




UNC Workgroup Report	At what stage is this document in the process?
<h1>UNC 0823:</h1> <h2>Amendment to the Allocation of Entry Capacity and Flow Quantities to Qualifying CNCCD Routes</h2>	<div style="display: flex; flex-direction: column; gap: 5px;"> <div style="border: 1px solid #ccc; padding: 2px; display: flex; align-items: center; gap: 5px;"> 01 Modification </div> <div style="border: 1px solid #ccc; padding: 2px; display: flex; align-items: center; gap: 5px;"> 02 Workgroup Report </div> <div style="border: 1px solid #ccc; padding: 2px; display: flex; align-items: center; gap: 5px;"> 03 Draft Modification Report </div> <div style="border: 1px solid #ccc; padding: 2px; display: flex; align-items: center; gap: 5px;"> 04 Final Modification Report </div> </div>
<p>Purpose of Modification:</p> <p>This Modification seeks to amend the apportionment of Entry Capacity and Entry Flow between multiple Conditional NTS Capacity Charge Discount qualifying routes that share an Entry Point, so that both are based on the minimum of the Exit Capacity and the Exit Flow at the Exit Point of each route.</p>	
<p>Next Steps:</p> <p>The Workgroup recommends that this Modification should [not] be subject to Self-Governance. The Panel will consider this Workgroup Report on 15 December 2022. The Panel will consider the recommendations and determine the appropriate next steps.</p>	
<p>Impacted Parties:</p> <p>High: None Low: Shippers</p>	
<p>Impacted Codes:</p> <p>None</p>	

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Timetable	
Modification timetable:	
Pre-Modification Discussed	01 September 2022
Date Modification Raised	05 September 2022
New Modification to be considered by Panel	15 September 2022
First Workgroup Meeting	06 October 2022
Workgroup Report to be presented to Panel	15 December 2022
Draft Modification Report issued for consultation	15 December 2022
Consultation Close-out for representations	10 January 2023
Final Modification Report available for Panel	11 January 2023
Modification Panel decision	19 January 2023


 Any questions?


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1 Summary

What

In order to be eligible for Conditional NTS Capacity Charge Discount (CNCCD) on qualifying nominated routes, Users must have bought the Entry Capacity and the Exit Capacity and must flow gas along that route. Where a User has two or more nominated CNCCD (shorthaul) discount routes which share an Entry Point, the User's Entry Capacity holding, and Entry Flows are apportioned to each route. The apportionments are then used to calculate the quantities that are eligible for the CNCCD discount on each route separately: the allocation of Entry Capacity is based on the proportions of the User's Exit Capacity at each Exit Point and the Entry Flow is allocated based on the flows at each Exit Point.

This proposal is to amend this apportionment calculation so that both the Entry Capacity holdings and Entry flows are both allocated in the same proportions which should be determined as the minimum of either the Exit Capacity holding or the Exit flow, whichever is lower, for each of the Exit points.

Why

The ratio of Exit Capacity holdings for each route is not a good representation of how the Entry Capacity is actually used because it does not consider where the gas actually flows. This means unused Exit Capacity on one route attracts an apportionment of Entry Capacity which is sometimes not used or needed for gas flows on that route. This reduces the Entry Capacity allocated to other routes where it is actually being used and is needed, artificially restricting the quantities eligible for CNCCD.

The current arrangements do not reflect the operation, costs and benefits of access to and use of a pipeline that is owned and operated by the User, which is the intent of the current CNCCD arrangements: to avoid inefficient bypass of the NTS.

The impact of this defect is that Users with multiple routes sharing an Entry Point cannot access the CNCCD arrangements as intended and it disincentivises them from booking Exit Capacity for these routes until the very last opportunity to reduce the risk of losing eligibility to CNCCD.

How

This proposal is to amend the apportionment calculation in UNC (Uniform Network Code) TPD B9.3.8 so that both Entry Capacity (CapEn) and Entry Flow (DQEn) is allocated based on the minimum of both Exit Capacity and Exit Flow at each of the Exit points of each registered route.

2 Governance

Justification for Self-Governance

This Modification would better facilitate CNCCD discount arrangements to avoid inefficient bypass of the NTS for CNCCD qualifying routes that share Entry Points with other qualifying routes. The proposer believes that the current apportionment calculation does not reflect the way in which Entry Capacity is utilised because it does not consider actual gas flows, and that the implications of the current calculation was an oversight at the time of implementation of UNC Modification 728B - Introduction of Conditional Discount for Avoiding Inefficient Bypass of the NTS with 28km distance cap. The proposer believes this amendment better delivers the intent of UNC728B.

The Proposer believes the current defect affects a minority of CNCCD qualifying routes. The proposed arrangements would redistribute a relatively small amount of Entry and Exit Capacity charges that become eligible for the CNCCD discount across all Users.

The modification:

(i) is unlikely to have a material effect on:

(aa) existing or future gas consumers; and

(bb) 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; and

(cc) the operation of one or more pipe-line system(s); and

(dd) matters relating to sustainable development, safety or security of supply, or the management of market or network emergencies; and

(ee) the uniform network code governance procedures or the network code modification procedures; and

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

Requested Next Steps

This Modification should:

- be considered a non-material change and subject to Self-Governance.
- be assessed by a Workgroup.

3 Why Change?

The objective of CNCCD is to ensure that capacity charges for transporting gas over short distances (which is relatively expensive with postage stamp charging arrangements) are lower than the cost to Users of constructing their own NTS bypass pipelines.

A User with a bypass pipeline would be able to determine Entry into and flow across that pipeline, whereas the allocation arrangements for shared Entry Points do this by calculation. The Proposer believes that this calculation should be amended so that the proportions allocated to each route better reflects the Entry Capacity requirements and Flow along each route.

The ratio of Exit Capacity holdings for each route is not a good representation of how the Entry Capacity is actually used because it does not consider where the gas actually flows. Under the current apportionment arrangements, unused Exit Capacity on one route, if not matched by unused Entry Capacity, attracts an apportionment of Entry Capacity which is not used or needed on that route and away from other routes where it is actually being used. This artificially restricts the quantities eligible for CNCCD.

The current allocation calculation is believed to be incorrect because it does not reflect how the Entry Capacity is used in practice i.e., where the gas actually flows. This means that the current arrangements do not reflect the operation, costs and benefits of access to and use of a pipeline that is owned and operated by the User, which is the intent of the current CNCCD arrangements.

The impact of this defect is that Users with multiple routes sharing an Entry Point cannot access the CNCCD arrangements as intended and it disincentivises them from booking Exit Capacity for these routes until the very last opportunity in order to reduce their risk of losing eligibility for CNCCD.

4 Code Specific Matters

Reference Documents

Current CNCCD arrangements were introduced with modification UNC728
<https://www.gasgovernance.co.uk/0728>

Transportation Principal Document: Section B
https://www.gasgovernance.co.uk/sites/default/files/ggf/page/2020-10/4%20TPD%20Section%20B%20-%20System%20Use%20%26%20Capacity_0.pdf

5 Solution

The proposal is to modify the Entry apportionment calculation to use the minimum of Exit Capacity and Gas Flow at the Exit point of each registered route. This will mean that each route becomes self-contained in that it cannot be adversely impacted by the existence of unused exit capacity on another route registered against the same Entry point.

Business Rules proposed for UNC Modification 0728B (Urgent) - Introduction of a Conditional Discount for Avoiding Inefficient Bypass of the NTS

37. Where a User specifies a single Entry Point as the relevant Entry Point for more than one route (i.e. in respect of more than one Exit Point):

37.1. the Entry Capacity (CAPEn) for the relevant route will be equal to the User's Entry Capacity at the ASEP pro-rated on the basis of the Exit Capacity quantity as a proportion of the aggregate of the Exit Capacity quantities (for which the Entry Point is the relevant Entry Point for the nominated routes);

37.2. the quantity of Entry Capacity procured via an Existing Contract (ECEn) for the relevant route will be the equal to the User's Entry Capacity procured via an Existing Contract at the ASEP pro-rated on the basis of the Exit Capacity quantity as a proportion of the aggregate of the Exit Capacity quantities (for which the Entry Point is the relevant Entry Point for the nominated routes); and

37.3. the Entry Allocation (AEn) for the relevant route will be the equal to the User's Entry Allocation at the ASEP pro-rated on the basis of the Exit Allocation quantity as a proportion of the aggregate of the Exit Allocation quantities (for which the Entry Point is the relevant Entry Point for the nominated routes).

37.4. the Apportionment Quantity (AQEn) for the relevant route will be the equal to the User's Apportionment Quantity pro-rated on the basis of the Exit Capacity quantity as a proportion of the aggregate of the Exit Capacity quantities (for which the Entry Point is the relevant Entry Point for the nominated routes);

Potential Amended Wording to Business Rules

37. Where a User specifies a single Entry Point as the relevant Entry Point for more than one route (i.e. in respect of more than one Exit Point):

37.1. the Entry Capacity (CAPEn) for the relevant route will be equal to the User's Entry Capacity at the ASEP pro-rated on the basis of the **Minimum** of Exit Capacity quantity **and Exit Allocation Quantity** as a proportion of the aggregate of the **minimum** of the Exit Capacity quantities **and Exit Allocation Quantity per route** (for which the Entry Point is the relevant Entry Point for the nominated routes);

37.2. the quantity of Entry Capacity procured via an Existing Contract (ECEn) for the relevant route will be the equal to the User's Entry Capacity procured via an Existing Contract at the ASEP pro-rated on

the basis of the **Minimum of** Exit Capacity quantity **and Exit Allocation Quantity** as a proportion of the aggregate of the **minimum of the** Exit Capacity quantities **and Exit Allocation Quantity per route** (for which the Entry Point is the relevant Entry Point for the nominated routes); and

37.3. the Entry Allocation (AEn) for the relevant route will be the equal to the User's Entry Allocation at the ASEP pro-rated on the basis of the **Minimum of** Exit Capacity quantity **and Exit Allocation quantity** as a proportion of the aggregate of the **minimum of** the Exit Capacity quantities **and Exit Allocation quantities** (for which the Entry Point is the relevant Entry Point for the nominated routes).

37.4. the Apportionment Quantity (AQEn) for the relevant route will be the equal to the User's Apportionment Quantity pro-rated on the basis of **the Minimum of** Exit Capacity quantity **and Exit Allocation quantity** as a proportion of the aggregate of **the minimum of** the Exit Capacity quantities **and Exit Allocation quantities** (for which the Entry Point is the relevant Entry Point for the nominated routes);

Current UNC Legal Text

Section UNC TPD B9.3.8 would require amendment to reflect proposed business rules. The current legal text, for reference, is as follows:

9.3.8 The "Election Entry Proportion" for a CNCCD Election and a Day is:

(a) subject to paragraph (b), one (1);

(b) where the User has made more than one CNCCD Election in relation to the same Eligible Entry Point, for the purposes of each such election, the proportion determined as:

$$RQEx / \Sigma RQEx$$

where

RQEx is

(i) for the purposes of paragraphs 9.3.3(b), 9.3.5 and 9.3.7(a), the User's Fully Adjusted Available Firm NTS Exit Capacity at the Nominated Exit Point;

(ii) for the purposes of paragraph 9.3.7(c), the User's UDQO at the Nominated Exit Point;

Σ is the sum over all of the User's CNCCD Elections for the Nominated Entry Point.

6 Impacts & Other Considerations

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

No

Workgroup Participants did not disagree

Consumer Impacts

The CNCCD discount arrangements are intended to avoid Inefficient bypass of the NTS. Inefficient bypass would reduce the capacity charges cost base and result in increased NTS Capacity reserve tariffs which would then be passed through to consumers. This proposal improves eligibility for the CNCCD discount to help avoid inefficient bypass and increased tariffs and prevent higher bills for consumers.

Impact of the change on Consumer Benefit Areas:	
Area	Identified impact
Improved safety and reliability N/A	None
Lower bills than would otherwise be the case The CNCCD discount arrangements are intended to avoid Inefficient bypass of the NTS. Inefficient bypass would reduce the capacity charges cost base and result in increased NTS Capacity reserve tariffs which would then be passed through to consumers. This proposal improves eligibility for the CNCCD to help avoid inefficient bypass and increased tariffs.	Positive
Reduced environmental damage Reduce probability of inefficient pipeline construction and bypass of the NTS	Positive
Improved quality of service N/A	None
Benefits for society as a whole N/A	None

Workgroup discussions

Workgroup Participants debated the principles of the CNCCD 'short-haul discount'. A Workgroup Participant acknowledged the appropriateness of short-haul arrangements in so far as they are intended to avoid inefficient bypass of the NTS. All Workgroup Participants agreed that there was no call to review the underlying principles for short-haul.

A Workgroup Participant argued that the Proposal here seeks to amend the extent of Eligible Amounts to which the discount is applied and the decision about implementation of this proposal would therefore have to assess the merit of the change against the status quo i.e. retaining the current method of determination of the Election Entry Proportion. The Workgroup Participant suggested three necessary conditions that would indicate a consumer benefit. Firstly, that without the proposal some load would bypass. Secondly that if implemented then at least some of the bypass would be avoided. Thirdly that the resulting reserve prices would be more favourable (i.e., lower) than they would be if the proposal was not implemented.

Some Workgroup Participants argued that these criteria are not appropriate in the consideration of this Proposal.

Cross-Code Impacts

None

EU Code Impacts

None

Central Systems Impacts

Some Central Systems development is likely to be required.

ROM

Analysis suggests a cost of approximately £102,000 – £132,000 to implement the change.

No expected ongoing costs.

Delivery time approximately 13-15 weeks including Post Implementation Support. Project stand up time will be dependant on whether this is a stand alone project or if it is incorporated in to ongoing system enhancements (Gemini Sustain Plus). The cost and timeline is to be determined.

Panel Questions

Q1. Given it was the principle that exit and entry were not tied together, this seems to define entry capacity by reference to exit capacity or usage. Can Workgroup comment on this please?

Workgroup response - The consensus view reached by the Workgroup is that historically, at the highest level, the regime was designed with separate entry and exit. However, the concept of a short-haul service was approved by the Authority (as Modification 0728B) as a deviation from this principle and established an opportunity for Users to receive discounted entry and entry capacity charges on eligible quantities associated with eligible and nominated routes. In this way the short-haul service links specific entry and exit points and this modification does not amend or contradict the special exception endorsed by the Authority.

Q2. Consider appropriate Governance route.

Workgroup response - The Workgroup was made aware that the decision by the Panel to consider the Modification under Self-Governance procedures had not been unanimous. The discussion at the October Workgroup meeting considered whether there was sufficient information available to properly assess the potential materiality of the Proposal. The Workgroup noted that analysis would be necessary to assess the materiality of the Proposal. A Workgroup Participant indicated the desirability of analysis to identify potential risks of not implementing the proposal; another Workgroup Participant indicated that it would be helpful that analysis demonstrate an expectation that implementation would lead to lower reserve prices.

Q3. What analysis is required to assess this Modification?

Workgroup response - The Workgroup noted that the proposal states "The current allocation calculation is believed to be incorrect because it does not reflect how the Entry Capacity is used in practice i.e., where the gas actually flows. This means that the current arrangements do not reflect the operation, costs and benefits of access to and use of a pipeline that is owned and operated by the User, which is the intent of the current CNCCD arrangements."

The October Workgroup discussed whether the current arrangements represent an error in the implementation of the intent of Modification 0728B. The National Grid representative stated National Grid's view that there was no historical error and that the proposal now was looking at changing the arrangements.

National Grid provided analysis for review by the October Workgroup. The ensuing discussion led to a request for further refinement of the analysis to incorporate the effect of implementation of Modification 0785 (Application

Commented [EF1]: EF note for discussion at workgroup in December – do we need to consider comments contained within the Ofgem decision letter for Modification 0779/A.

of UNC processes to an aggregated Bacton (exit) Interconnection Point). This update was presented by National Grid and the Proposer at the November meeting.

The National Grid analysis showed:

High Level Figures – Post Modification 0785 period if Modification 0823 was in place

- Invoicing data for the period Mar-22 to Jul-22 has been used to calculate the following:
- The 24 multi-routes initially highlighted contributed circa £1.96m in combined Entry & Exit Revenues from Eligible Quantities over this five-month period.
- Approximately £17.55m was socialised due to the discounts applied.
- This contribution is generated from approx. 17.86 TWh of Eligible Quantities.
- This is approximately 37% of the potential Entry Eligible Quantities and 20% of the potential Exit Eligible Quantities observed across those routes.

Conclusions

- Due to the changes approved and implemented via UNC0785 the number of potential multi routes decreases to single figures with effect from 1st March 2022. **
- By aggregating the two Bacton IP Exit points, the level of Eligible Quantities as a percentage of Entitlement has increased significantly.
 - o Exit Points benefit as much as Entry, suggesting this is not impacted by variations in levels of Existing Contract bookings across the periods pre and post 1st March.
 - o Much of the benefit that UNC0823 could have granted to shorthaul users may have already been realised in existing routes. We will run analysis to the end of the Gas Year and provide details for the final workgroup to ensure we have the most up to date data prior to submission.
- There is potential for new combinations with the framework of Modification 0728B & Modification 0785, but would require assumptions around future Shipper behaviour to predict.
- Without prior knowledge of any potential behavioural changes, a range of impact for this Modification is difficult to estimate.

** During discussions National Grid elaborated on the analysis (first bullet point above) to point out that the effect of implementing Modification 0785 is that the availability would now corresponds to 2 multi-routes, one at Bacton and one at Teesside.

A further refinement of the analysis was requested for discussion at the December meeting

INSERT REVISED ANALYSIS and any conclusions HERE

7 Relevant Objectives

Impact of the Modification on the Transporters' Relevant Objectives:

Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	Positive

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 CNCCD discount arrangements are intended to avoid Inefficient bypass of the NTS. Inefficient bypass would reduce the capacity charges cost base and result in increased NTS Capacity reserve tariffs which would then be passed through to consumers. This proposal improves eligibility for the CNCCD discount to help avoid inefficient bypass and improve effective competition.

Workgroup discussions

Relevant Objective a)

? Operation of the system – discussion needed

Relevant Objective d)

Some Workgroup Participants agreed that inefficient bypass of the NTS would lead to higher charges for Users and that mitigation of this risk is therefore beneficial.

A Workgroup Participant argued that unless there was a realistic risk of bypass then the effect of this Proposal would be to enhance the benefit of the short-haul discount to a small number of Users and that would be to the detriment of the generality of Users thereby having a negative effect in respect of competition.

Insert any relevant analysis here.

Need to reference any analysis that indicates discrimination between shippers as discussed in November WG

Is there also a discussion point that whilst argued that there is potential discrimination between shorthaul users which this mod would resolve, the mod itself will increase the discrimination between shorthaul and non-shorthaul users beyond the level that was approved under 0728b?

8 Implementation

As Self-Governance procedures are proposed, implementation could be sixteen business days after a Modification Panel decision to implement, subject to no Appeal being raised.

Implementation timescales will be subject to Central Systems development, to be determined.

Workgroup discussions

9 Legal Text

Legal text will be drawn up by the relevant Transporter at a time when the Modification is sufficiently developed in line with the [Legal Text Guidance Document](#).

10 Recommendations

Workgroup's Recommendation to Panel

The Workgroup asks Panel to agree that:

- This [Self-Governance] modification should proceed to consultation.
- This proposal requires further assessment and should be returned to Workgroup.

Insert subheading here (if required)

Insert text here.