

Stage 01: Modification

0454:

Introduction of a Long Term Non Firm Capacity Product

At what stage is this document in the process?

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

This modification introduces a Long Term Non Firm capacity product that can be offered to a User in the case that they require access to the NTS ahead of the Firm NTS Capacity delivery date for that same User.



The Proposer recommends that this modification:

- Should not be subject to self-governance procedures, and
- Should be assessed by a workgroup.



High Impact:



Medium Impact:
Shipper Users, DN Users and National Grid NTS



Low Impact:

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About this document:

This modification will be presented by the proposer to the panel on 16 May 2013.
The panel will consider the proposer's recommendation, and agree whether this modification should be referred to a workgroup for assessment.


Any questions?
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1 Summary

Is this a Self-Governance Modification?

National Grid NTS consider that this modification should not be subject to self-governance procedures since it may have a material impact on:

- 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
- matters relating to the management of market.

Why Change?

The Planning Act (2008) extends planning timescales for NTS reinforcements; with total lead times extended beyond those defined in the current Gas Transporter Licence. National Grid NTS recognises that there may be customers whose projects may have progressed significantly, be ready ahead of schedule or may not require planning consent and they may require access to the NTS ahead of the firm capacity delivery date. We have had feedback from some stakeholders asking National Grid NTS to consider the release of a product which could be utilised where an incremental capacity signal has been received and allocated to the customer but the firm capacity delivery date is beyond the customers' first potential gas flow date (including where the incremental capacity signal is to be met via substitution from another NTS Entry/Exit Point). National Grid NTS believes that there would be benefits to the industry in providing additional flexibility for the release of NTS Entry and Exit Capacity which would help to meet customer expectations where the project timelines are not aligned.

National Grid NTS is therefore developing proposals to allow NTS Users access to the NTS prior to the release of the firm incremental capacity signalled by those same NTS Users.

Solution

The proposed solution is to introduce a Long Term Non Firm capacity product that is exclusively available to a User who has provided an incremental capacity signal (see section 3) which has subsequently been allocated (or as the case may be reserved¹). This change would allow a User to hold capacity ahead of the effective date of the Quarterly NTS Entry Capacity/Enduring Annual NTS Exit (Flat) Capacity allocated to or reserved by that same User. Any Long Term Non Firm capacity released would be in the form of Firm NTS Entry/Exit Capacity with an associated Buy Back Option Agreement for all days on which the Long Term Non Firm Capacity is held.

¹ National Grid NTS recognises that under the current regime the reservation of NTS Exit Capacity is not possible for Users and the reservation of NTS Entry Capacity is not possible for any party; however this Modification does not exclude the possibility that such arrangements may be introduced in the future.

Relevant Objectives

National Grid NTS consider that this modification would better facilitate relevant objective (a) “Efficient and economic operation of the pipe-line system”, relevant objective (b) “Coordinated, efficient and economic operation of the combined pipe-line system” and relevant objective (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”.

Implementation

- No implementation timescales are proposed.
- National Grid NTS has raised a Rough Order of Magnitude (ROM) and Xoserve have confirmed that existing Gemini system functionality should satisfy the requirements of this modification however there may be costs associated with testing of existing functionality to give confidence that it is fit for purpose. These costs are expected to be between £10k and £50k.
- The project duration for testing of solutions for both entry and exit is expected to take at least 3 months, but probably not more than 6 months from the time that Xoserve receives a Change Order.
- This modification has been raised as a User Pays Modification since implementation may provide benefit for both Shippers and National Grid NTS. The proposed cost apportionment is Transporters 50%/Shippers 50%.

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2 Why Change?

The Planning Act (2008) extends planning timescales for NTS reinforcements; with total lead times extended beyond those defined in the current Gas Transporter Licence. National Grid NTS recognises that there may be customers whose projects may have progressed significantly, be ready ahead of schedule or may not require planning consent and they may require access to the NTS ahead of the firm capacity lead times. We have had feedback from some stakeholders asking National Grid NTS to consider the release of a product which could be utilised where an incremental capacity signal has been received and allocated to the customer but the firm capacity delivery date is beyond the customers' first potential gas flow date (including where the incremental capacity signal is to be met via substitution from another NTS Entry/Exit Point). National Grid NTS believes that there would be benefits to the industry in providing additional flexibility for the release of NTS Entry and Exit Capacity which would help to meet customer expectations and reduce uncertainty and delay where the project timelines are not aligned.

This modification would allow NTS Users access to NTS capacity prior to the release of the Quarterly NTS Entry Capacity/Enduring Annual NTS Exit (Flat) Capacity signalled by that User. This would remove barriers that may otherwise delay new projects being connected, allowing earlier network access for connecting parties, where required, and earlier utilisation of the combined pipe-line system. This would facilitate efficient and economic operation of the pipeline system and further achieve effective competition for relevant shippers.

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3 Solution

The proposed solution is to introduce a Long Term Non Firm capacity product for both NTS Entry and Exit Capacity. Long Term Non Firm Capacity would be made available via the release of Firm NTS Entry/Exit (Flat) Capacity with an associated Option Agreement. This change would allow a customer access to the NTS prior to the effective date of the Quarterly NTS Entry Capacity/Enduring Annual NTS Exit (Flat) Capacity allocated to (or as the case may be, reserved by) the customer following the receipt of an incremental capacity signal from that customer.

It is further proposed that any such release of Long Term Non Firm Entry or Exit Capacity shall be subject to the provisions of UNC Section TPD V3. For the avoidance of doubt, any NTS Entry or Exit Capacity allocated through this process shall be considered in respect of Overruns. Allocated capacity shall be included in the User's Fully Adjusted Available NTS Entry Capacity/Fully Adjusted Available NTS Exit (Flat) Capacity to determine the Overrun Quantity. For the purposes of the Overrun charge calculation, the price paid for Firm NTS Entry Capacity released in response to the Long Term Non Firm Capacity request will be considered to be a bid price. For the purposes of the NTS Exit (Flat) Overrun charge calculation the Long Term Non Firm Exit Capacity request will be considered to be a capacity application.

For the purposes of this modification an incremental capacity signal is:

- in respect of Entry Capacity a bid for Quarterly NTS Entry Capacity that satisfies the Net Present Value test as described in National Grid's Entry Capacity Release Methodology Statement and/or
- in respect of Exit Capacity an application for Enduring Annual NTS Exit (Flat) Capacity which if allocated or reserved would take the Enduring Annual NTS Exit (Flat) Capacity registered or reserved to all Users in aggregate above the Baseline NTS Exit (Flat) Capacity.

A User may only request Long Term Non Firm Capacity where the following conditions have been satisfied:

- An incremental capacity signal has been provided either
 - by a User via an auction/application window that has triggered the allocation of Firm NTS Entry/Exit Capacity or
 - via the reservation of capacity by a User, or Reservation Party on behalf of a nominated User requesting Long Term Non Firm Capacity, that is over and above the Available NTS Entry Capacity/Remaining Available NTS Exit (Flat) Capacity.
- The amount of Available NTS Entry Capacity that is available for all Gas Days within the relevant Month at the relevant NTS Entry Point is less than 100,000kWh/day.
- The amount of Remaining Available NTS Exit (Flat) Capacity that is available for all Gas Days within the relevant Gas Year at the relevant NTS Exit Point is less than 100,000kWh/day.

In the case that the capacity constituting the Incremental Firm Capacity signal has been reserved by a Reservation Party, they would need to nominate a User or Users to be registered as holding, some, or all, of the reserved capacity. In this case the nominated User will be eligible to apply for Long Term Non Firm capacity.

Amendments to other documents:

Please note that implementation of this Proposal will require National Grid NTS to amend the following:

- 'The Statement of Gas Transmission Transportation Charges'.

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- ‘UNC TPD Section Y – Charging Methodologies’
- ‘Entry Capacity Release Methodology Statement’
- ‘Exit Capacity Release Methodology Statement’

For clarity, if amendments to any documents (i.e. other than the UNC) are required, this will need to be considered when the effective implementation date of this solution is set.

The following general rules expand and define the solution.

1. Initial notification of capacity requirements

- The User or Reservation Party signals their requirement for additional Quarterly NTS Entry Capacity/Enduring Annual NTS Exit (Flat) Capacity in respect of a new or existing NTS Entry or Exit Point via one of the following mechanisms:
 - a bid or request being placed and subsequently allocated in an Entry Capacity Auction or Exit Capacity Application Window respectively, or
 - reservation of NTS Entry/Exit capacity.

2. Long Term Non Firm Request Process

If the User, or in the case of capacity reserved by a Reservation Party a nominated User, requires access to the NTS prior to the Firm NTS Entry/Exit Capacity delivery date, they will be eligible to submit a request for Long Term Non Firm Capacity for the relevant NTS Entry/Exit Point. The following rules and criteria will apply for such requests:

- The Long Term Non Firm Capacity request must include the following information:
 - The identity of the User
 - The relevant NTS Entry/Exit Point
 - The period(s) for which the Long Term Non Firm Capacity is requested (no greater than a single Gas Year)
 - The quantity of Long Term Non Firm Capacity requested (not less than 100,000 kWh/day) for each month within the relevant Gas Year
- Capacity Quantity: The requested amount of Long Term Non Firm Capacity must be no larger than the amount of NTS Entry/Exit Capacity which constituted the incremental capacity signal which was allocated to the User prior to the request for Long Term Non Firm Capacity.
- Capacity Duration
 - Long Term Non Firm Capacity would cover some or all of the period up to the estimated Incremental Firm Entry/Exit Capacity delivery date.
 - Quantities will be agreed on a monthly basis for up to one Gas Year at a time. If the Long Term Non Firm Capacity is required for further Gas Years the quantity will be agreed and allocated prior to the start of the relevant Gas Year.
 - Capacity cannot be requested for a period beyond Gas Year Y+1.
 - Where Long Term Non Firm Capacity has been released following the reservation of NTS Entry/Exit Capacity or allocation of Enduring NTS Exit (Flat) Capacity via an Ad-hoc request in the October to June Exit Capacity Application Window and the relevant agreement has subsequently been terminated, meaning that there is no longer a firm incremental capacity signal in place; the (Exit) Option Agreement will be exercised for all Long Term Non Firm Capacity

released for the remainder of the period and no further release of Long Term Non Firm Capacity will be considered.

d. Timeline

- i. Requests for Long Term Non Firm Capacity must be sent to National Grid NTS by no later than the [10]th Business Day of month M where Long Term Non Firm capacity is required for Month [M+2] at the earliest.
- ii. National Grid NTS will respond to the User within [2] Business Days to acknowledge the request and state whether the request meets the relevant criteria.
- iii. If the request passes the relevant criteria, National Grid NTS will then have 1 month to determine and confirm to the User if Long Term Non Firm Capacity can be released for the relevant period.
- iv. If it is decided that Long Term Non Firm Capacity can be released, the User will have [2] Business Days to confirm to National Grid NTS that they wish to continue with the allocation. National Grid NTS will then set up the Application window and associated Option Offer window, place the appropriate requests on behalf of the User, allocate, and provide confirmation to the user within 7 days. – subject to credit etc

3. Long Term Non Firm Capacity Release Mechanism

Any Long Term Non Firm capacity released would be in the form of Firm NTS Entry/Exit Capacity with an associated Buy Back Option Agreement for all days on which the Long Term Non Firm Capacity is held.

a. Customer Participation:

Following confirmation that a request is successful, National Grid NTS will set up an Auction/Application window and an Option Agreement offer window. On the day of the Auction/Application Window and the associated Option Agreement window, National Grid NTS will enter the details of the firm capacity request and the associated buyback onto the system on behalf of the User.

b. *Charges to be paid:*

- i. For the avoidance of doubt Users will pay Capacity Charges for the capacity allocated through this process i.e. the quantity of NTS Entry or Exit Firm Capacity allocated, multiplied by the capacity price, multiplied by the relevant period for which capacity has been allocated.
- ii. In the event that the relevant Option Agreement is exercised, National Grid NTS will pay an strike/option exercise price to the User and the User will surrender Firm NTS Entry/Exit (Flat) Capacity for that Gas Day.

Firm NTS Entry Capacity with associated Option Agreement

- For the purposes of the Long Term Non Firm Capacity product, the Firm NTS Entry Capacity is such additional amount of NTS Entry Capacity above the NTS SO Baseline Entry Capacity as National Grid NTS may decide to release for that Gas Year in response to a Long Term Non Firm Entry Capacity request.

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- The additional Firm NTS Entry Capacity will be released to a pre determined User.
- Additional Firm NTS Entry Capacity will be made available, utilising existing system processes, in monthly intervals for up to one Gas Year.
- If Long Term Non Firm capacity is applied for during Month M of Gas Year Y the earliest period which capacity may be applied for is Month M+2 and the latest will be the earlier of the final month of the Gas Year in which the first capacity month has been requested and the month preceding the Firm Capacity start date. Capacity cannot be requested for periods spanning more than one Gas Year at a time and cannot be requested for a period beyond Gas Year Y+1.

An Option Agreement would be entered into at the same time as the allocation of additional Firm NTS Entry Capacity (together constituting the Long Term Non Firm Capacity allocation).

- The Option Agreement must be entered into for all days on which capacity is to be released, for the same quantity as the capacity to be released.
- The additional Firm NTS Entry Capacity and Option Agreement will be exclusive to the pre determined User who has signalled a requirement for Incremental Quarterly NTS Entry Capacity, as such there will be no need for a Tender invitation Notice to be issued prior to the Agreement being entered into.

Pricing

- Any additional Firm NTS Entry Capacity released will be subject to capacity charges, however the customer will recover their Long Term Non Firm NTS Entry Capacity costs where the Option is exercised. It is proposed that any such release of Long Term Non Firm Entry Capacity shall:
 - In the case of additional Firm NTS Entry Capacity be subject to a fixed price. For clarification this fixed price will be the prevailing AMSEC auction Reserve Price for the relevant NTS Entry Point at which the NTS Entry Capacity is released) as specified in the Notice of Gas Transmission Transportation Charges.
 - in the case of the Option Agreement be subject to the following pricing structure:
 - The premium (option) price shall be 0p/kWh/d.
 - The strike (exercise) price shall be equal to the price paid for the additional Firm NTS Entry Capacity.

Informing the User of allocations:

National Grid NTS will as soon as reasonably practicable and in any case no later than 2 (two) Business Days prior to the first day for which requests for Long Term Non Firm Capacity have been made, inform the User that its request has been allocated, the amount of additional Firm NTS Entry Capacity which it is registered as holding for the NTS Entry Point and the relevant period (for clarification the relevant period will be the period for which the capacity has been allocated).

Publication of Information:

By no later than one Business Day following the notification to the User of it's allocations, National Grid NTS will provide the following information to all Users in accordance with UNC Section B paragraph 2.14.2 in respect of the relevant NTS Entry Point:

- The Long Term Non Firm Capacity Period
- Total Requested Volume of Long Term Non Firm Capacity
- Total Successful Volume of Long Term Non Firm Capacity
- Long Term Non Firm Capacity Price
- Option Agreement Strike Price

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NTS Exit (Flat) Capacity with associated Exit Option Agreement

- For the purposes of the Long Term Non Firm Capacity product, the Firm NTS Exit (Flat) Capacity is such additional amount of Annual NTS Exit (Flat) Capacity above the Baseline NTS Exit (Flat) Capacity as National Grid NTS may decide to release for that Gas Year in response to a Long Term Non Firm Exit Capacity request.
- Additional Firm NTS Exit (Flat) Capacity will be released to pre determined Users.
- The additional Firm NTS Exit (Flat) Capacity will be made available, via Application Window processes, in monthly intervals for up to one Gas Year if the User requests capacity during Gas Year Y for months within Gas Year Y but for an annual period if requested for Gas Year Y+1.
- If Long Term Non Firm capacity is applied for during Month M of Gas Year Y the earliest period which capacity may be applied for is Month M+2 and the latest will be the earlier of the final month of the Gas Year in which the first capacity month has been requested and the month preceding the Firm Capacity start date. Capacity cannot be requested for periods spanning more than one Gas Year at a time and cannot be requested for a period beyond Gas Year Y+1.

An Exit Option Agreement would be agreed at the same time as the allocation of additional Firm NTS Exit (Flat) Capacity (together constituting the Long Term Non Firm Capacity allocation).

- The Exit Option Agreement must be entered into for all days on which capacity is to be released, for the same quantity as the capacity to be released.
- The additional Firm NTS Exit (Flat) Capacity and Exit Option Agreement is exclusive to the pre determined User who has signalled the incremental Enduring NTS Exit (Flat) Capacity.

Pricing:

- Any additional Firm NTS Exit (Flat) Capacity released will be subject to capacity charges, however the customer will recover their Long Term Non Firm NTS Exit (Flat) Capacity costs where the Option is exercised. It is proposed that any such release of Long Term Non Firm Exit Capacity shall:
 - in the case of additional Firm NTS Exit (Flat) Capacity, be subject to a fixed price. For clarification this fixed price will be the prevailing actual price for the relevant NTS Exit Point at which the NTS Exit Capacity is released as specified in the Notice of Gas Transmission Transportation Charges.
 - Capacity Price: National Grid NTS places request, on the User's behalf, at the prevailing firm actual price for the relevant gas year and location.
 - in the case of the Exit Option Agreement be subject only to an option exercise price which shall be equal to the price paid for the additional Firm NTS Exit (Flat) Capacity.

Informing the User of Allocations:

National Grid NTS will as soon as reasonably practicable and in any case no later than 2 (two) Business Days prior to the first day for which requests for Long Term Non Firm Capacity have been made, inform the User that its request has been allocated, the amount of additional Firm NTS Exit Capacity which it is registered as holding for the NTS Exit Point and the relevant period (for clarification the relevant period will be the period for which the capacity has been allocated).

Publication of Information:

By no later than one Business Day following the notification to the User of its allocations, National Grid NTS will provide information to all Users in accordance with Table B-1 of UNC Section B Annex B1 in respect of the relevant NTS Exit Point:

- The Long Term Non Firm Capacity Period
- Total Requested Volume of Long Term Non Firm Capacity

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- Total Successful Volume of Long Term Non Firm Capacity
- Long Term Non Firm Capacity Price
- Option Exercise Price

User Pays

Classification of the modification as User Pays, or not, and the justification for such classification

This modification has been raised as User Pays. This modification benefits both National Grid NTS and Users by improving the operation of the System and effective competition between Users.

National Grid NTS has raised a Rough Order of Magnitude (ROM) and Xoserve have confirmed that existing Gemini system functionality should satisfy the requirements of this modification however there may be costs associated with testing of existing functionality to give confidence that it is fit for purpose. These costs are expected to be between £10k and £50k.

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

This modification benefits both National Grid NTS and Users by improving the operation of the System and effective competition between Users.

This modification apportions the costs as:

- 50% Shipper & DN Users (further apportionment to be determined)
- 50% National Grid NTS

The cost apportionment is based on the potential benefits accrued by different parties under the relevant objectives under Standard Special Condition A11 1(a), (b)(i) and (d)(i).

Proposed charge(s) for application of User Pays charges to Shippers

To be determined.

Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve

To be determined.

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.	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.	Positive
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

Achievement of relevant objective (a) “Efficient and economic operation of the pipe-line system”

Implementation of this modification would facilitate more efficient and economic use of the pipe-line system as it would provide additional flexibility in the release arrangements of NTS Entry and Exit Capacity to allow Users to connect their project to and access capacity on the NTS earlier, if required, where the Firm Capacity delivery date is beyond the first potential gas flow date for the Users project.

Achievement of relevant objective (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”

Implementation of this modification would remove barriers that may otherwise delay new projects being connected to the NTS, allowing earlier network access for connecting parties, where required, and earlier utilisation of the combined pipe-line system.

Achievement of relevant objective (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.”

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Implementation of this modification would facilitate the effective competition between shippers for additional capacity since it would remove a barrier that may otherwise delay new projects being connected to the NTS and allow earlier utilisation.

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5 Implementation

- No implementation timescales are proposed.
- National Grid NTS has raised a Rough Order of Magnitude (ROM) and Xoserve have confirmed that existing Gemini system functionality should satisfy the requirements of this modification however there may be costs associated with testing of existing functionality to give confidence that it is fit for purpose. These costs are expected to be between £10k and £50k.
- The project duration for testing of solutions for both entry and exit is expected to take at least 3 months, but probably not more than 6 months from the time that Xoserve receives a Change Order.
- This modification has been raised as a User Pays Modification since implementation may provide benefit for both Shippers and National Grid NTS. The proposed cost apportionment is Transporters 50%/Shippers 50%.

6 Legal Text

To be provided

7 Recommendation

The Proposer invites the Panel to:

- Determine that this modification should not be subject to self-governance.
- Determine that this modification should progress to Workgroup assessment.

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