














UNC Modification	At what stage is this document in the process?
<h1 data-bbox="132 320 655 414">UNC 0739:</h1> <h2 data-bbox="132 450 1153 656">Aggregate overrun regime for Original Capacity held at the Bacton ASEPs</h2>	<div data-bbox="1190 309 1445 622"> <div>01 Modification</div> <div>02 Workgroup Report</div> <div>03 Draft Modification Report</div> <div>04 Final Modification Report</div> </div>
<p><b>Purpose of Modification:</b></p> <p>To ensure Entry Capacity acquired by Users at the Bacton ASEP, prior to Bacton splitting into two ASEPs, can be used flexibly via the introduction of an aggregate overrun regime following changes to the NTS Charging Regime</p>	
	<p>The Proposer recommends that this Modification should be:</p> <ul style="list-style-type: none"> <li>considered a material change and not subject to self-governance</li> <li>assessed by a Workgroup</li> </ul> <p>This Modification will be presented by the Proposer to the Panel on 15 October 2020. The Panel will consider the Proposer's recommendation and determine the appropriate route.</p>
	<p>High Impact:</p> <p>Shippers and National Grid NTS</p>
	<p>Medium Impact:</p> <p>None</p>
	<p>Low Impact:</p> <p>None</p>

Contents		?	Any questions?
1	Summary	3	Contact: Joint Office of Gas Transporters
2	Governance	3	
3	Why Change?	3	
4	Code Specific Matters	4	 <a href="mailto:enquiries@gasgovernance.co.uk">enquiries@gasgovernance.co.uk</a>
5	Solution	6	
6	Impacts & Other Considerations	6	 0121 288 2107
7	Relevant Objectives	8	Proposer: Anna Shrigley
8	Implementation	9	
9	Legal Text	9	 <a href="mailto:anna.shrigley@eni.com">anna.shrigley@eni.com</a>
10	Recommendations	9	
Timetable			 0207 863 3651
The Proposer recommends the following timetable:			Transporter: National Grid NTS
Pre-Modification Discussion	01 October 2020		 <a href="mailto:Colin.Williams@nationalgrid.com">Colin.Williams@nationalgrid.com</a>
Modification considered by Panel	15 October 2020		
Initial consideration by Workgroup	05 November 2020		 01926 655916 or 07785 451776
Workgroup Report presented to Panel	21 January 2020		Systems Provider: Xoserve
Draft Modification Report issued for consultation	21 January 2020		
Consultation Close-out for representations	11 February 2020		 <a href="mailto:UKLink@xoserve.com">UKLink@xoserve.com</a>
Final Modification Report available for Panel	15 February 2020		
Modification Panel decision	18 February 2020 (to be considered at short notice)		Other: Nick Wye
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## 1 Summary

### What

In order to implement the EU Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems (CAM)<sup>1</sup>, the Bacton ASEP was split into the Bacton IP and Bacton UKCS ASEPs on 1st November 2015. Entry Capacity acquired by Shippers prior to this date (Original Capacity) was forcefully allocated to each of the newly formed Bacton ASEPs. It is proposed that where a Shipper's entry flows do not exceed Original Capacity holdings an Entry Overrun Charge will not be applied.

### Why

In order to implement the "Bacton split", Ofgem approved UNC Modification 0501V - Treatment of Existing Entry Capacity Rights at the Bacton ASEP to comply with EU Capacity Regs, which, in summary, allocated existing Entry Capacity bookings between the two newly formed ASEPs. As such, Shippers which had acquired capacity for the purposes of delivering gas into the NTS via interconnectors or non-interconnectors pipelines lost the flexibility associated with the more generic nature of the original Bacton ASEP Entry Capacity product.

While other Modifications were raised proposing alternative treatment of existing capacity bookings, Ofgem determined that Modification 0501V should be implemented, although it noted that the aggregate overrun component of Modification 0501CV would be advantageous were there to be a change to the UNC baseline against which it had made its original decision. With the implementation of UNC Modification 0678A - Amendments to Gas Transmission Charging Regime (Postage Stamp), effective from the 1<sup>st</sup> October 2020, the UNC baseline will change substantially, resulting in the degradation of the flexibility originally acquired by Shippers prior to the "Bacton split".

### How

Entry Capacity acquired at the Bacton ASEP before 1 November 2015 will be defined as Original Bacton Capacity. Where the total amount of Shipper Original Bacton Capacity held at the Bacton UKCS and Bacton IP ASEPs is greater than its aggregate daily entry flows at the Bacton ASEPs, then an Entry Overrun Charge will not be applied.

## 2 Governance

### Justification for Authority Direction

This Modification is recommended to be sent to the Authority for direction as it is likely to have a material effect on the commercial activities associated with gas transportation arrangements for Shippers as it will bestow unique rights on certain Entry Capacity held at the Bacton ASEPs.

### Requested Next Steps

This Modification should:

- be considered a material change and not subject to self-governance

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<sup>1</sup> <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:32013R0984>

- be assessed by a Workgroup

### 3 Why Change?

#### Introduction

In order to implement the “Bacton split”, Ofgem approved Modification 0501V<sup>2</sup> in July 2015. The Modification permitted the re-allocation of Entry Capacity held at the Bacton ASEP to the newly formed Bacton IP and Bacton UKCS ASEPs. As a result of this re-allocation, Shippers lost the flexibility encompassed within what was a homogenous capacity product to deliver gas into the NTS via interconnectors or non-interconnector pipelines.

While other Modifications were raised proposing alternative treatment of existing capacity bookings, Ofgem determined that Modification 0501V should be implemented, however, it noted that:

*“there may be some impact from the introduction of CAM by splitting Bacton and implementing UNC501V, and that this impact is likely to be concentrated on those holding existing capacity at Bacton”*

Modification 0501CV raised by Eni proposed a number of corrective measures to maintain flexibility and although a number of these measures were dismissed by Ofgem in its Decision Letter, it set out clear support for the Aggregate Overrun aspect of the Proposal in the event of future UNC changes. The Proposer believes that the implementation of Modification 0678A is a significant change to the UNC which will directly and deleteriously impact Shippers holding re-allocated Bacton Entry Capacity and as such, a UNC change is needed to: protect Shippers capacity flexibility; ensure the integrity of the UNC and the services provided therein; and action the recommended steps set out in Ofgem’s Modification 0501V Decision.

#### Key messages from the Ofgem Modification 0501V Decision

Modification 0501CV identified a number of undesirable outcomes associated with Modification 0501V. In particular, it noted:

- *existing capacity holders will be prevented from exercising their existing rights to flexibly support flows via any sub-terminal contained within the Bacton ASEP, the effect of which is that capacity bookings may need to be replicated in order to achieve the same gas flows, resulting in a disproportionately high allocation of capacity costs to such Users;*
- *existing capacity holders at Bacton are discriminated against vis-à-vis holders of capacity at other ASEPs:*
  - (i) whose existing rights are not being retrospectively altered;*
  - (ii) who may continue to use their capacity flexibly to support flows via any sub-terminal contained within a single ASEP; and*
  - (iii) whose existing rights are not subjected to a diminution in value.*

As stated above, the solution proposed in Modification 0501CV was wide-ranging, however, in relation to the aggregate overrun proposition the Proposer is of the view that following the implementation of Modification 0678A these issues will come into sharper focus and in need of remedy.

Modification 0678A will remove the availability of zero-priced Entry Capacity at all terminals, replacing the current term discounts with a standard reserve price for all firm capacity products and a 10% discount applied to the D-1 interruptible product.

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<sup>2</sup> <https://www.gasgovernance.co.uk/0501>

Ofgem noted in its Modification 0501V Decision, that

*We acknowledge that further potential changes to the UNC are possible. However, such changes are a feature of the UNC and we cannot quantify the probability of future legislative / regulatory changes – including at European level – when making this decision, and any attempt to rely on uncertain future events is too speculative. If groups within industry are concerned that capacity will no longer be available at zero price in the short-term timeframe, and that this represents a risk of reduced flexibility for existing capacity holders, then we would encourage industry to develop a flexibility mechanism<sup>3</sup> similar to the one that is proposed in UNC501CV.*

This statement was based on the UNC baseline at the time Ofgem carried out its consideration of the various proposals. In particular, it stated that

*“...we consider that there are existing market mechanisms in the current UNC text which, when combined with the availability of substantial amounts of unused capacity at Bacton, minimise the downside of UNC501V not providing such a flexibility mechanism.”*

The existing market mechanisms Ofgem refers to in this statement include the ability to buy capacity at zero reserve price auctions in the short-term timeframe, trade capacity on the secondary market or surrender capacity to NGG. As noted previously, the UNC is changing as a result of Modification 0678A removing the ability of Shippers to access zero-priced capacity and it is appropriate to revisit the introduction of an aggregate overrun regime.

This approach chimes with Ofgem's closing remarks contained within the Next Steps section of its Decision Letter:

*“However, we recognise the possibility that future UNC changes could remove these existing market mechanisms. If such changes to the UNC occurred, then there could be benefits for existing Bacton entry capacity holders and a furthering of effective competition between shippers from a flexibility mechanism similar to the one that is proposed under UNC501CV (whilst addressing our concerns with this proposal as set out previously). We therefore encourage industry to raise a further modification if they see a risk that future UNC changes would not allow for the existing market mechanisms to be used to flow flexibly at the current cost.”*

### **Impacts of Modification 0501V and Modification 0678A**

It remains the case that a number of Shippers who acquired Bacton ASEP Entry Capacity prior to 1 November 2015 hold capacity at one or both of the Bacton IP or Bacton UKCS ASEPs. It is also the case that some of this re-allocated capacity is of no direct value to the holder as it does not align with the intended point of supply.

As capacity was originally acquired for the purpose of flowing gas through the Bacton ASEP, there is no question that following the implementation of Modification 0501V, Shippers lost the flexibility originally contracted for and in some cases has no value to the holder, particularly as capacity maybe acquired at zero cost by “incoming” Shippers.

Ofgem stated that as a result of existing market mechanisms the downside associated with the implementation of Modification 0501V would be minimised. This statement needs to be examined further, with particular focus on the relevant changes particular to Modification 0678A.

Firstly, in its commentary on the Modification 0501V Relevant Objectives Ofgem identified that Modification 0501CV better facilitated Relevant Objective (d):

*“...whilst for UNC501CV there is a marginal benefit due to the re-creation of the current flexibility to flow at current cost”*

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<sup>3</sup> Ofgem's reference to a flexibility mechanism relates to the aggregate overrun regime proposed as part of UNC 0501CV.

Based on the Modification 0501V Impact Assessment<sup>4</sup> published by Ofgem in May 2015 the assessment of the potential impacts on competition of reduced flexibility is based on a number of scenarios. The scenarios allow for the sale of capacity held at one Bacton ASEP and the purchase of capacity at another at zero price, or at a price lower than that received following the sale of capacity at the neighbouring Bacton ASEP. In summary the Impact Assessment is based on the Shipper receiving value for capacity held while acquiring capacity at the neighbouring ASEP at zero cost. We assume that this is why Ofgem concluded that the introduction of an aggregate overrun regime would provide only a marginal benefit compared to the implementation of Modification 0501V.

Bacton shippers will note that in hindsight the scenarios did not reflect reality as excess capacity at both ASEPs meant that secondary trades, with a positive value, did not occur as capacity could be acquired by an “incoming” shipper at zero cost directly through National Grid’s capacity release auctions. The Proposer believes, therefore, that the benefit ascribed to the aggregate overrun regime was undervalued.

Looking forward, with the removal of zero-priced capacity products, the market dynamics will change. It could be argued that re-allocated Bacton capacity will attract value, however, this is countered by the fact that a shipper will have to pay for capacity at the alternate ASEP. Certainly, there is no guarantee that the shipper will realise a higher or equivalent value for the sale of capacity at one ASEP as the costs it will incur in acquiring the same volume of capacity at the other. Further, the Proposer argues that irrespective of the comparative values of capacity at the two ASEPs, it is unreasonable to imply that a shipper is not unfairly impacted. Not only does it hold capacity at an ASEP where it had not proactively sought it, but in order to retain the flexibility it had consciously acquired, it is subject to the vagaries of the secondary market.

## 4 Code Specific Matters

### Reference Documents

UNC Modification Proposal 0678A Ofgem Decision

<https://www.ofgem.gov.uk/publications-and-updates/amendments-gas-transmission-charging-regime-decision-and-final-impact-assessment-unc678abcdefghij>

UNC Modification Proposal 0501V/AV/BV/CV Ofgem Decision

[https://www.gasgovernance.co.uk/sites/default/files/ggf/UNC501V\\_UNC501AV\\_UNC501BV\\_UNC501CV\\_decision.pdf](https://www.gasgovernance.co.uk/sites/default/files/ggf/UNC501V_UNC501AV_UNC501BV_UNC501CV_decision.pdf)

### Knowledge/Skills

None

## 5 Solution

### Calculation of Aggregate Overrun Quantities

Where system capacity was acquired at the Bacton ASEP prior to the Bacton split on 1 November 2015, it will be classified as Original Bacton Capacity.

Following the split, the Original Bacton Capacity will maintain this status when allocated to either Bacton ASEP

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<sup>4</sup> [https://www.ofgem.gov.uk/sites/default/files/docs/2015/05/unc0501\\_ia\\_letter\\_final.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2015/05/unc0501_ia_letter_final.pdf)

An Entry Overrun Charge will only be applied at a Bacton ASEP where the gas flow at the relevant ASEP (UDQI) exceeds the Users Entry Capacity holdings at the same Bacton ASEP plus any unused Original Entry Capacity held at the alternative Bacton ASEP:

$UDQI_{IP \text{ or } UKCS} > \text{User's Fully Adjusted NTS Entry Capacity}_{IP \text{ or } UKCS} + \text{Original Available Bacton Capacity held at the alternative Bacton ASEP}$

## Examples of determination of an overrun quantity

In the examples below, the Shipper holds 50 units of Original Bacton IP Capacity and 100 units of Original UKCS Capacity. The Shipper has also booked 50 units of “standard” capacity at Bacton UKCS

UDQI IP	UDQI UKCS	Cap Holding IP (Original Bacton)	Cap Holding UKCS (Original Bacton)	Original Available Capacity IP	Original Available Capacity UKCS	Overrun Quantity
0	200	50 (50)	150 (100)	50	0	0
50	200	50 (50)	150 (100)	0	0	50
100	100	50 (50)	150 (100)	0	50	0
75	75	50 (50)	150 (100)	0	75	0

## 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

Enabling Shippers to use capacity across both Bacton ASEPs at no additional cost will reduce the cost of delivering gas into the NTS via connected UKCS sources and interconnectors. Where either of these sources is the marginal source of gas then the daily gas prices at the NBP should reduce accordingly.

### Cross Code Impacts

None



## EU Code Impacts

None

## Central Systems Impacts

We anticipate there to be Systems Impacts in the identification and reporting of Original Entry Capacity Holdings and the calculation of Aggregate Overrun Quantities.

## 7 Relevant Objectives only if it impacts Section Y

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

d)(i) the effect of the Bacton split following the implementation of Modification 0501V resulted in a loss of flexibility for those Shippers which has acquired Entry Capacity at the previously single Bacton ASEP. This reduction in flexibility was recognised by Ofgem in its Modification 0501V Decision Letter:

*“Before the Bacton split, existing Bacton capacity holders could flow gas onto the NTS from three main sources (from UKCS, BBL and IUK). Following the implementation of CAM via the splitting of Bacton into two new entry points, the implementation of any of UNC501V, UNC501AV or UNC501BV would result in a reduction in flexibility at Bacton for those shippers that continue to hold capacity at Bacton after 1 November 2015. Shippers holding Bacton IP capacity would only be able to use it to flow onto the NTS from IUK or BBL (and not from UKCS). If those shippers wanted to flow onto the NTS from UKCS, they would need to buy Bacton UKCS capacity. Similarly, shippers holding Bacton UKCS capacity would only be able to flow from UKCS (and not from BBL or IUK). If they wanted to flow onto the NTS from either of the two interconnectors they would need to buy Bacton IP capacity.”*



In its assessment of the Modification 0501 proposals against this relevant objective, Ofgem stated:

*“Overall, the impacts on relevant objective (d) are marginal for each of the four modification proposals. They are negative for UNC501V, UNC501AV and UNC501BV as a result of reduced flexibility (for those shippers that continue to hold capacity at Bacton after 1 November 2015) but the size of this effect is minimal due to the other market mechanisms currently available. The impact of the hand-back on relevant objective (d) are marginally negative for UNC501AV, UNC501BV and UNC501CV (ie, in terms of impact on competition). Whilst for UNC501CV there is a marginal benefit due to the re-creation of the current flexibility to flow at current cost....”*

Based on the above and the pending changes to the NTS charging regime as a result of the implementation of Modification 0678A, the introduction of an Aggregate Overrun Regime, similar to that set out in Modification 0501CV will result in more significant benefits than those identified by Ofgem in its assessment of Modification 0501CV. It will, therefore, and better facilitate the achievement of this relevant objective.

## 8 Implementation

It is proposed that this Modification is implemented at the earliest opportunity upon the direction of the Authority.

## 9 Legal Text

### Text Commentary

To be provided

### Text

To be provided

## 10 Recommendations

### Proposer's Recommendation to Panel

Panel is asked to:

- Agree that Authority Direction should apply
- Refer this proposal to a Workgroup for assessment.