cumulative Steering Difference (being the net result of all Steering Differences since the inception of the OBA arrangement) cannot be accommodated either by National Grid NTS or an Adjacent TSO, as a default approach, National Grid NTS would allocate gas to Users (and the Adjacent TSO would allocate gas to Counterparty IS Users) by dividing up the Measured Quantity in proportion to the Nominations (or as the case may be, Renominations) submitted in respect of that IP for that Day in the forward Direction and by allocating gas to Users in the reverse Direction equal to such Users' Nominated Quantities. The Steering Difference for that Day would be zero (by virtue of it having been allocated to Users in the forward Direction rather than to the OBA). Thus, the value of the Cumulative Steering Difference applicable at the end of the Preceding Day would also be applicable at the end of any Day on which such proportional allocation occurs (to be defined as a 'Non-OBA Day'). In line with Article 9(3) of the INT Code, National Grid NTS and each Adjacent TSO may only allocate gas in this way if the Steering Tolerance applicable in respect of an OBA has been breached and where National Grid NTS and its Adjacent TSO agree it is necessary to do so pursuant to provisions in the relevant Interconnection Agreements<sup>5</sup>.

However, it is also proposed that UNC recognises that additional complexities could arise in respect of the TSOs determining allocations on a Non-OBA Day. This may be caused in particular by the hourly allocation regimes that apply upstream of the Bacton IPs and by the multi-TSO arrangements that apply downstream of Moffat. In relation to Article 9(1) of the INT Code, it is therefore recognised that the default proportional allocation method described above might result in allocations for Users that would be inconsistent with the allocations calculated by an Adjacent TSO for Counterparty IS Users. Therefore the IA may provide that the Adjacent TSO's determination should be applied in respect of allocations for Users, on the proviso that the net sum of such allocations is equal to the Measured Quantity, adjusted for any correction to the Cumulative Steering Difference that the TSOs may have scheduled for that Day. (If the Cumulative Steering Difference is outside the Steering Tolerance at the end of a Day, the TSOs will aim to over-steer or, as the case may be, under-steer compared to net shipper nominations to bring it back inside the tolerance - a "Scheduled Correction"). National Grid NTS considers that any such correction should not be allocated to Users if that Day turns out to be a Non-OBA Day because that would be a quantity scheduled purely between the TSOs. The default allocation method described in the previous paragraph would only apply in the absence of such an Adjacent TSO determination.

National Grid NTS is aware that if an Adjacent TSO operates an hourly nomination and allocation regime, it may only be able to apply proportional allocation prospectively within a Day, rather than retrospectively after the Day. This is the case for BBL which is prevented under its transportation arrangements from adjusting allocations made equal to nominations in respect of hours that had already passed; only the remaining hours in the Day could be allocated based on the hourly measurement.

Where an Interconnection Agreement provides for this scenario, it is proposed that the decision to adopt proportional allocation for a Day would be taken by the TSOs and notified to Users within the Day on which the proportional allocation is to apply based on a forecast that the Cumulative Steering Difference would breach the Steering Tolerance at the end of that Day. The Adjacent TSO would then allocate some hours of the Day before the constraint occurred 'as nominated' to its shippers (for which an hourly steering difference would be allocated to the OBA) and other hours 'as measured' (hours for which the Adjacent TSO's shippers that had nominated gas flow after the decision to switch to proportional

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<sup>5</sup> These provisions will be available for Users to comment on in due course before the TSOs execute such revisions to the IAs

allocation would receive a share of the Measured Quantity for those hours, determined in accordance with the Adjacent TSO's transportation arrangements).

For the purposes of UNC, whilst the whole of that Day would be classified as a Non-OBA Day, National Grid NTS shippers would only be subject to the proportional allocation if they were paired with shippers on the Adjacent TSO system that were nominating during the hours for which proportional allocation applied. In other words, if a National Grid NTS shipper was paired with an Adjacent TSO shipper that had nominated and been allocated all of its gas in the hours before the constraint occurred and before the decision to switch to proportional allocation was taken, the National Grid NTS shipper would receive an a (daily) allocation equal to its Confirmed Quantity.

In order to 'follow' the Adjacent TSO's allocations on such a Day, National Grid NTS would require that the aggregate quantity for that Day that the Adjacent TSO proposes to allocate to its shippers, plus or minus any Scheduled Correction, is equal to the Measured Quantity for that Day adjusted by the aggregate steering difference for those hours on which the Adjacent TSO allocated its shippers equal to their Confirmed Quantities (the Part-Day Steering Difference). In addition, the Steering Difference for that Day would be equal to the Part-Day Steering Difference.

The 0510 Workgroup requested a worked example to help explain how the Part-Day Steering Difference would be calculated and factored into National Grid NTS determination of quantities to be allocated to its shippers on a Non-OBA Day, which appears below. The numbers are purely illustrative.

- Scenario: a constraint occurs at 23:00 in the Day that affects the BBL IP, at which point the TSOs decide to implement proportional allocation for the rest of that Day. Assume that there is no Scheduled Correction for the Day.
  - Aggregate net shipper nominations for the Day = 120 units BBL exit, NTS entry. BBL shippers nominate this quantity to BBL at a flat rate of 5 units per hour.
  - The physical flow for each hour for the first 18 hours of the Day = 4.9 units, hence a steering difference of 0.1 is allocated to the OBA each hour.
  - A constraint occurs at 23:00 and the TSOs decide to implement proportional allocation for the rest of the Day.
  - For the last 6 hours of the Day, due to the constraint there is a physical flow of zero for the remaining 6 hours of the Day. Assume that shippers do not renominate.
  - After the day, National Grid NTS will allocate to its shippers in accordance with the BBL shipper allocations if the following condition is satisfied:
    - The total quantity that BBL propose to allocate to its shippers, adjusted by any Scheduled Correction, is equal to the Measured Quantity for that Day, adjusted by the Part-Day Steering Difference. (ref legal text EID D 3.2.1c).
  - Total quantity to be allocated to BBL shippers = sum of:
    - 5 units x 18 hours = 90 units (for the allocate as nominate hours)
    - 0 units x 6 hours = 0 units (for the allocate as measured hours)
    - The scheduled correction = 0 units
    - = 90 units
  - National Grid NTS will then require the Measured Quantity for that Day plus the Part-Day Steering Difference to equal 90 units:
    - Measured Quantity = 4.9 units x 18 hours = 88.2 units



- Part-Day Steering Difference = 0.1 x 18 hours = 1.8 units
- = 90 units.

For other IPs, for information, a diagrammatic representation of circumstances in which National Grid NTS may seek to revert to proportional allocation is shown at Appendix B. For the purpose of determining whether or not the Cumulative Steering Difference has breached a Steering Tolerance in respect of an IP, National Grid NTS and an Adjacent TSO shall use the Measured Quantity in respect of a Day as first determined and shall not rescind such determination or its consequences for allocation arrangements in the event of any subsequent changes to the Measured Quantity for that Day that may be agreed between the TSOs. However, in the event that the TSOs determine a revised Measured Quantity within the Exit Close-out period then such correction shall be taken into account in the calculation of the Cumulative Steering Difference.

Scheduling Charges will not be applicable in respect of IPs on any Day, whether Users are allocated as nominated (by definition there would be no such charge) or allocated proportionally (because it is not expected that a User would be able to manage such an exposure).”

| User Pays  |
|--|
| Classification of the modification as User Pays, or not, and the justification for such classification.  |
| No User Pays service would be created or amended by implementation of this Proposal and it is not, therefore, classified as 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  |

This Modification Proposal is part of a wider suite of UNC changes that are being proposed to achieve compliance with the European Network Codes. National Grid NTS has been allocated some funding through the RIIO-T1 price control process for EU market facilitation. National Grid expects to be able to utilise this funding to meet the costs of this EU-related change and, where this proves insufficient, it anticipates using the mid-point review as the mechanism to address any funding gaps. Therefore no User Pays charges will be raised in relation to this Modification Proposal.

## 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<br>(i) the combined pipe-line system, and/ or<br>(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:<br>(i) between relevant shippers;<br>(ii) between relevant suppliers; and/or<br>(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          |

- 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

This Proposal will facilitate compliance with European legislative requirements by implementing relevant requirements to align with the new gas allocations rules at IPs that are effectively mandated by the INT Code.

## 5 Implementation

No specific implementation date is proposed. However, National Grid NTS is currently planning to implement the revised allocation arrangements by 1st October 2015. This is in view of the interdependencies between the Balancing, CAM and INT Codes and the need for National Grid NTS to make system changes in a timely fashion.

## 6 Legal Text

Legal text and a commentary have been provided with this updated version of the Modification Proposal.

## 7 Recommendation

The Proposer invites the Panel to:

- Determine that this Modification Proposal should not be subject to self-governance or fast track self governance; and
- Determine that this Modification Proposal should progress to consultation.

## 8 Appendix A: Extracts from the Interoperability and Data Exchange Network Code

### CHAPTER II Interconnection Agreements

#### *Article 3 General provisions*

Adjacent transmission system operators shall ensure that at least the following terms and conditions detailed in Articles 6 to 12 are covered by an interconnection agreement in respect of each interconnection point:

- (a) rules for flow control;
- (b) measurement principles for gas quantities and quality;
- (c) rules for the matching process;
- (d) rules for the allocation of gas quantities;
- (e) communication procedures in case of exceptional events;
- (f) settlement of disputes arising from interconnection agreements;
- (g) amendment process for the interconnection agreement.

#### *Article 4 Information obligation*

1. The transmission system operators shall identify the information contained in interconnection agreements that directly affects network users and shall inform them thereof.
2. Before concluding or amending an interconnection agreement which contains the rules referred to in Article 3(c), (d) and (e), transmission system operators shall invite network users to comment on the proposed text of those rules at least two months before the agreement is concluded or amended. The transmission system operators shall take the network users' comments into account when concluding or amending their interconnection agreement.
3. The mandatory terms of interconnection agreements listed in Article 3 or any amendments thereof concluded after the entry into force of this Regulation shall be communicated by the transmission system operators to their national regulatory authority and to ENTSOG within 10 days after conclusion or amendment of the agreement. Transmission system operators shall also communicate interconnection agreements upon request of competent national authorities of the Member State within 10 days.

#### *Article 9 Rules for the allocation of gas quantities*

1. In respect of the allocation of gas quantities, the adjacent transmission system operators shall establish rules ensuring consistency between the allocated quantities at both sides of the interconnection point.
2. Unless otherwise agreed in the interconnection agreement, the transmission system operators shall use an operational balancing account. The transmission system operator in control of the measurement equipment shall recalculate the operational balancing account with validated quantities and communicate it to the adjacent transmission system operator(s).
3. Where an operational balancing account applies:
  - a) the steering difference shall be allocated to an operational balancing account of the adjacent transmission system operators and the

allocations to be provided by each adjacent transmission system operator to their respective network users shall be equal to the confirmed quantities;

- b) the adjacent transmission system operators shall maintain an operational balancing account balance that is as close to zero as possible;
- c) the operational balancing account limits shall take into account specific characteristics of each interconnection point and/or the interconnected transmission networks, in particular:
  - d) i physical characteristics of the interconnection point;
  - e) ii linepack capability of each transmission network;
  - f) iii the total technical capacities at the interconnection point;
  - g) iv gas flow dynamics at the interconnected transmission networks.

Where the defined limits of the operational balancing account are reached, the adjacent transmission system operators may agree to extend those limits in order to provide allocations to network users that are equal to their confirmed quantities or otherwise allocate quantities to network users proportionally based on the measured quantity.

- 4. The adjacent transmission system operators may agree to maintain or implement an allocation rule other than the operational balancing account, provided that this rule is published and network users are invited to comment on the proposed allocation rule within at least two months after publication of the allocation rule.

## 9 Appendix B: Diagrammatic representation of circumstances when the TSOs consider proportional allocation may apply

