





UNC Workgroup Report	At what stage is this document in the process?
<h1>UNC 0848:</h1> <h2>Alignment of Entry and Exit Capacity Constraint Management Provisions</h2>	<div style="display: flex; flex-direction: column; gap: 5px;"> <div style="border: 1px solid #ccc; padding: 5px; display: flex; align-items: center; gap: 10px;"> <span style="border: 1px solid #ccc; border-radius: 50%; padding: 2px 5px;">01</span> Modification         </div> <div style="border: 1px solid #ccc; padding: 5px; display: flex; align-items: center; gap: 10px;"> <span style="border: 1px solid #ccc; border-radius: 50%; padding: 2px 5px;">02</span> Workgroup Report         </div> <div style="border: 1px solid #ccc; padding: 5px; display: flex; align-items: center; gap: 10px;"> <span style="border: 1px solid #ccc; border-radius: 50%; padding: 2px 5px;">03</span> Draft Modification Report         </div> <div style="border: 1px solid #ccc; padding: 5px; display: flex; align-items: center; gap: 10px;"> <span style="border: 1px solid #ccc; border-radius: 50%; padding: 2px 5px;">04</span> Final Modification Report         </div> </div>
<p><b>Purpose of Modification:</b></p> <p>This Modification seeks to clarify in the UNC that National Gas Transmission (NGT) will apply the System Management Principles in the course of the management of an Exit Capacity Constraint. This will align the Exit Capacity arrangements with existing UNC terms relating to Entry Capacity Constraint Management, and also with the Exit Capacity release principles set out in the Exit Capacity Release Methodology Statement.</p>	
<p><b>Next Steps:</b></p> <p>The Workgroup recommends that this Modification should not be subject to Self-Governance. The Workgroup asks Panel to agree that this Modification should proceed to consultation. The Panel will consider this Workgroup Report on <b>17 August 2023</b>. The Panel will consider the recommendations and determine the appropriate next steps.</p>	
<p><b>Impacted Parties:</b></p> <p>High: None</p> <p>Low: Users of NTS Exit Capacity</p> <p>None: None</p>	
<p><b>Impacted Codes:</b></p> <p>None</p>	

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Timetable		 07825 592518	
<b>Modification timetable:</b>			Transporter: Phil Lucas National Gas Transmission
Pre-Modification Discussed	04 May 2023		
Date Modification Raised	04 May 2023		
New Modification to be considered by Panel	18 May 2023		 <a href="mailto:phil.lucas@nationalgas.com">phil.lucas@nationalgas.com</a>
First Workgroup Meeting	01 June 2023		
Workgroup Report to be presented to Panel	17 August 2023		
Draft Modification Report issued for consultation	18 August 2023		 telephone
Consultation Close-out for representations	08 September 2023		Systems Provider: Xoserve
Final Modification Report available for Panel	14 September 2023		
Modification Panel decision	21 September 2023		 <a href="mailto:UKLink@xoserve.com">UKLink@xoserve.com</a>

## 1 Summary

### What

The high-level requirements for the release of Entry and Exit Capacity on the National Transmission System (NTS) by National Gas Transmission (NGT) are set out (respectively) in **TPD Section B2** and **B3** (System Use and Capacity). As required by NGT's Licence, principles for determination of the volumes of Entry and Exit Capacity to be released by NGT are set out (respectively) in the Entry Capacity Release Methodology Statement (**ECR**) and the Exit Capacity Release Methodology Statement (**ExCR**).

NGT's Licence requires NGT to have in place and maintain a System Management Principles Statement (**SMPS**) which sets out the principles and criteria by which NGT will determine:

- which System Management Services NGT will use to assist it in the operation of the NTS; and
- when and for what purpose NGT resorts to measures not involving the use of System Management Services.

Collectively, the methodologies detailed in the Entry Capacity Release Methodology Statement **ECR**, Exit Capacity Release Methodology Statement **ExCR** and the **SMPS** (the contents of all of which are subject to the consent of the Authority) set out NGT's approach to the release of Entry and Exit Capacity, including instances where utilisation of Constraint Management tools is necessary.

### Why

The **SMPS** enables the use of a number of tools to manage localised transportation capability including the restriction of daily Firm NTS capacity (Entry and Exit) made available. This is also reflected in:

- the **ECR**, which makes provision for NGT to withhold Entry Capacity from release where a capacity constraint is foreseen; and
- the **ExCR**, which makes provision for NGT to withhold Exit Capacity from release where a capacity constraint is foreseen.

**TPD Section B2** (Entry Capacity) explicitly requires NGT to apply the System Management Principles (as set out in the **SMPS**) in the management of an Entry Capacity Constraint.

However, the existing equivalent UNC rules for Exit Capacity (set out in **TPD Section B3**) do not include a corresponding requirement regarding the application of System Management Principles in these circumstances.

Hence **TPD Section B3** is inconsistent with:

- the equivalent terms relating to Entry Capacity in the UNC (**TPD Section B2**);
- the rules in the **SMPS** regarding the steps available to NGT in the management of localised (Exit) transportation capability; and
- the rules in the **ExCR** which makes provision for NGT to withhold Exit Capacity from release where a capacity constraint is foreseen.

Implementation of this Proposal would therefore align the Exit Capacity arrangements with existing UNC terms relating to Entry Capacity Constraint Management, and also with the Capacity release principles set out in the **ExCR** and **SMPS**.

## How

This Modification seeks to include a requirement in TPD Section B3 for National Gas Transmission (NGT) to apply the System Management Principles in the course of the management of an Exit Capacity Constraint.

## 2 Governance

### Justification for Authority Direction

Application of Self-Governance procedures is sought because the changes proposed are unlikely to have a material effect on the 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, nor on the operation of one or more pipe-line system(s) (nor any of the other aspects described in the Self-Governance criteria).

This is because the nature of the proposed change is to merely provide clarity and transparency in the UNC regarding the arrangements relating to, and tools available to NGT, where an Exit Capacity Constraint is foreseen as set out in the SMPS.

### Requested Next Steps

This Modification should be considered a non-material change and subject to Self-Governance.

### Workgroup's Assessment

Insert text here.

## 3 Why Change?

### Issue Summary

There is an inconsistency in the UNC regarding the management of Entry and Exit Capacity Constraints as set out below. Alignment of the provisions relating to Entry Capacity Constraints with the existing provisions relating to Exit Capacity Constraints (as proposed in this Modification) would enhance the clarity of the UNC arrangements and better reflect the approach taken by NGT in the circumstances as set out in the SMPS and the ExCR.

### Context

The high-level requirements for the release of Entry and Exit Capacity on the NTS by NGT are set out (respectively) in TPD Section B2 and B3 (System Use and Capacity).

As required by Special Condition 9.18 of NGT's Licence, principles for the determination of the volumes of Entry and Exit Capacity to be released by NGT are set out (respectively) in the:

- ECR; and
- ExCR.

In summary, Special Condition 9.18.1 states:

*This condition places the following obligations on the licensee:*

- a) to release Obligated Entry Capacity and Obligated Exit Capacity;*
- b) to maintain and comply with capacity release methodology statements;*

- c) *to report to the Authority; and*
- d) *to publish the capacity release methodology statements.*

Special Condition 9.19 of NGT's Licence also requires NGT to have in place and maintain a SMPS. Special Condition 9.19.8 requires that the SMPS must set out the principles and criteria by which NGT will determine.:

- o which System Management Services NGT will use to assist it in the operation of the NTS; and
- o when and for what purpose NGT resorts to measures not involving the use of System Management Services.

Specifically, Special Condition 9.19.9 explicitly states that NGT must comply with the provisions of the SMPS.

Collectively, the methodologies detailed in the ECR, ExCR and the SMPS (the contents of all of which are subject to the consent of the Authority) set out NGT's approach to the release of Entry and Exit Capacity, including instances where utilisation of Constraint Management tools is necessary.

### Alignment of Methodology Statements and the UNC

Part C of the SMPS enables the use of a number of tools to manage localised transportation capability including to "restrict the quantity of daily firm NTS Capacity made available". As this utilisation of the term 'NTS Capacity' is not pre-fixed with 'Entry' nor 'Exit' then this tool is available to NGT in both cases.

This is also reflected in:

- the ECR, paragraph 74 of which states:  
*"Where, in respect of any given Gas Flow Day, circumstances arise in which National Grid<sup>1</sup> foresees a capacity constraint occurring at an ASEP, National Grid may withhold capacity from sale for that ASEP in DSEC auction..."*
- the ExCR, paragraph 162 of which states  
*"Where, in respect of any given Gas Flow Day, circumstances arise in which National Grid<sup>1</sup> foresees a capacity constraint occurring at an NTS Exit Point, National Grid may withhold capacity from sale for that NTS Exit Point in the Daily auctions. The quantity withheld will be limited to that which National Grid considers necessary to avoid the constraint or to avoid increasing the extent of the constraint, and hence to avoid or limit, the cost of any actions needed to manage the constraint".*

TPD Section B2.9.6 (in the context of Entry Capacity) explicitly requires NGT to apply the System Management Principles (as set out in the SMPS) in the management of an Entry Capacity Constraint. This section states:

*"National Gas Transmission shall for the purposes of the management of a capacity constraint take such steps as are in accordance with the System Management Principles"*

However, the existing equivalent UNC rules for Exit Capacity (set out in TPD Section B3) do not include the corresponding requirement regarding application of System Management Principles in these circumstances.

Hence TPD Section B3 is inconsistent with:

- the equivalent terms relating to Entry Capacity in the UNC (TPD Section B2.9.6);
- the rules in Part C of the SMPS regarding the steps available to NGT in the management of localised (Exit) transportation capability; and

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<sup>1</sup> Occurrences of the entity name 'National Grid' in the ExCR, ECR and SMPS are expected to be amended to reflect the new entity name 'National Gas Transmission' on an incremental basis in prospective versions of each document.

- the rules in paragraph 162 of the ExCR which makes provision for NGT to withhold Exit Capacity from release where a capacity constraint is foreseen.

Implementation of the changes advocated by this Proposal would therefore provide clarity and remove ambiguity for Users by aligning the Exit Capacity arrangements with existing UNC terms relating to Entry Capacity Constraint Management, and also with the Capacity release principles set out in the ExCR and SMPS.

### **Consequences of continued Capacity Release in a constraint situation**

Where a capacity constraint is foreseen (or indeed in effect) NGT has a suite of operational and commercial tools which may be adopted to alleviate the constraint at the most efficient cost. In such cases, NGT only withholds those capacity volumes that exceed the expected (or actual) capability of the network at that time. If NGT released such volumes (that exceeded physical capability), and due to the constraint was required to use other constraint management tools to manage the constraint (including Locational actions and/or the buy back of firm NTS Exit Capacity), this may result in constraint management costs in excess of those which would have otherwise been incurred.

The net costs associated with constraint management actions are recovered from all Users via neutrality charges, and the ongoing release of all firm capacity (regardless of whether a capacity constraint is foreseen) may not result in the most efficient means of managing a capacity constraint for the industry as a whole.

Logically, making a product/service available to a counterparty which the seller foresees, at the time of sale it is not able to provide, and which it is then required to rectify, potentially at a premium cost (a cost which is borne principally by other parties), does not represent the optimal approach. Alternatively, limiting sales in the first instance to volumes that are expected to be available (and thus not incur any premium costs for other parties) is in our view the most efficient solution.

## **4 Code Specific Matters**

### **Reference Documents**

[UNC TPD Section B](#)

[SMPS \(version 11.0\)](#)

[EXR \(version 7\)](#)

[ExCR \(version 15\)](#)

NGT Licence available on the Ofgem Electronic Public Register ([EPR](#))

### **Knowledge/Skills**

Knowledge of Capacity Release principles and System Management Principles would be beneficial.

## **5 Solution**

This Modification seeks to include a requirement in TPD Section B3 for National Gas Transmission (NGT) to apply the System Management Principles in the course of the management of an Exit Capacity Constraint.

## 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

In the event that any additional constraint management costs (borne in part by Users) are ultimately recovered from consumers via supply charging then the preferred approach (as set out in this Proposal) to limit the extent of such costs which are incurred represents the best outcome for consumers.

### What is the current consumer experience and what would the new consumer experience be?

NGT currently operates in accordance with ExCR and the SMPS and therefore withholds the release of Daily Firm NTS Exit Capacity where an Exit Capacity Constraint is foreseen. To the extent that this Proposal seeks to enhance alignment between the UNC provision relating to Exit Capacity and the ExCR and SMPS there would be no change between the 'current' and 'new' consumer experiences. Notwithstanding this, we would expect enhanced clarity of the approach NGT takes in such instances to result in the following benefits.

Impact of the change on Consumer Benefit Areas:	
Area	Identified impact
<p>Improved safety and reliability</p> <p>No impact</p>	None
<p>Lower bills than would otherwise be the case</p> <p>As set out above, whilst NGT currently operates in accordance with ExCR and the SMPS, the alternative approach (of releasing Exit Capacity in excess of expected capability) may result in additional costs of System Operation (borne by Users) which may ultimately recovered from consumers via supply charging.</p>	Positive
<p>Reduced environmental damage</p> <p>None</p>	None
<p>Improved quality of service</p> <p>Enhanced clarity regarding the approach NGT will take to the management of Exit Capacity Constraints will provide a greater level of certainty for Consumers that the capacity made available on a Day Ahead or Within Day basis is at reduced risk of being subject to System Management Services actions undertaken by NGT pursuant to the SMPS.</p>	Positive
<p>Benefits for society as a whole</p> <p>None</p>	None

## Cross-Code Impacts

None.

## EU Code Impacts

None.

## Central Systems Impacts

We do not believe there will be any impacts on Central Systems.

### Rough Order of Magnitude (ROM) Assessment *(Workgroup assessment of costs & lead times)*

Cost estimate from CDSP	Insert text here
Insert Subheading here	Insert text here

## Performance Assurance Considerations

Insert text here.

## Initial Representations

None to consider.

## Panel Questions

N/A

## Workgroup Impact Assessment

Insert text here.

### Text to be considered by Workgroup:

This modification highlights a challenge to the accepted hierarchy of the governance framework being:

- Gas Act
- Licence
- UNC
- Other methodologies and statements.

It is understood that where there is an inconsistency with a higher document the 'rules' in the higher document prevail.

One challenge is that NGT's licence places a number of obligations on NGT with respect to the release of obligated capacity and to maintain and comply with capacity release methodology statements and system management principles statements. The licence extracts below are relevant and highlighted for emphasis.

### **Special Condition 9.18** Methodology to determine the release of Entry Capacity and Exit Capacity volumes

#### Introduction

9.18.1 This condition places the following obligations on the licensee:

- a) to release Obligated Entry Capacity and Obligated Exit Capacity;
- b) (b)to maintain and comply with capacity release methodology statements;
- c) to report to the Authority; and



d) (d)to publish the capacity release methodology statements.

9.18.2 This condition also sets out the process for the licensee to revise the capacity release methodology statements.

Part A: Release of Obligated Entry Capacity and Obligated Exit Capacity

9.18.3 The licensee must, unless the Authority otherwise directs, use reasonable endeavours to release **Obligated Entry Capacity** at each NTS Entry Point in all available Allocations up to the end of the day to which the capacity relates, in accordance with the provisions of Standard Special Condition A5 (Obligations as Regard Charging Methodology).

9.18.4 The licensee must, unless the Authority otherwise directs, use reasonable endeavours to release **Obligated Exit Capacity** at each NTS Exit Point in all available Allocations up to the end of the day to which the capacity relates, in accordance with the provisions of Standard Special Condition A5 (Obligations as Regard Charging Methodology).

9.18.7 The Exit Capacity release methodology statement must:

- a) set out how the licensee decides whether to make Incremental Exit Capacity available for sale to Relevant Shippers and DN Operators;
- b) set out where the licensee makes Incremental Exit Capacity available, how it decides what quantity to make available, and how much capacity is made available;
- c) set out how the licensee offers for sale Obligated Exit Capacity to Relevant Shippers and DN Operators; and
- d) incorporate the obligation set out in paragraph 9.18.4.

The modification does not address the hierarchy of documents in the gas market regulatory framework such that lower documents cannot take precedence over higher documents. Nor does it, in the event of a potential constraint, address the inconsistency between licence condition 9.18.1 and 9.18.4, namely complying with the ExCR and potentially withholding capacity and using reasonable endeavours to release obligated capacity in all allocations up to the end of gas day D.

(the UNC is already inconsistent with licence in this respect as obligated capacity is only made available dayahead) UNC B3.5

The key question is does the fact that the ExCR and SMPs are required by licence elevate their status above the UNC? If so, this makes large parts of section B irrelevant, leaving governance of the capacity release arrangements with limited or no role for shippers, no ability to raise change proposals nor appeal a decision, which is at odds with all other parts of the Code. It also makes licence condition 9.18.4 irrelevant.

Ofgem's decision letter in approving paragraph 162 in the ExCR does little to help understand these issues. <https://www.ofgem.gov.uk/publications/approval-modified-capacity-release-and-capacity-methodology-statements>

**Extracts from the decision letter:**

The Independent Examiner said that there is **limited evidence that withholding obligated capacity from the daily allocation processes where you foresee a constraint is economically efficient.**

We (Ofgem) note the clarifications you provided to stakeholders and the Independent Examiner with regard to withholding capacity from daily allocation when you foresee a constraint. You said that continuing to sell capacity

into a constraint would increase constraint management costs significantly, with the cost ultimately passed on to consumers. You also said that this practice is covered by the System Management Principles, which have recently gone through industry consultation, and explained that you would in the first instance scale back interruptible capacity before considering any action related to firm capacity. **We expect that you will continue to act in compliance with your obligations.**

It is not clear what obligations this relates to, perhaps licence condition 9.18.4? But it is clear that this approval of a change to the ExCR does not formally constitute a derogation from licence condition 9.18.4.

Assessment against relevant objectives:

- a) efficient and economic operation of the pipeline system. **None**

From NGT presentation to workgroup <https://www.gasgovernance.co.uk/sites/default/files/ggf/book/2023-05/0848%2020230601%20Workgroup%20%281%29.pdf>

*From an operational perspective there would be no change if implemented as NGT operates, and will continue to operate, in accordance with the SMPS (and ExCR) in the management of Exit Capacity Constraints*

- c) efficient discharge of the licensee's obligations - Depends on which licence conditions re considered, **negative** for licence condition 9.18.4
- d) Securing effective competition **negative**

The independent examiner saw limited evidence that withholding capacity as economically efficient.

Any customers, in particular direct connects, that have capacity withheld where a constraint is *potential* rather than actual at the dayahead stage, may still choose to flow and incur overrun charges which would place them at a competitive disadvantage to other similar parties where capacity is not withheld.

If they choose not to flow they are similarly disadvantaged. So, this does not support competition. In this respect withholding capacity at exit it is different than entry as it has a direct impact on end consumers of gas.

Lack of clarity over the timing of notifications of withholding firm dayahead capacity also impacts competition between shippers providing gas to gas fired generation as the dayahead timescales with respect to the electricity market are not considered.

<https://www.nationalgas.com/document/142171/download>

It also appears that Ofgem's position on demonstrating the probability and impact of constraint costs has changed since is approved the ExCR change many years ago. This is identified in its recent decision with respect to limiting the release of capacity at Milford Haven

<https://www.ofgem.gov.uk/publications/decision-proposed-revisions-methodology-statements-held-national-gas-transmission-plc>

**Ofgem is of the opinion that NGT have not sufficiently demonstrated that high capacity constraint costs are likely as informed by a probability assessment, nor that the impact of withholding capacity would be less damaging to the GB market and GB consumers**

- f) promotion of efficiency in the implementation and administration of the code **negative**

Aligning the UNC with the ExCR and SMPS undermines the status of the code in the governance hierarchy.

Impact of the change on consumer benefit areas

Lower bills than would otherwise be the case - **uncertain**

It is not self-evident that withholding the sale of firm capacity day-ahead in the event of a potential constraint will impact costs to consumers. The revenue foregone by not selling capacity may exceed constraint costs or there may be no constraint costs if the anticipated constraint assessed day-ahead does not emerge. There may also be overrun revenue to consider.

Improved quality of service - **none**

NGT clearly states that this proposal will not affect its actions.

Direct connects as consumers may face greater uncertainty over the release of exit capacity and therefore receive a lower level of service.

Consumers more generally may face interruption to power supplies.

## 7 Relevant Objectives

<b>Impact of the Modification on the Transporters' Relevant Objectives:</b>	
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.	Positive
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 Modification furthers Relevant Objectives (a), (c) and (d), as follows:

**a) Efficient and economic operation of the pipe-line system**

The proposed changes in this Modification will enhance alignment between the UNC and ExCR/SMPS which will result in enhanced transparency of the arrangements in place to deal with an Exit Capacity Constraint. As set out above, the Proposer's view is that availability of the ability for NGT to withhold release of Daily Firm Exit Capacity represents the most efficient means of addressing a forecast or actual Exit Capacity Constraint. Implementation would therefore better facilitate the efficient and economic operation of the NTS (as compared with the current misalignment)

**c) Efficient discharge of licensee's obligations**

By aligning the UNC Exit Capacity arrangements with those capabilities set out in the ExCR and the SMPS implementation would further enable the efficient discharge of NGTs obligations under Special Conditions 9.18.1(b) and 9.19.9 of our Licence (i.e. to comply with the provisions of the ExCR and SMPS respectively).

**d) Securing of effective competition between relevant Shippers;**

Maintenance of the approach whereby an appropriate volume of Daily Firm Exit Capacity is withheld where an Exit Capacity Constraint is foreseen will minimise the costs of System Operation which are borne by all Users. Thus limiting the extent of such 'pass through' costs will secure effective competition between relevant Shippers.

**Workgroup Assessment of Relevant Objectives**

Insert text here

**8 Implementation**

No specific timescale is proposed for implementation. As no changes to central systems are expected to be required, there is no lead time required for implementation from the Proposer's perspective.

**9 Legal Text**

Legal Text has been provided by [name] and is [included below/published alongside this report].

**Workgroup Assessment**

The Workgroup has considered the Legal Text and is satisfied that it meets the intent of the Solution.

**Text Commentary**

TBC.

**Text**

TBC

**10 Recommendations**

**Workgroup's Recommendation to Panel**

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

# 11 Appended Representations

Initial Representations – None