

Modification proposal:	<b>Uniform Network Code (UNC) 597: Rules for the release of incremental capacity at Interconnection Points (UNC597)</b>		
Decision:	The Authority <sup>1</sup> directs this modification be made <sup>2</sup>		
Target audience:	UNC Panel, Parties to the UNC and other interested parties		
Date of publication:	22 March 2017	Implementation date:	To be confirmed by the code administrator

## Background

On 16 June 2015, the Authority approved UNC500 'EU Capacity Regulations – Capacity Allocation Mechanisms with Congestion Management Procedures'.<sup>3</sup> This incorporated the Regulation (EU) No 984/2013 Capacity Allocation Mechanism (CAM) Network Code ("CAM") into the UNC. It implemented a number of processes to allocate capacity at Interconnection Points (IPs) including what type of products should be made available, arrangements to allocate capacity using the PRISMA auction platform<sup>4</sup>, and clarifying Use it Or Lose it provisions among other things.

At that time CAM did not include European Union (EU) wide arrangements to acquire or release incremental capacity at IPs. Since then, a number of amendments have been developed for CAM which will implement common arrangements to allocate capacity at IPs. These amendments were published in the Official Journal of the European Union on 17 March 2017<sup>5</sup> and are expected to come force on 6 April 2017.<sup>6</sup>

UNC597 seeks to make sure the UNC is compliant with the CAM incremental capacity amendments.<sup>7</sup> Its aim is to clarify how the EU wide arrangements to allocate incremental capacity at IPs will fit into the existing framework used in Great Britain. It would also allow National Grid Gas Transmission (NGGT) to undertake the initial stages of the IP incremental capacity process when the amendments referred to above come into force.

## The modification proposal

NGGT proposed UNC597 to facilitate compliance with CAM by introducing a proposed new process to allocate incremental capacity at IPs. The main features of this proposed process are described below.

We note that while UNC597 would introduce most of the framework to allocate incremental capacity at IPs, parts of the CAM IP process will require changes to the capacity methodology statements and NGGT's gas transporter licence. This includes methodology statement changes to implement the economic test for the release of incremental capacity at IPs among other things.

<sup>1</sup> References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.

<sup>2</sup> This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986.

<sup>3</sup> A copy of the decision letter can be found on [www.gasgovernance.co.uk](http://www.gasgovernance.co.uk)

<sup>4</sup> PRISMA is a trading platform used to allocate gas transmission capacity.

<sup>5</sup> They have numbered Commission Regulation (EU) 2017/459

<sup>6</sup> At this point Regulation (EU) No 984/2013 will be repealed and replaced Regulation (EU) 2017/459.

<sup>7</sup> Due to short timescales between developing and implementing the amendments, UNC597 has been based on a version of the CAM amendments dated 15 September 2016.

NGGT have set out a timeline to consult on the changes to the methodology statements and, along with us, to consider the changes which will be required to their gas transporter licence to facilitate the CAM amendments. NGGT have committed to keep network users informed as these issues progress. We will continue to work with NGGT to make sure these changes are progressed as quickly as possible.

A self governance modification, UNC598S,<sup>8</sup> has also been approved by the UNC Panel.<sup>9</sup> This modification will revise the UNC to include an amended auction calendar to make capacity available at IPs. The Joint Office of Gas Transporters issued an implementation notice on 17 March 2017 stating UNC598S will become effective on 6 April 2017.

UNC597 proposes the following processes to allocate incremental capacity at IPs by introducing new text into the UNC European Interconnection Document Section E. The EID sets out the specific arrangements at IPs where they differ from the rest of the UNC.

#### *Demand assessment*

These changes would implement Article 26 in CAM. Rules will be added which set out how network users can signal for incremental capacity at IPs by submitting non-binding demand indications, and how NGGT will assess if sufficient demand exists to proceed with an incremental capacity project.

#### *Design Phase*

These changes would implement the provisions of Article 27 in CAM. They set out how NGGT will conduct technical studies to determine how the capacity can be delivered if sufficient demand is identified in the Demand Assessment stage. The changes would also explain how NGGT and adjacent Transmission System Operators (TSOs) will consult in tandem on the proposals.

#### *Regulatory Approval*

These changes seek to implement Article 28 in CAM. They explain the framework NGGT and adjacent TSOs will use to finalise and submit project reports to National Regulatory Authorities (NRAs) seeking approval to proceed with the incremental capacity projects. This includes the information that will be submitted to NRAs.

#### *Capacity Allocation*

Article 30 in CAM allows incremental capacity to be allocated using either an auction mechanism set out the network code, or using an alternative allocation mechanism developed by the TSO and approved by the relevant NRA.

NGGT propose to use an alternative allocation mechanism based on the PARCA process to allocate incremental capacity at IPs. The PARCA process was established in 2015 as a mechanism to allocate additional capacity on the National Transmission System (NTS)

---

<sup>8</sup> UNC 598S - Amendments to Capacity Allocations Mechanisms to comply with EU Capacity Regulations

using a bi-lateral contract between NGGT and network users.<sup>10</sup> NGGT intend to use the PARCA processes and fees as the basis to allocate incremental capacity at IPs.

New text would be added to UNC EID Section E which states the incremental project proposal will state the arrangements to allocate capacity using an alternative allocation mechanism. The project proposal will need to be approved by the NRA.

#### *Demand Indication Application Fee*

Article 26 allows TSOs to charge fees for activities they undertake in response to the submission of a non-binding demand indication. NGGT intend to implement these fees by introducing a Demand Indication Application Fee. This would be based on the existing PARCA Phase One Fee.

New text would be added UNC EID Section E which states a Demand Indication Application Fee (DIAF) will also be payable by each party submitting a demand indication. This text states the DIAF will be equivalent in value to the PARCA Application Fee and explains the circumstances it will be retained by NGGT or returned to network users.

#### *Other changes*

UNC597 would also make a number of other changes to the UNC. New text would be added to UNC EID Section E which explains how the process to release incremental capacity at IPs interacts with other allocation mechanisms to allocate incremental capacity.

Amendments would also be made to UNC Transportation Principal Document (TPD) Section B to clarify that unsold NTS entry and exit capacity made available in long term NTS allocation mechanisms will not include capacity being considered in the binding phase<sup>11</sup> of the IP incremental capacity process.

The PARCA Security Amount calculation in UNV TPD Section Y would also be revised to take account of IP capacity being made available using the processes described above.

#### **UNC Panel<sup>12</sup> recommendation**

At the UNC Panel meeting on 16 February 2017, a majority of the UNC Panel considered that UNC597 would better facilitate the UNC objectives and the Panel therefore recommended its approval. The UNC Panel considered UNC597 better facilitated relevant objective (g) Compliance with the Regulation and relevant legally binding decisions of the European Commission and/or Agency for the Co-operation of Energy Regulators.

#### **Our decision**

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 16 February 2017. We have considered and taken into

---

<sup>10</sup> More detail on the PARCA process can be found on NGGT's website:

<http://www2.nationalgrid.com/UK/Services/Gas-transmission-connections/PARCA-Framework/>

<sup>11</sup> The binding phase lasts from the start of the reservation period to the completion of the economic test.

<sup>12</sup> The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

account the responses to the industry consultation on the modification proposal which are attached to the FMR.<sup>13</sup> We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the UNC;<sup>14</sup> and
- directing that the modification be made is consistent with our principal objective and statutory duties.<sup>15</sup>

### **Reasons for our decision**

There were two responses to the UNC597 consultation both of which supported its implementation. They agreed the modification better facilitated relevant objective (g).

We have set out our views below on which UNC relevant objectives are impacted. We consider that the modification proposal is neutral in relation to the other relevant objectives.

*(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*

Both respondents to the UNC597 consultation considered the modification is necessary to make sure the incremental capacity requirements of the CAM network code are implemented on time.

We agree with the respondents that UNC597 incorporates the CAM amendments to allocate incremental capacity at IPs into the UNC. This includes processes which allow users to submit and NGGT to assess non-binding demand applications. This will help make sure that commercial arrangements to allocate gas in GB comply with provisions to allocate IP capacity contained in CAM. Given this, we consider that UNC597 will facilitate the achievement of relevant objective (g).

We also agree that UNC597 will help ensure the CAM incremental capacity allocation processes are implemented on time. UNC597 was submitted following the Comitology Procedure but before the CAM amendments will enter into force. However, there are no significant changes to the final version of the CAM text compared to the version UNC597 is based on. It will also mean that NGGT can take forward and assess non-binding demand indications submitted after the CAM amendments come into force.

One respondent to the consultation noted that some elements of the incremental capacity process are still being discussed by NGGT and Ofgem and assurances have been given by NGGT to industry that they will be kept informed of their progress.

Approving UNC597 will allow NGGT to progress with changes to the capacity methodology statements to reflect the processes to allocate incremental capacity at IPs. It will also allow us and NGGT to progress the changes required to the gas transporter licence as a

---

<sup>13</sup> UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at [www.gasgovernance.co.uk](http://www.gasgovernance.co.uk)

<sup>14</sup> As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, available at: <https://epr.ofgem.gov.uk/Content/Documents/Standard%20Special%20Condition%20-%20PART%20A%20Consolidated%20-%20Current%20Version.pdf>

<sup>15</sup> The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Gas Act 1986 as amended.

result of CAM. The completion of these activities should make sure GB governance and commercial arrangements are fully compliant with CAM.

We agree UNC597 will allow network users to signal for capacity, NGGT to assess demand and seek approval to proceed with an incremental capacity project and that it corresponds with CAM provisions. UNC597 should provide network users with a clear set of rules for the allocation of incremental capacity at IPs.

## **Other issues**

### *PARCA style mechanism*

One respondent was content to allocate capacity using a PARCA based approach. As NGGT propose to allocate incremental capacity at IP points using an alternative allocation mechanism based on the PARCA process they have only drafted UNC text which reflects the provisions of Article 30 - *Principles for alternative allocation mechanisms* of CAM. NGGT have not drafted UNC text which reflects the provisions of Article 29 which relates to the use of ascending clock auctions to allocate incremental capacity.

We are content for NGGT to allocate capacity using a process based on PARCAs. PARCAs were developed to provide a flexible, transparent mechanism to allocate additional capacity to network users. However, its use is subject to the agreement of neighbouring NRAs. NGGT should also make sure neighbouring TSOs understand fully how incremental IP capacity will be allocated using a PARCA style mechanism and that arrangements are in place which allow the use of the alternative allocation mechanism. NGGT have confirmed that discussions with neighbouring TSOs on the alternative allocation mechanism have taken place.

We are also content with the changes UNC597 make to the existing PARCA Security Amount calculation. This should ensure that security required during the PARCA process will take account of incremental capacity made available at IPs.

### *Interaction with NTS long term capacity allocation mechanisms*

We note NGGT have included UNC text which clarifies the interaction between the CAM IP processes and existing NTS long term capacity allocation mechanisms. Given the timescales to allocate capacity, it is possible the processes to allocate capacity at IPs and non-IPs could overlap. UNC597 provides a common sense guidance as to how these interactions will be managed. However, we encourage NGGT to make sure capacity allocation processes are managed in such a way that unnecessary network investment is avoided.

### *Implementation*

Note that the implementation date for UNC597 will be confirmed by the Code Administrator. This will allow the Code Administrator and the proposer to implement UNC597 in tandem with UNC598S, and when the amendments come into force on 6 April 2017.

**Decision notice**

In accordance with Standard Special Condition A11 of the Gas Transporters licence, the Authority hereby directs that modification proposal UNC597: 'Rules for the release of incremental capacity at Interconnection Points' be made.

**Chris Brown**  
**Head of Gas Systems**

Signed on behalf of the Authority and authorised for that purpose