













UNC Modification	At what stage is this document in the process?
<h1>UNC 0636C:</h1> <h2>Updating the parameters for the NTS Optional Commodity Charge – Introducing the NTS Optional Capacity Charge</h2>	<div>01 Modification</div> <div>02 Workgroup Report</div> <div>03 Draft Modification Report</div> <div>04 Final Modification Report</div>
<p><b>Purpose of Modification:</b></p> <p>To replace NTS Optional Commodity Charges with NTS Optional Capacity Charges that will provide an enduring solution at all system entry and exit points, being mindful of changes ensuing from the European Tariff Network Code.</p>	
	<p>The Proposer recommends that this modification should be:</p> <ul style="list-style-type: none"> <li>considered a material change and not subject to self-governance</li> <li>assessed by a Workgroup</li> </ul> <p>This modification will be presented by the Proposer to the Panel on 15 March 2018. The Panel will consider the Proposer's recommendation and determine the appropriate route.</p>
	<p>High Impact:</p> <p>The proposal, if implemented, will result in a major change to the way in which optional transportation tariffs are derived and applied.</p>
	<p>Medium Impact:</p>
	<p>Low Impact:</p>

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Timetable		 <a href="mailto:enquiries@gasgovernance.co.uk">enquiries@gasgovernance.co.uk</a>
<b>The Proposer recommends the following timetable:</b>		 0121 288 2107
Initial consideration by Workgroup	TBC	Proposer:
Workgroup Report presented to Panel	20 September 2018	Graham Jack, Centrica
Draft Modification Report issued for consultation	21 September 2018	 <a href="mailto:graham.jack@centrica.com">graham.jack@centrica.com</a>
Consultation Close-out for representations	11 October 2018	 telephone 07979 564929
Final Modification Report available for Panel	15 October 2018	Transporter: <b>National Grid NTS</b>
Modification Panel decision	18 October 2018	Systems Provider: <b>Xoserve</b>
		 <a href="mailto:commercial.enquiries@xoserve.com">commercial.enquiries@xoserve.com</a>
		Other:
		
		

## 1 Summary

### What

The objective of the proposal is to replace NTS Optional Commodity Charges with Optional Capacity Charges and for this to take effect on 1 October 2019.

### Why

The NTS Optional Commodity Charge formula was introduced in 1998 and has not been changed since that time. If a shipper elects to pay the Optional Commodity Charge for a deemed straight-line transportation route between a qualifying chosen system entry point (ASEP) and qualifying NTS exit point it will not be required to pay either the standard NTS entry or NTS exit commodity charges for the quantity of gas to which the optional charge applies. The original rationale was that the availability of the Optional Commodity Charge would encourage shippers to use the NTS in preference to building and using independent pipelines and that this would lead to a better economic outcome, avoiding inefficient bypass of the NTS. Since then shipper use of the Optional Commodity Charge has grown, partially driven by the rapid rise in TO commodity charge levels in recent years and some UNC parties have expressed some concern as to whether the level of uptake is now appropriate, i.e. that it results in an unfair redistribution of transportation costs. On the other hand, other UNC parties are of the view that the inefficient bypass argument is still valid and that shippers as a whole benefit from lower charges due to gas throughput that otherwise would not contribute to National Grid's revenue recovery. Additionally, it has been argued that in addition to avoiding inefficient bypass, the Optional Commodity Charge actually attracts gas to the NTS, e.g. gas that might be delivered directly to the European continent instead of the NTS.

The NTS Optional Commodity Charge therefore remains a useful instrument for attracting gas to the GB market, for encouraging greater use of the NTS and therefore ultimately benefitting consumers. However, given the differing views of industry parties on the subject it should be reviewed and it is timely to do so because of changes to gas transmission charges that will result from the full implementation of the EU Tariff network code by 31 May 2019, with new charging arrangements taking effect from 1 October 2019.

Although the exact form of the new charging arrangements from October 2019 have yet to be determined, there are some changes that will have a direct impact on the applicability of the Optional Commodity Charge: the EU tariff network code will not permit TO commodity-type charges to be levied at Interconnection Points and the code also places emphasis on transportation charges generally as being largely capacity-based.

If the current Optional Commodity Charge were to remain in place, therefore, then it is highly likely that it will result in different economic treatments at Interconnection Points than at non-Interconnection Points. This would be discriminatory. Given this background, it is the Proposer's view that the current approach to providing optional transportation charges will be unworkable from 1 October 2019 and that a new approach is required.

## How

Optional Commodity Charges will be replaced by Optional Capacity Charges. Underpinning the derivation of the charges will be a Capacity Weighted Distance approach to establishing capacity reserve prices at all system entry and exit points. The “short-haul” or optional transportation distance, divided by a relevant entry or exit point’s Capacity Weighted Distance and multiplied by the system point’s reserve price will determine the Optional Capacity Charge payable. In the event that a Capacity Weighted Distance methodology is implemented in 2019 then the resultant Optional Capacity Charges will apply. If a different charging approach is implemented in 2019 then the method will be used to determine the level of discount to be applied to the reserve prices from that different methodology.

In addition to the Optional Capacity Charges replacing relevant system reserve charges, non-transmission services (SO) commodity charges will not apply to relevant gas flows nor will transmission services (TO) revenue recovery (or top-up) charges be applied.

## 2 Governance

### Justification for Authority Direction

The proposal is for a major restructuring of optional transportation charging that is expected to result in a significant redistribution of transportation costs among system users.

This Modification should be considered likely to have a material on competition in, or commercial activities related to, the shipping, transportation or supply of gas. It therefore should be sent to the Authority for decision.

### Requested Next Steps

This modification should:

- be considered a material change and not subject to self-governance; and
- be assessed by a Workgroup.

## 3 Why Change?

The following are the main reasons for change:

- (a) The EU Tariff network code will inevitably result in different transmission charging arrangements from 1 October 2019 and it is therefore timely to consider whether the current approach to providing optional transportation charges is sustainable;
- (b) It is anticipated that the current Optional Commodity Charge will provide discriminatory economic outcomes to the disadvantage of Interconnection Points due to some explicit charging restrictions imposed by the EU Tariff network code, i.e. that transmission revenue (TO) recovery commodity charges cannot be applied at Interconnection Points;
- (c) The rationale for, and benefits of, providing optional transportation charges should be reviewed to provide confidence that they will result in outcomes that are beneficial to competition in gas shipping and supply, provides a net benefit to consumers and, in a broader context, is conducive to facilitating security of gas supply, NBP market liquidity and effective competition with neighbouring European gas markets; and

- (d) There needs to be greater transparency and governance for how optional transmission charges are derived and applied. Currently, the UNC does not set out a methodology for how the Optional Commodity Charge formula has been derived.

## 4 Code Specific Matters

### Reference Documents

### Knowledge/Skills

Understanding of the NTS charging methodology in respect of the Optional Commodity Charge and knowledge of the requirements of the EU Tariff network code,

## 5 Solution

The new method will provide for reduced entry and exit capacity reserve charges at applicable entry and exit system points, replacing the need to derive an Optional Commodity Charge. Consistent with the current code rules, Non-Transmission Services (SO) commodity charges will not be payable on qualifying gas entry or exit flows. In addition, and consistent with the current code rules, Transmission Services Revenue Recovery (TO) charges will not apply to qualifying entry or exit gas flows (where such a charge is commodity-based) or to qualifying entry or exit capacity quantities (where such a charge is capacity-based).

The NTS Optional Capacity Reserve Charges will apply to an Applicable Quantity (Q) calculated on each gas day:

$$Q = \text{MIN} \{ \text{CAPen}, \text{CAPex}, \text{FLOWen}, \text{FLOWex} \} \text{ where}$$

CAPen = User's entry capacity entitlement on the day at the applicable ASEP,

CAPex = User's exit capacity entitlement on the day at the applicable exit point,

FLOWen = User's gas flow entry allocation on the day at the applicable ASEP, and

FLOWex = User's gas flow exit allocation on the day at the applicable exit point.

For an applicable entry and exit point combination, the NTS Optional Capacity Reserve Charges to be levied on the Applicable Quantity are calculated as follows:

$$\text{NTS Optional Entry Capacity Charge} = D / \text{CWDen} \times \text{RPen} \text{ and}$$

$$\text{NTS Optional Exit Capacity Charge} = D / \text{CWDex} \times \text{RPex} \text{ where}$$

D is the straight-line distance between the entry and exit point,

CWDen is the capacity weighted distance for the entry point,

CWDex is the capacity weighted distance for the exit point,

RPen is the capacity reserve price for the entry point and

RPex is the capacity reserve price for the exit point.

The capacity weighted distances will be derived with reference to the approach set out in the EU Tariff network code.

The Optional capacity charges therefore reflect that proportion of the costs, allocated by the capacity weighted distances at the relevant entry and exit points under a Capacity Weighted Distance charging methodology, that would be attributed to a dedicated pipeline bypassing the NTS.

Non-Transmission Services charges and Transmission Services Revenue Recovery charges will not be levied on the Applicable Quantity (Q).

Normal Transmission Services charges or Non-Transmission Services charges will apply, as appropriate, to those capacities or gas flows not covered by the Applicable Quantity (Q):

Where  $CAPen > Q$ , normal entry capacity charges will apply to  $(CAPen - Q)$  units of the User's entry capacity entitlement.

Where  $CAPex > Q$ , normal exit capacity charges will apply to  $(CAPex - Q)$  units of the User's exit capacity entitlement.

Where  $FLOWen > Q$ , the normal entry commodity charges will apply to  $(FLOWen - Q)$  units of the User's entry allocation.

Where  $FLOWex > Q$ , the normal exit commodity charges will apply to  $(FLOWex - Q)$  units of the User's exit allocation.

NTS Optional Charges will not apply where either the entry or exit point is a gas storage facility. Also, an exit point can be associated with only one entry point/ASEP for the purpose of attracting NTS Optional Charges.

It is appropriate that all gas using the NTS attracts a charge for doing so. It is therefore reasonable to apply a minimum distance limitation such that D is no less than 0.1km to ensure that the NTS Optional capacity charges are positive numbers.

National Grid NTS will notify relevant shipper Users of the applicable NTS Optional capacity charges, and the date from which they are to apply, as they would for the normal set of transportation charges.

## 6 Impacts & Other Considerations

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

There is no impact on an SCR. There is no impact on the current charging review that is due for implementation in 2019 for compliance with the EU Tariff Code.

### Consumer Impacts

If implemented, the modification will result in a sustainable and transparent optional charging methodology that will have considered a range of factors likely to impact on consumers, including efficient utilisation of the NTS, competition in gas shipping and supply, security of supply and the effectiveness of the wholesale gas market.

### Cross Code Impacts

There is no impact expected.

### EU Code Impacts

The proposal will result in a non-discriminatory and enduring outcome that takes into consideration the requirements of the EU tariff network code.

### Central Systems Impacts

Changes to systems will be assessed as part of the Modification development.

## 7 Relevant Objectives

Impact of the modification on the Relevant Objectives:

Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	None
b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters.	None
c) Efficient discharge of the licensee's obligations.	None
d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	Positive

e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers.	None
f) Promotion of efficiency in the implementation and administration of the Code.	None
g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	Positive
<b>Impact of the modification on the Relevant Charging Methodology Objectives:</b>	
<b>Relevant Objective</b>	<b>Identified impact</b>
a) Save in so far as paragraphs (aa) or (d) apply, that compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its transportation business;	Positive
aa) That, in so far as prices in respect of transportation arrangements are established by auction, either: (i) no reserve price is applied, or (ii) that reserve price is set at a level - (I) best calculated to promote efficiency and avoid undue preference in the supply of transportation services; and (II) best calculated to promote competition between gas suppliers and between gas shippers;	None
b) That, so far as is consistent with sub-paragraph (a), the charging methodology properly takes account of developments in the transportation business;	Positive
c) That, so far as is consistent with sub-paragraphs (a) and (b), compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers; and	Positive
d) That the charging methodology reflects any alternative arrangements put in place in accordance with a determination made by the Secretary of State under paragraph 2A(a) of Standard Special Condition A27 (Disposal of Assets).	None
e) 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.	Positive

Particular attention to the requirements of the EU Tariff network code will ensure that an enduring solution is provided, one that does not unduly discriminate against Interconnection Points.

## 8 Implementation

An implementation date of 1 October 2019 is proposed. This is the date from which charges under a new transmission charging methodology, driven by EU Tariff network code requirements, will take effect.

The solution requires that National Grid provide relevant users with notices of newly derived Optional Capacity Charges on the same basis that other transportation charges are notified. The expectation is that indicative notices will be provided with a lead time of at least 150 days, with final notices provided at least 2 months before the charges are to be applied.

## 9 Legal Text

### Text Commentary

None

## 10 Recommendations

### Proposer's Recommendation to Panel

Panel is asked to:

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