

UNC Workgroup Report	At what stage is this document in the process?
<h1>UNC 0738:</h1> <h2>Incremental NTS Entry Capacity Surrender</h2>	<div style="display: flex; flex-direction: column; gap: 5px;"> <div style="border: 1px solid #00a651; border-radius: 5px; padding: 2px; display: flex; align-items: center; gap: 5px;"> 01 Modification </div> <div style="border: 1px solid #0072bc; border-radius: 5px; padding: 2px; display: flex; align-items: center; gap: 5px;"> 02 Workgroup Report </div> <div style="border: 1px solid #9933cc; border-radius: 5px; padding: 2px; display: flex; align-items: center; gap: 5px;"> 03 Draft Modification Report </div> <div style="border: 1px solid #ff9900; border-radius: 5px; padding: 2px; display: flex; align-items: center; gap: 5px;"> 04 Final Modification Report </div> </div>
<p>Purpose of Modification: To allow incremental NTS entry capacity to be surrendered.</p>	
	<p>The Workgroup recommends that this Modification should be:</p> <ul style="list-style-type: none"> Considered a material change and not subject to self-governance <p>The Panel will consider this Workgroup Report on 17 December 2020. The Panel will consider the recommendations and determine the appropriate next steps.</p>
	<p>High Impact: None</p>
	<p>Medium Impact: None</p>
	<p>Low Impact: Shippers</p>

1 Summary

What

This proposal seeks to allow Users to surrender incremental NTS entry capacity allocated as a result of bids in quarterly system entry capacity auctions in the period from April 2017 to September 2020.

Why

When developing projects that require NTS entry capacity, incremental entry capacity will be released if National Grid's requirements for releasing capacity are met. By meeting these requirements, the principle of user commitment is delivered. Bids for NTS entry capacity assessed in auctions between April 2017 and September 2020 were assessed on the basis of the published reserve prices, and Shippers were able to develop bidding strategies designed to meet the entry capacity release requirements.

Following implementation of Modification 0678A, Amendments to Gas Transmission Charging Regime (Postage Stamp) , the prices to be paid for incremental capacity can be materially different to the prices that triggered incremental capacity being allocated, and the resulting user commitment may be materially increased. Bidding strategies may have been materially different if the eventual prices had been known, although still designed to ensure the necessary user commitment was demonstrated.

How

It is proposed that Users are able to apply to National Grid NTS to surrender incremental capacity that was allocated in the period from April 2017 to September 2020. If National Grid NTS accept the application, the User's capacity holdings will be reduced.

2 Governance

Justification for Authority Direction

Whilst the Proposer had originally suggested that this Modification should be Self Governance, UNC Panel determined that Modification 0738 is likely to have a material effect because of the value of incremental capacity that would fall within the remit of this Modification proposal. Hence self-governance is not appropriate, and Modification 0738 will therefore follow Authority Direction procedures.

Workgroup participants reviewed the Self Governance criteria and whilst some believe that due to parties incurring an additional cost as outlined in the tables in the Workgroup impact assessment section of this report, that they believe that this does not meet the self-governance criteria and should follow authority direction. Further information on the self-governance criteria is covered under the workgroup assessment.

Requested Next Steps

This Modification should:

- Should follow authority direction
- Be issued to consultation

3 Why Change?

Development of projects that require NTS Entry Capacity can be underway at any time. Having assured NTS entry rights is a critical project issue. The routes for acquiring NTS Entry Capacity are well established, notably bidding for incremental entry capacity in QSEC auctions. Incremental capacity will be released if National Grid's requirements for capacity release are met. By meeting these requirements, the principle of user commitment is delivered.

While Modification 0678, Amendments to Gas Transmission Charging Regime, was under consideration, entry related projects were not put on hold. Those requiring entry capacity after April 2017 could see the published reserve prices and create bidding strategies based on those prices. This was the only possible strategy since any such bids would be assessed by National Grid NTS on the same basis. Following implementation of Modification 0678A, Amendments to Gas Transmission Charging Regime (Postage Stamp), the prices to be paid from 1 October 2020 for incremental capacity released after April 2017 can be materially different to the prices that triggered incremental capacity being allocated, and the resulting user commitment may be materially increased. Bidding strategies may have been materially different if the eventual prices had been known, although still designed to ensure the necessary user commitment was delivered.

A consequence of Modification 0678A being implemented is therefore that some Users will face costs for entry capacity that are well in excess of the indicated user commitment level, and these Users may have bid significantly differently if there had been any way in which the eventual outcome would be known. In essence, the user commitment level has been changed retrospectively, potentially leaving Users facing materially higher charges than could reasonably have been anticipated, and the Proposer would suggest that this retrospective impact appears to be an unintended consequence of Modification 0678A.

4 Code Specific Matters

Reference Documents

None

Knowledge/Skills

None

5 Solution

It is proposed that the UNC be amended to include a provision that Users who have been allocated incremental NTS entry capacity following quarterly system entry capacity auctions held in the period between 1 April 2017 and 30 September 2020 can, within one month of this Modification being implemented, make a single application to National Grid NTS for entry capacity to be surrendered. The application must indicate the amount of capacity for which surrender is being sought, which must be no more than the quantity allocated and must be specified as the reduction in capacity that is being sought each day, and the first gas day on which capacity is to be surrendered across the whole period for which surrender is being sought. The specified first gas day must be the first day in a quarter (i.e. 1 January, 1 April, 1 July or 1 October) and be more than one month after the day on which the application is submitted, and the requested reduction would apply to all days for which capacity had been booked on that and all subsequent gas days. t. Users would not, therefore, be able to sculpt the surrender but only specify a daily reduction to apply uniformly.

It is proposed that National Grid NTS must accept or reject each application to surrender capacity within one month of receiving such application. It is proposed that National Grid NTS accept or reject any application, based on National Grid's interpretation of the following guidance:

All capacity that was allocated in the relevant auctions of quarterly system entry capacity other than obligated capacity is within scope and may be surrendered.

Only applications that specify a single surrender quantity will be accepted, which must be specified in kilowatt hours per gas day.

Only applications that specify the first day of a quarter as the first surrender day will be accepted, and only if the specified date is more than one month after the application was received by National Grid NTS.

If the requested surrender quantity is greater than the available capacity for any day, capacity holdings should be reduced to zero for that day.

With respect to any application to surrender capacity, National Grid NTS shall calculate:

A. the value of the full commitment made by that User when incremental capacity was allocated – that is, the relevant QSEC reserve/step price multiplied by the full allocated volume, not just the requested surrender capacity.

B. the amount that the User is expected to be liable to pay for the same incremental capacity prior to the first day on which surrender is being sought – that is, the latest available capacity price published by National Grid NTS multiplied by the amount of allocated capacity up to the relevant date.

National Grid NTS should only accept an application to surrender capacity if B is greater than A.

6 Impacts & Other Considerations

Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

No.

Consumer Impacts

None identified as no direct impact to consumers was identified.

Consumer Impact Assessment <i>(Workgroup assessment of proposer initial view or subsequent information)</i>	
Criteria	Extent of Impact
Which Consumer groups are affected?	<ul style="list-style-type: none"> None
What costs or benefits will pass through to them?	No direct costs identified to consumers. The Proposer felt that the indirect effects of this modification on competition would lead to marginally lower prices in principle
When will these costs/benefits impact upon consumers?	<i>Not Applicable</i>
Are there any other Consumer Impacts?	Not Applicable
General Market Assumptions as at December 2016 <i>(to underpin the Costs analysis)</i>	
<i>Number of Domestic consumers</i>	<i>21 million</i>
<i>Number of non-domestic consumers <73,200 kWh/annum</i>	<i>500,000</i>
<i>Number of consumers between 73,200 and 732,000 kWh/annum</i>	<i>250,000</i>
<i>Number of very large consumers >732,000 kWh/annum</i>	<i>26,000</i>

Cross Code Impacts

None identified

EU Code Impacts

None identified as does not impact the EU code specified. National Grid advised on Ofgem’s question on similar contracts where they were called interim contracts, did have some concerns on TAR with these contracts. Refer to decision letter on Modification 0602

<https://www.gasgovernance.co.uk/sites/default/files/ggf/page/2018-12/Ofgem%20Decision%20Letter%200621.pdf>

Central Systems Impacts

It is believed that existing capacity reduction provisions in Central Systems will be able to accommodate any reductions in entry capacity holdings.

National Grid do not have functionality to hand back capacity, therefore looked at the process and there are 3 things required, removed the rights of the liability, reoffer the capacity which would only apply to obligated Capacity. The scope of this mod only applies to non-obligated capacity and initial view that these can be dealt with through existing buy-back capacity process.

Workgroup Impact Assessment

The Workgroup commenced initial discussion of this proposal as a pre modification during the October Transmission Workgroup, followed by Panel in October. UNC Panel agreed that Modification 0738 should report in December.

As detailed in the Governance section of this proposal Panel, determined that Modification 0738 is likely to have a material effect because of the value of incremental capacity that would fall within the remit of this Modification Proposal, and hence self-governance is not appropriate.

Nevertheless, UNC Panel requested that Workgroup review this decision on Self-Governance and a summary of the discussion is set out below.

Workgroup concluded, after reviewing the Self-Governance Criteria, that to assess the effect on competition in, or commercial activities related to, the shipping, transportation or supply of gas, it would be good to obtain further information on the materiality of the redistribution of costs from National Grid.

Workgroup requested National Grid to provide an analysis of incremental allocations between April 2017 and September 2020. One participant requested that National Grid look at initial commitments compared to the ongoing commitments, post-October 2020, and to present and publish this information in advance of the December Transmission Workgroup meeting. Details below:-(e.g. significant cost for few or additional costs for many). National Grid indicated that the materiality of capacity within scope was £17,428,135. The costs are based over 12 years as detailed below.

QSEC incremental allocations between 1/4/17 & 30/9/20

Type of Incremental	Capacity Amount (kWh/d)	Original value (£)	Forecast value (£)	Uplift x
Substitution	64,459	£ 64,459.19	£ 16,509,639.51	256
Non-Obligated	66,776	£ 67,689.49	£ 17,428,135.50	257
Total			£ 33,937,775.01	

Reference source for forecast prices

<https://www.gasgovernance.co.uk/sites/default/files/ggf/book/2020-07/QSEC%20notice%20for%20Oct%202020%20and%20March%2021%20Auction.pdf>

Annual Breakdown

Gas Year	Forecast Revenue (nominal £)	
	Obligated (substitution)	Non-Obligated
2020/21	1,772,947	1,908,670
2021/22	1,288,967	1,383,789
2022/23	1,407,492	1,515,567
2023/24	1,284,028	1,386,426
2024/25	1,195,134	1,290,090
2025/26	1,195,134	2,743,241
2026/27	1,195,134	1,198,417
2027/28	1,195,134	1,198,417
2028/29	1,195,134	1,198,417
2029/30	1,195,134	1,201,701
2030/31	1,195,134	1,201,701
2031/32	1,195,134	1,201,701
2032/33	1,195,134	-
Total	16,509,640	17,428,135

Given this, it was agreed that the Modification should still follow authority direction. It was noted that permitting Shippers to hand capacity back was a fundamental change and given the extent to which the facility would be used is unknown, implementation could result in a material event.

National Grid queried whether there is justification for limiting the surrender of incremental capacity based on the financial commitment required to release incremental capacity and the observation of QSEC 2020 if there is no Net Present Value ('NPV') test within that period and therefore no obvious justification to include 2020 within the Scope of this Modification. Conversely, some Workgroup Participants were of the view that where any User commitment is created by the release of capacity, then that capacity should equally qualify for this process.

An initial representation was received by Storengy in support of the Modification based on current investment decisions made in QSEC, compared to what they could be in the future. They concluded that this could be an ongoing problem for QSEC auctions, as parties continue to obtain capacity without knowing the future cost implications. Workgroup agreed with this statement. National Grid reaffirmed that it has the ability to advise and publish periodic price changes and provides notice of forthcoming changes, in the latest price change no forecasts were available for advanced publication.

The Proposer noted that parties have to make investment decisions and acquire capacity to support projects proceeding and it is unreasonable that retrospective cost variations should be permitted without an opportunity to reconsider and reappraise those decisions.

7 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.	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

The proposers view is that Efficient allocation of NTS entry capacity supports Users paying for the capacity they use, delivering cost reflectivity and so helping to secure effective competition. Unpredictable retrospective changes to charges discourage investment, and removing the uncertainty, created by the present situation, for new entry projects would help to support the securing of effective competition. Proposer and Workgroup Participants agreed with this statement .

8 Implementation

No implementation timescales are proposed. However, implementation could be directly following an Authority decision to do so.

9 Legal Text

Text Commentary

Legal Text has been provided by National Grid.

The Workgroup considered the Legal Text at its meeting on 03 December 2020 and is satisfied that it meets the intent of the Solution.

Legal Text and Commentary will sit alongside this Report.

10 Recommendations

Workgroup's Recommendation to Panel

The Workgroup asks Panel to agree that this Modification should proceed to consultation.