

UNC Final Modification Report	At what stage is this document in the process?
<h1>UNC 0686:</h1> <h2>Removal of the NTS Optional Commodity Rate with adequate notice</h2>	<div style="display: flex; flex-direction: column; gap: 10px;"> <div style="border: 1px solid #ccc; padding: 5px; display: flex; align-items: center; gap: 10px;"> 01 Modification </div> <div style="border: 1px solid #ccc; padding: 5px; display: flex; align-items: center; gap: 10px;"> 02 Workgroup Report </div> <div style="border: 1px solid #ccc; padding: 5px; display: flex; align-items: center; gap: 10px;"> 03 Draft Modification Report </div> <div style="border: 1px solid #ccc; padding: 5px; display: flex; align-items: center; gap: 10px;"> 04 Final Modification Report </div> </div>
<p>Purpose of Modification:</p> <p>Removal of the NTS Optional Commodity Rate¹ with adequate notice.</p> <p>“Adequate notice” here means a notice period that is consistent with both the TAR NC and the UNC requirements. As long a notice period as possible is desirable for Users who may be subject to contractual constraints.</p>	
	<p>Panel consideration is due on 20 June 2019</p>
	<p>High Impact:</p> <p>All Users of the GB gas transmission and distribution system and their downstream customers.</p> <p>National Grid in its role as the Transmission Licensee.</p> <p>Users currently opting for the NTS Optional Commodity Rate could expect an increase in the tariff, whilst those not using the NTS Optional Commodity Rate could expect a decrease in tariff.</p>
	<p>Medium Impact:</p> <p>None</p>
	<p>Low Impact:</p> <p>None</p>

¹ The NTS Optional Commodity Rate is the Uniform Network Code (UNC) term. Stakeholders may be more familiar with alternative descriptions such as the NTS Optional Commodity Charge or NTS Shorthaul Tariff.

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Modification timetable:	
Modification presented to Panel	18 April 2019
Initial consideration by Workgroup	30 April 2019
Workgroup Report presented to Panel	16 May 2019
Draft Modification Report issued for consultation	16 May 2019
Consultation Close-out for representations	07 June 2019
Final Modification Report available for Panel	11 June 2019
Modification Panel decision	20 June 2019

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1 Summary

What

The NTS Optional Commodity Rate (OCR)² needs to be removed such that the tariff is no longer available from 01 October 2019 (beginning of the Gas Year). This should be achieved in a manner that gives adequate³ notice to stakeholders.

Why

Users of the current OCR⁴ receive the same service as non-Users for significantly lower charges. The service received is the transport of gas through the National Transmission System using standard capacity products with no specific restrictions about the use of these capacity products⁵. The average unit commodity rate for those using the OCR has been estimated at 18% of the standard commodity unit rate in gas year 17/18⁶. The same capacity charges apply irrespective of the choice to elect the OCR. The Proposer of this Modification believes this is unduly discriminatory and anti-competitive and therefore not compliant with EU⁷ and UK Law, and National Grid's Licence Conditions. Specifically, this includes compliance with EC 2009/715 as well as EU 2017/460.

National Grid proposes through its Urgent Modification 0678 to remove the NTS OCR" from "01 October 2019 or as soon as possible thereafter". In view of the recent extension to the Modification 0678 timetable it is the view of the Proposer of this Modification that there is now a significant risk of delay to the effective date for tariffs rendering National Grid Gas in breach of its Licence in respect of the National Transmission System⁸.

During consideration of Modification 0678 and other Modifications, workgroup members⁹ have consistently requested that National Grid provide as much notice as possible of changes to tariffs, in particular with regard to the mandatory removal of OCR.

How

Remove the OCR with effect from 1 October 2019 and provide as much notice to stakeholders as possible.

An Authority decision to approve this proposed Modification by 31 May 2019 would provide certainty to Users in regard to the current OCR for the forthcoming Gas Year 2019/20 and be in advance of the forthcoming capacity auctions to be held 1 July 2019. If this date is not possible a decision by the end of July would provide 2 months' notice for charges from 1 October 2019.

² The NTS Optional Commodity Rate is the Uniform Network Code term. Stakeholders may be more familiar with alternative descriptions such as the NTS Optional Commodity Charge or NTS Short-haul Tariff.

³ "Adequate notice" here means a notice period that is consistent with both the TAR NC and the UNC requirements. As long a notice period as possible is desirable for Users who may be subject to contractual constraints.

⁴ The OCR was introduced in 1998 to provide a mitigating option for shippers seeking short distance transportation and was justified on the basis of avoiding inefficient bypass of the NTS. However, the current arrangement will not be compliant with EU Legislation.

⁵ Provision of a point to point service is not allowed under EU 2009/715. Article 13(1) "By 3 September 2011, the Member States shall ensure that, after a transitional period, network charges shall not be calculated on the basis of contract paths."

⁶ More detail is provided in Section 3

⁷ EU Tariff Code: http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2017.072.01.0029.01.ENG&toc=OJ:L:2017:072:FULL

⁸ National Grid Gas (NGG) would be in breach of its Licence by not complying with its relevant methodology objectives in respect of charging – specifically (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.

⁹ The workgroup is made up of signatories to the UNC "Users" and other interested parties. The workgroup is open to anyone who wishes to attend.

2 Governance

Justification for Urgency

The Proposer requested on 2 April 2019 that this Modification should be treated as urgent and should proceed under a timetable approved by the Authority. This request was declined on 10 April 2019¹⁰.

A proposed timetable is presented above under the timetable section of this Modification.

The Proposer believes:

1. NGG will be in breach of relevant legal requirements, specifically Commission Regulation (EU) 2017/460 (known as TAR NC or the Tariff Code) as the prevailing NTS Charging Methodology will not be compliant with TAR NC^{11,12}.
 - a. While Modification 0678 was granted the necessary Urgent status, it has already been delayed from the original Authority determined timetable and may even be delayed further¹³. Modification 0678 was granted urgency because of an imminent date related issue¹⁴.
 - b. It would be inconceivable for the Authority to make a decision by 31 May 2019 if it only receives the Final Modification Report on 29 May 2019 given the expected complexity of this report and necessary governance and procedures of Ofgem's decision making process.
2. This proposal aims to offer the possibility to have a more compliant methodology by 31 May 2019 by being compliant in respect of the OCR which has already been recognised as non-compliant.¹⁵
3. Charges under the TAR NC need to be effective from the gas year following 31 May 2019, that is 1 October 2019¹⁶
 - a. A TAR NC Methodology is necessary by 31 May 2019 to have TAR NC compliant capacity charges effective from 1 October 2019¹⁷
 - b. However, commodity charges can be notified by 30 August 2019¹⁸.
 - c. Stakeholders have consistently argued for longer notice periods and especially with regard to the OCR and so a decision by 31 May 2019 consistent with 2 above is recommended.

The Authority decision on Modification 0621 states that the OCR is not compliant with Commission Regulation (EU) 2017/460 (known as TAR NC or the Tariff Code). In the following extracts from the decision letter the NOC is the NTS Optional Charge and is synonymous with the OCR *"In conclusion, the proposed commodity-based*

¹⁰ https://www.ofgem.gov.uk/system/files/docs/2019/04/unc0686_-_urgency_decision.pdf

¹¹ Ofgem 0678 Urgency Decision letter: https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/book/2019-01/unc0678_-_urgency_decision.pdf

¹² "First, NGG notes that if UNC678 is not treated as an urgent modification, this could cause UNC parties to be in breach of relevant legal requirements, as the prevailing NTS Charging Methodology would not be compliant with TAR NC." And "If this imminent date-related issue is not addressed, the NTS Charging Methodology contained in the UNC will not be compliant with these requirements of TAR NC at the point in time in which that is required. Failing to achieve timely compliance with TAR NC would therefore cause NGG to be in breach of relevant legal requirements."

¹³ Ofgem 0678 Extension Decision Letter: https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/book/2019-03/unc678_-_extension_of_timetable.pdf. The first scheduled meeting planned for 25 March was postponed until 3 April due to delays in information provision. At the meeting of 28 March some material was still outstanding although it was acknowledged that there was a plan in place.

¹⁴ Source: Mod 0678 v3.0 "this being the requirement in Article 38(3) of Regulation 2017/460 ('the Regulation') for the relevant Chapters of the Regulation (II, III and IV) to take effect from 31 May 2019. In terms of Transportation charge rates, the consequential changes are therefore required to take effect for the following Gas Year commencing 01 October 2019."

¹⁵ Ofgem decision on Mod 0621: <https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/page/2018-12/Ofgem%20Decision%20Letter%200621.pdf>

¹⁶ Charges are subject to differing notice periods under the TAR NC depending on whether they are capacity or commodity based.

¹⁷ Article 32 (a) of the TAR NC requires 30 days' notice before the annual yearly capacity auction.

¹⁸ Article 32 (b) of the TAR NC requires 30 days' notice but two months' notice is required under the UNC

NOC at non-IP points does not fall within either of the exceptions under Article 4(3) and is therefore not compliant with the TAR NC.38 and “The UNC621 modifications (with the exception of UNC621D) convert the NOC into a capacity-based charge at IPs and hence to that extent complies with the requirement of Article 4(3) TAR NC to levy tariffs for transmission services on a capacity basis. However, our concerns regarding cost-reflectivity and cross-subsidisation remain.”

In recognition of this, the Proposers of Modification 0678 and all current Alternatives propose removal of the OCR.

- The Proposer believes it is important to be compliant with EU legislation:
 - Firstly EU 2009/715. “Tariffs, or the methodologies used to calculate them, shall be applied in a non-discriminatory manner” and “tariffs, or the methodologies used to calculate them, shall facilitate efficient gas trade and competition, whilst at the same time avoiding cross-subsidies between network users and providing incentives for investment and maintaining or creating interoperability for transmission networks.”
 - Secondly the TAR NC. This Regulation entered into force on 6 April 2017. Article 38(3) provides for Chapters VI and VIII to apply from 1 October 2017 and Chapters II, III and IV to apply from 31 May 2019. Chapter 1 is therefore already in force and re-affirms compliance with EU 2009/715. Specifically, there is no provision within Article 4 for the present OCR.
- Article 38 of the TAR NC requires the reference price methodologies (amongst other things) to be published by 31 May 2019 and the resulting charges to be effective from the next tariff period i.e. for tariffs applicable from 1 October 2019. Therefore, the charge should be withdrawn from 1 October 2019.
- Shippers have consistently argued that it will be beneficial to provide as much notice as possible¹⁹.

Why is this proposed Modification not an Alternative to Modification 678²⁰ or potential Modification 670R?

- This proposal is NOT an Alternative to Modification 0678 (or its Alternatives) as it will be possible to implement this Proposal for effect on the OCR tariff from October 2019 and any one of Modification 0678 (or Alternatives) for effect on other tariffs at the same time (Oct 2019) or any subsequent date.
- For the avoidance of doubt this Modification Proposal would remove OCR from 1 October 2019 and Modification 0678 would affect other tariffs including the possibility of a new “efficient by-pass” charge if desirable.
- This proposal is NOT an Alternative to any potential Modification arising from the Modification Workgroup 670R which is considering a potential capacity based “inefficient by-pass” arrangement post October 2019 rather than removal of the current commodity option. It is expected that this work will soon become a priority following a decision on Modification 0678 if there remains a need for an “inefficient by-pass charge”²¹. Any potential Modification arising from 0670R, if needed, is expected to follow Modification 0678 rather than precede it. If such a need were to remain after this Modification, which Modification 0678 was not expected to solve then Modification 670R could address the issue.

¹⁹ <https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/2019-01/0678%20Workgroup%20Summary%2029Jan19%20v3.0.pdf>

²⁰ Modification 678 has been issued for consultation on 15 April 2019 and closes on 8 May 2019

²¹ Some of the Modification 0678 Alternatives include a capacity based “inefficient by-pass” option – which could be expected to solve this issue.

Justification for Authority Direction

This Modification proposal is recommended to be sent to the Authority for direction as it is likely to have a material effect on all Users of the GB gas transmission and distribution systems and their downstream customers.

It will also affect National Grid in its role as the Transmission Licensee and would further its compliance with its Licence. Self-governance would be inappropriate given the distributional impacts of this proposal, which the Proposer is of the view favours smaller customers not obviously represented in the process.

Requested Next Steps

This Modification should be subject to Authority Approval and should proceed straight to Consultation.

There is no benefit from workgroup assessment as the Authority decision on Modification 0621 indicates that the OCR is not compliant with Commission Regulation (EU) 2017/460

There is no need for further development of this Modification. It is purely about removing a charge for which the Regulation (EU 2009/715) and EU 2017/460 does not provide for. For the avoidance of doubt this is a “fall-back position” or an “insurance policy” if Modification 0678 does not deliver for October 2019. It would further compliance and provide a transition step to a more compliant solution.

Modification 0678 has been issued for Consultation and there are several Alternatives that include a capacity based “inefficient by-pass” tariff as a potential replacement if compliant and desirable. This proposal in no way prejudices any Authority decision in this regard. If accepted, it should focus parties on developing a compliant tariff in a timely manner, in the certain knowledge that the OCR will no longer apply from 01 October 2019.

Analysis provided by the Proposer using publicly available information provided by National Grid is already consistent with Modification 0678 analysis and goes further than that provided in Modification 0678.

3 Why Change?

Users of the current OCR receive the same service as non- Users for significantly lower charges. The average unit commodity rate for those using the OCR has been estimated at 18% of the standard commodity unit rate in gas year 17/18²². This results in a cross-subsidy recently estimated²³ at £146m per annum by sites unable to benefit from the OCR to those opting for the OCR. This cross-subsidy is primarily to the disadvantage of domestic and larger I and C customers within the Distribution Networks.

This would appear to be unduly discriminatory and anti-competitive, and furthermore has already been identified by the Authority as “non-compliant”, as discussed above in Section 2. National Grid have presented on the topic at NTSCMF meetings²⁴ and do not propose to retain the OCR in Modification 0678.

Whilst Modification 0678 is seeking to remove the NTS OCR from 1 Oct 2019 (or as soon as possible thereafter), there is significant risk that the effective date for tariffs will lead to very short notice periods (two months). The change could be delayed past 1 October 2019 potentially forcing change within a Gas Year.

In particular the notification (and indeed any change) is almost certain to be after 31 May. This would give less than 1 months’ notice (or no notice at all) for the Capacity Auctions to be held 1 July 2019.

²² See detail in table 1 below

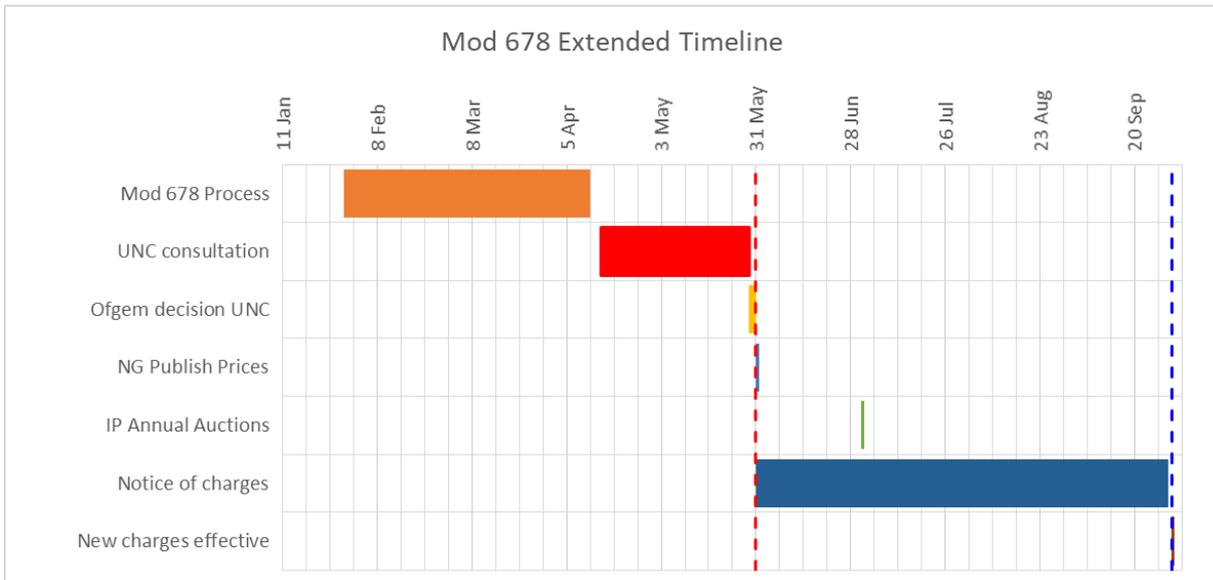
²³ National Grid: NTSCMF 26 September 2017 https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/book/2017-09/2017_09_26%20NTSCMF%20-%20Gas%20Charging%20Review.pdf

²⁴ <https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/book/2019-01/190205%20NTSCMF%200670R%20-%20Proposals.pdf>

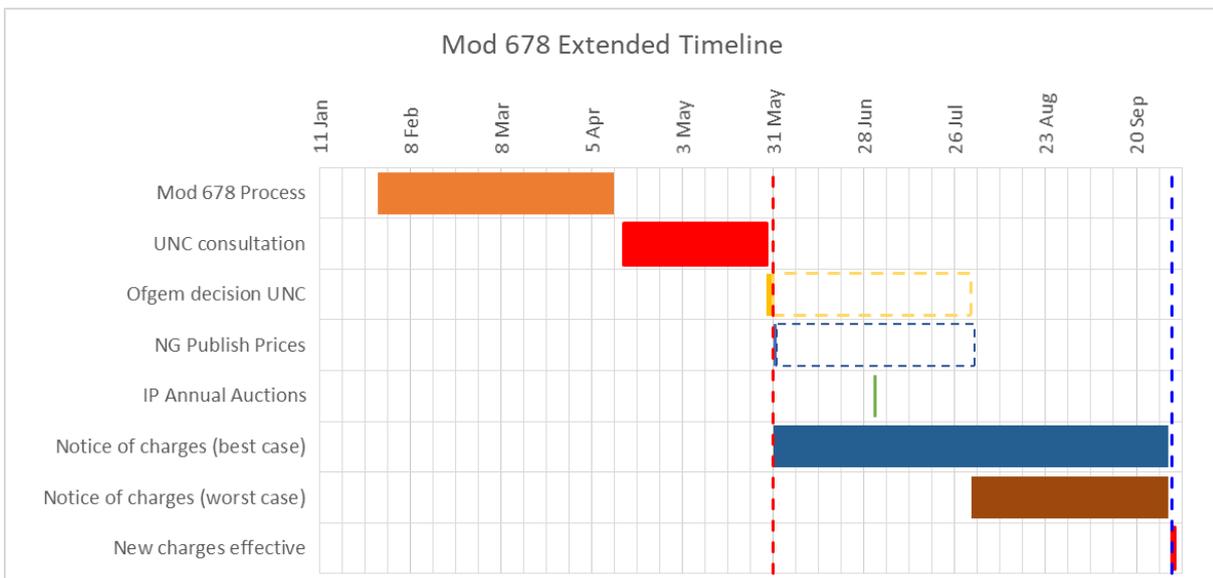
Without a timely application of Modification 0678 or a suitable Alternative, National Grid will be in breach of its Licence. Given the current timeline for Modification 0678 and the necessary Ofgem process that will follow, short notice periods and/or mid-year changes may be seen as necessary in order to avoid delay to compliance.

Stakeholders have requested as much notice as possible of change resulting from Modification 0678 and in particular with regard to the mandatory removal of OCR.

The chart below highlights the very limited time available for Ofgem’s decision making processes if the 31 May deadline is to be met.



The following chart shows the potential time allowed for Ofgem’s decision making process while still retaining two months’ notice of charges ahead of 1 October 2019. Note this would mean a decision on Modification 0678 could be after the Interconnection Point (IP) Auctions. It would also mean a relatively short notice period of two months for the removal of the OCR.



Why change now

Modification 0678 will not deliver a TAR NC compliant solution on time.

- Modification 0678 is subject to an Urgent timetable and has recently had an extension to its timetable – The Final Modification Report is to be sent to Ofgem on 29 May 2019.²⁵
- Further delays are not impossible, despite the hard work of all involved.
- The timetable for subsequent Ofgem processes²⁶ is not yet published but with two months' notice of charges a decision would need to be made by the end of July for effective charges from 1 October 2019. This therefore provides a maximum of two months for Ofgem processes.
- There are now 10 Alternative proposals to Modification 0678 being considered by the Workgroup (for subsequent Ofgem consideration). The Modification 0678 Workgroup is working hard to deliver a comprehensive and clear analysis of these options but this is not without significant challenge and some issues may not be fully resolved in the time available. It is not impossible that the Proposals will not meet all the Modification Panel criteria for a recommendation for approval. The Proposer believes this could pose a risk for Ofgem and National Grid. There will be many issues for Ofgem to consider including but not limited to Licence changes, compliance issues and consumer impacts. Therefore two months may not be adequate for the necessary Ofgem processes.

The Ofgem decision letter on Modification 0621 raised 3 areas of non-compliance which National Grid are now seeking to remedy in Modification 0678. These are:

- Removal of the OCR.
- The Transition period (2019/20 until 2021/22) as proposed within Modification 0621 as a means of phasing change
- Interim contracts relating to capacity purchases after the entry into force of TAR NC

Considering each in turn:

- The OCR removal is an absolute requirement and simple to address and there is no reason to delay this change or link it with other tariff elements.
- If Modification 0678 were not to be implemented on time, then retaining the current LRMC methodology would be inevitable. However, standard commodity charges would drop by around 25% if the OCR were removed, to the benefit of the vast majority of GB consumers.
- Interim contracts would similarly not be resolved as they would necessarily retain their contracted prices while the existing methodology remains.

Additional Information and Analysis to support the removal of the current OCR

The following analysis is provided to show of the effects of removal of the OCR. It makes use of the latest publicly available National Grid data and is a similar time period to that used within the Modification 0678 proposal.

²⁵ Ofgem 0678 Urgency Decision letter: https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/book/2019-01/unc0678_-_urgency_decision.pdf

Ofgem 0678 Extension Decision Letter: https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/book/2019-03/unc678_-_extension_of_timetable.pdf

²⁶ The proposer does not know the exact Ofgem process that will follow its receipt of the Final Modification Report on 0678. However, it is clear that Ofgem will need time to review this likely long and complex report, decide whether an Impact Assessment is necessary and allow time for suitable governance of any decision.

1. Comparison of OCR with Standard Commodity Charges

Table 1 below compares the average unit rate²⁷ with Standard Commodity charges. The average unit commodity rate for those using the OCR has been estimated at 18% of the Standard Commodity unit rate in gas year 17/18. The same capacity charges apply irrespective of the choice to elect the OCR. Note that where the standard commodity charge is less than the OCR Users typically elect to return to the Standard Commodity rate.

2. The effect on standard commodity charges if the OCR is removed

Current OCR flows are estimated at 30% of the total flows which incur a commodity charge. The revenue for these OCR flows is estimated at 5-7% of total commodity revenues. If the OCR is removed this implies that Users currently paying standard commodity charges would see a reduction in their commodity charges of 25% (assuming no significant consequential loss of flow).

3. The risk of lower flows if the OCR is not available

National Grid NTS have advised the NTSCMF²⁸ that Users opting to avail of the OCC during the current Gas Year (17/18) will pay an estimated £48.5 million in optional commodity charges but, in doing so, will avoid paying nearly £195 million in standard commodity charges. This represents a potential cross-subsidy to those OCC Users of about £146 million per annum at the expense of those sites which are unable to benefit from the option of the OCC.

Removal of the OCR will reduce the Standard Commodity rates which would be paid by all Users. Paying the same rate for the same service would be compliant with EU 715/2009 and the EU TAR NC. It would also be consistent with Ofgem's view in its decision letter on Modification 0621. Specifically, Ofgem states in Annex 2 of its response that it considers "cost reflectivity is more relevant to forward looking charges than revenue recovery charges". The current high standard commodity charges (in part as a result of the increasing take-up of the OCR) can be considered revenue recovery charges. In their Targeted Charging Review (TCR) for Electricity the following principles are being used: i) reducing harmful distortions, ii) fairness to end consumers and iii) proportionality and practical considerations.

The following is an update to analysis provided for the Consultation on 0636 ABCD by Vermilion to illustrate the potential risk to commodity charges if the removal of the OCR resulted in a loss of flows. It uses data provided by National Grid for the workgroup analysis relating to the Formula year 2017/18. The general principle continues to be valid with more recent data.

- The annual flow on the OCC is some 280,562 GWh (as provided by National Grid Gas for the Modification 0636 report) whilst the flow on standard rates is around 638,000 GWh (number from National Grid Gas charge setting report which was not specifically provided by National Grid Gas for the Workgroup Report). Hence the OCC flows are around 30% of total chargeable flows but only contribute 7% (£48.3m) of total commodity revenues (total commodity revenue estimated at £648.5m from National Grid Gas charge setting report Oct 2017).
- The above information has been used to estimate what percentage of current OCC flow could be discontinued (as a potential reaction to removal of the OCR rate changes) without making non-OCC

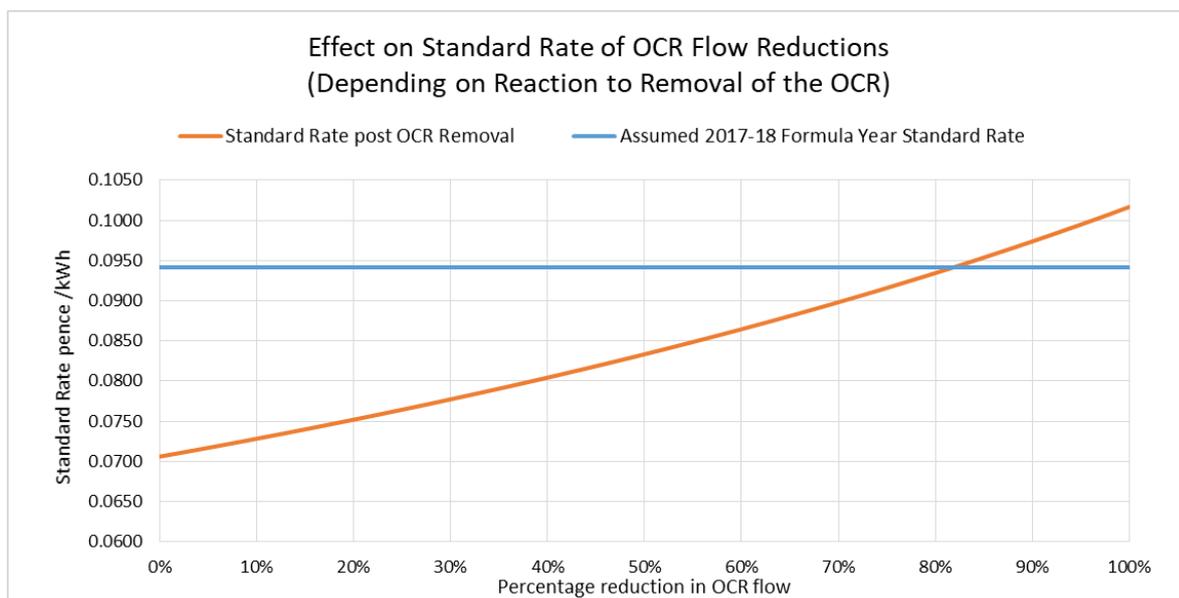
²⁷ Each specific Optional Commodity route has its own OCR – these vary from 0.0006 p/kWh up to 0.0924 p/kWh – source National Grid – data provision for Modification 0636

²⁸ NTSCMF 26 September 2017

Users worse off. (For simplicity it has been assumed that the same percentage reduction applies to all existing OCC flows.) The analysis shows that 82% of current OCC flow (or the equivalent of 25% of total chargeable GB and Interconnector flow) would need to cease before Non-OCC Users would be disadvantaged compared to the current situation²⁹. The proposer of this Modification believes this is a highly unlikely scenario.

Table 1: Comparison of OCR with Standard Commodity Charges

Implied rates with OCR				Implied rates OCR removed - no loss of flow				OCR flow reduced by: 81.7%			
	flows GWh	revenue £m	unit rates p/kWh		flows GWh	revenue £m	unit rates p/kWh		flows GWh	revenue £m	unit rates p/kWh
OCR	280,562	48.31	0.0172	OCR	-	0		OCR	-	0	
standard	637,858	600.19	0.0941	standard	918,420	648.5	0.0706	standard	689,201	648.5	0.0941
total	918,420	648.5	0.0706	total	918,420	648.5	0.0706	total	689,201	648.5	0.0941
								lost flow	229,219		



4 Code Specific Matters

Reference Documents

Uniform Network Code (UNC) Section Y:

<https://www.gasgovernance.co.uk/TPD>

UNC European Interconnection Document (EID):

<http://www.gasgovernance.co.uk/EID>

EU Tariff Code:

http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2017.072.01.0029.01.ENG&toc=OJ:L:2017:072:FULL

²⁹ Note: this assumes all other things being equal and specifically no change in capacity revenues.

Implementation Document for the Network Code on Harmonised Transmission Tariff Structures for Gas (Second Edition)

https://www.entsog.eu/public/uploads/files/publications/Tariffs/2017/TAR1000_170928_2nd%20Implementation%20Document_Low-Res.pdf

Uniform Network Code (UNC) Section B:

<https://www.gasgovernance.co.uk/TPD>

NTS Transportation Statements:

<http://www.gasgovernance.co.uk/ntschargingstatements>

Gas Transmission Charging Review (GTCR) and associated update letters:

<https://www.ofgem.gov.uk/gas/transmission-networks/gas-transmission-charging-review>

Knowledge/Skills

Understanding of the NTS charging methodology in general and specifically in respect of the Optional Commodity Charge and the EU TAR NC

5 Solution

NTS Optional Commodity Rate³⁰

It is proposed that the existing NTS Optional Commodity Rate (OCR) is removed.

No other change is proposed, and the existing section Y methodology will continue in all other respects.

Communication of Charge Cessation

The existing OCR will no longer be available from the Modification Effective Date.

It is proposed that National Grid will use reasonable endeavours to provide (after a decision has been made and affording as much notice as is practicable prior to the Modification Effective Date), notification to each User at a Point with an existing OCR of the cessation of the OCR with effect from the Modification Effective Date. Any User nominating the OCR after the decision date and before the effective date will be informed as part of the confirmation of the OCR applicable that it will no longer be available after the effective date and any current nomination will end from that effective date.

Modification Direction Date This is the date the Modification is approved.	
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³⁰ As defined in TPD B1.8.5(d)

<p>Modification³¹ Effective date This is the date from which the OCR rate would not be applicable and standard commodity charges would apply</p>	<p>If Authority decision made by end of July 2019: Proposed to be 01 October 2019 or</p> <p>If Authority decision made after end of July 2019: Proposed to be the first day of the third month following the calendar month in which Authority makes its decision;</p>
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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. The current charging review and Modification 0678 is due for implementation in 2019 for compliance with the EU Tariff Code. This proposal will not prevent any of the proposals from being implemented and this Modification Proposal is complementary to Modification 0678 rather than instead of.

Consumer Impacts

The Proposer highlighted the following text for Workgroup:

If implemented, the Modification will remove a current cross-subsidy within the current charging methodology.

It will reduce commodity charges for Users currently paying standard commodity (primarily, but not exclusively, DN connected load). Users currently benefiting from the OCR will see increases in their charges. Given that this change is inevitable, for compliance reasons, advance notice of necessary changes will reduce risk for Users, and this is considered to be ultimately in consumers’ interests.

Impact of this Modification Proposal on Non-OCC Users by Annual Load Size per Annum

The following table (calculated by the Proposer) shows the annual impact (where negative values represent a saving) for Non-OCC Users split by annual load size. This relates primarily to DN connected loads, both Domestic and I & C, but may also include some loads directly connected to the NTS. The impact assumes that there is no change in the flow levels as a result of this Modification Proposal 0686.

³¹ This terminology is adopted for consistency with Modification 0678 although a clearer term might be “charging effective date”

	Annual Load MWh	Impact £ per annum
Domestic³²		
Low	8	-£1.98
Medium	12	-£2.98
High	17	-£4.22
Non-Dom Retail³³	73.2	-£18.15
Industrial³⁴		
I1	< 277.8	-£68.89
I2	277.8 - 2,778	-£689
I3	2,778 - 27,780	-£6,889
I4	27,780 - 277,800	-£68,894
I5	277,800 - 1,111,200	-£275,578

Note: Where the annual load is a range the impact of the top of the range is shown.

The annual impact is calculated as the annual load times the standard rate under this Modification proposal of 0.0744³⁵ p/kWh minus the existing April 2019 rate of 0.0992 p/kWh

So in summary, the following potential savings could be passed on to customers through a 25% reduction in the Standard Commodity charge (per annum):

- Domestic Consumers - £2 to £4
- Small non-domestic Consumers - £18
- Large non-domestic Consumers - £69 to £7K
- Very Large Consumers - 69K to £275K

Offsetting increases would be seen by those customers currently availing of the OCR, namely direct connects within GB and other actors downstream of the interconnectors, including those in other countries.

Cross Code Impacts

There is no impact expected.

EU Code Impacts

Workgroup's views were mixed in relation to whether this proposal will further compliance with the EU TAR NC in that it removes the commodity based NTS Optional Charge.

However, some Workgroup Participants noted that complete compliance with TAR NC is being addressed by Modification 0678 and its Alternatives and charges to disincentivise bypass of the NTS are not present in several of the Modifications.

³² Source: <https://www.ofgem.gov.uk/gas/retail-market/monitoring-data-and-statistics/typical-domestic-consumptionvalues>

³³ Source: <https://www.ofgem.gov.uk/publications-and-updates/retail-energy-markets-2016>

³⁴ Source: <https://ec.europa.eu/energy/en/data-analysis/market-analysis>

³⁵ This assumes a 25% reduction from the Standard Commodity rate.

Central Systems Impacts

The Proposer's view is as follows:

This proposal is the same in regard to the OCR as Modification 0678 and its Alternatives. The CDSP, Xoserve, has been consulted on all stages of development of Modification 0678 and so no additional work to that already in progress is anticipated.

National Grid and Xoserve, the CDSP stated that:

It is not envisaged that the system changes required for Modification 0686 would be substantial, however changes would be necessary in order to end the current OCR arrangements.

Workgroup Impact Assessment

Relating to the material provided above by the Proposer, National Grid noted that the total amount being collected through the Transmission Owner (TO) commodity rates is not changed. The mechanics of the calculation for TO are such that those availing of the optional charge would pay the recalculated TO commodity charges – this would be an increase. Those who are not using the optional charge would pay the updated TO commodity charges which for them would be a decrease. Ultimately this means the TO commodity rates paid for all flows would be the same.

Further, National Grid noted that the total amount being collected through the System Operator (SO) commodity rates (which includes SO entry and exit commodity and optional charge revenue) is not changed. For the SO charges the mechanics are such that those availing of the optional charge would pay the recalculated SO commodity charge – this would be an increase. Those who are not using the optional charge would pay the updated SO commodity charge which for them would be a decrease. Ultimately this means the SO commodity rates paid for all flows would be the same.

Some Workgroup Participants were of the view that there is no new analysis provided for 0686 which change the view expressed by Ofgem in its 0636 Decision Letter (published here www.gasgovernance.co.uk/0636):

“It is unclear whether the envisaged benefits are likely to materialise.”

Some Workgroup Participants were of the view that the likely market impact and commercial impacts of this Modification 0686 are extremely difficult to assess. Therefore, there is a requirement for Ofgem to assess this impact. Some major energy users will likely incur increased charges and therefore incur an adverse material impact and consider October 2019 implementation does not give adequate notice. This is likely to be passed on to end consumers. Ofgem noted in their Decision letter for Modification 0636:

“They pointed out that many contracts are already in place with customers for the coming gas year, and these reflect the current charging regime. Some respondents considered that re-opening these contracts, which they noted are often subject to long notice periods, will entail a high cost for shippers (relating to the commercial and legal aspects of unwinding trading positions and the subsequent need to design new alternatives). We consider that such disruption may outweigh any potential benefits, given that the proposed modifications are likely to be implemented for one year or less given wider industry reform to implement EU Regulation 2017/460 (TAR NC).”

Some Workgroup Participants strongly agreed with Ofgem's views expressed in the context of 0636 that this likely disruption may not outweigh the potential benefits.

Some Workgroup Participants noted that a 'shorthaul' type tariff is also available to some distribution connected loads; some of these can also avail themselves of the current NTS OCR.

Some Workgroup Participants noted that there is no information given as to how the numbers given above by the Proposer are calculated, relating to potential savings or additional charges which would be passed on to domestic and non-domestic consumers. Therefore, it is difficult to assess the impact on individual consumers (large and small), many supplier and market assumptions must be made alongside behavioural assumptions.

Some Workgroup Participants asked for clarification as to whether this Modification was a Modification of one year duration or whether the Modification was of an enduring nature.

Other Workgroup Participants highlighted that this Modification is enduring, in that it removes the NTS OCR (a commodity based charge). Any of the 0678 Modifications which contain a 'shorthaul' type charge are capacity based and would therefore not change the situation with regard to implementation of this Modification.

Some Workgroup Participants believed it was inappropriate to remove the NTS OCR singly as proposed in Modification 0686, rather Modification 0678 and its Alternatives have considered this in a more holistic manner in line with Ofgem's views expressed in the 0636 Decision Letter:

"Given the wider scale reform currently under consideration, we think that the OCC should not be looked at in isolation, but should be considered holistically in the context of the wider charging landscape."

Some Workgroup Participants believed the views about compliance with current EU legislation are the assertions of the Proposer of Modification 0686 only.

Some Workgroup Participants referred to both the Ofgem 0636 Decision letter and Ofgem Letter relating to rejection of urgency for 0686³⁶:

"UNC686, by removing the OCC, would not ensure that the prevailing NTS Charging Methodology is compliant with TAR NC".

Ofgem clarified for Workgroup that within the Ofgem 0686 Urgency Decision Letter, the decision is only related to the Urgency criteria, not the merits of the Modification Proposal itself.

Some Workgroup Participants believed that it was unhelpful to refer to compliance with current EU legislation as requiring removal of the NTS OCR. Further it is inappropriate, given that Modification 0678 and Review 0670R are ongoing and aim to ensure full compliance with TAR NC. It was believed to be in direct contravention of Ofgem policy regarding the desired holistic approach.

Some Workgroup Participants did not agree that if Modification 0686 is not implemented by October 2019, GB would be non-compliant. The same charging regime as is currently in place now simply continues. This assumes Modification 0678 or one of its Alternatives have not at that point been implemented.

Some Workgroup Participants noted that Modification 0686 allows a post October 2019 effective date.

The Proposer of 0686 highlighted that Ofgem will make its decision and the Proposer of 0686 cannot tell them when to do so. The Proposal simply states a strong preference for Oct 2019 for compliance reasons or as soon as possible, in line with any Ofgem decision. Other Workgroup Participants agreed that this is what is written in the Modification 0686.

³⁶ OCC refers to Optional Commodity Charge which is also known as the current NTS optional Commodity Rate (NTS OCR) <http://www.gasgovernance.co.uk/0686/>

A Workgroup Participant highlighted for Workgroup that in the Ofgem 0636 Decision letter the consideration of the cross subsidy was covered. Ofgem highlighted that:

“... the benefits of avoiding inefficient by-pass of the NTS should be weighed against any detriment to competition arising from a cross subsidy among gas customers.”

Ofgem noted that in the 0621 Decision letter (which can be found here: www.gasgovernance.co.uk/0621) the acknowledgement that there exists a cross subsidy between those who can and cannot access the NTS OCR: *“we remain concerned with the risk of cross-subsidy between those who can access the NOC compared to those who cannot”*.

(Note that NOC is NTS Optional Charge).

7 Relevant Objectives

The Proposer’s view of the 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.	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.	Positive

The Proposer’s view is that this Modification if implemented is considered by the Proposer to further Relevant UNC Objectives c, d and g (see the first table above). As this is a change to the Charging Methodology then the Relevant Charging Methodology Objectives are considered more relevant (to a large extent these mirror the Standard Objectives).

The Proposer's view of the Impact of the Modification on the Relevant Charging Methodology Objectives:	
Relevant Objective	Identified impact
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: <ul style="list-style-type: none"> (i) no reserve price is applied, or (ii) that reserve price is set at a level - <ul style="list-style-type: none"> (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

The Proposer's view is that this Modification proposal does not conflict with:

- (i) Paragraphs 8, 9, 10 and 11 of Standard Condition 4B of the Transporter's Licence; or
 - (ii) Paragraphs 2, 2A and 3 of Standard Special Condition A4 of the Transporter's Licence;
- as the charges will be changed at the required times and to the required notice periods.

The Proposer's view is that this Modification if implemented is considered by the Proposer to further Relevant Charging Methodology Objectives a, b, c and g:

Relevant objective (a): Adjustments to the OCR will reduce the Standard Commodity rates (all other things being equal) and thereby reduce cross subsidies and improve the cost reflectivity of the NTS commodity charges. The existing high commodity charges have been a cause for concern for some time not least because of the upward spiral of commodity charges as more Users avail of the OCR. The high commodity rate was determined an issue in the Transition period within the Mod 621 decision. Whilst Modification 0678 will be required to reduce the commodity charges to a level more consistent with that envisaged in the TAR NC, this Proposal would make a significant reduction to the existing commodity charges.

Relevant objective (b): Increasing take-up of the OCR over longer distances has led to a need to review the parameters within the calculation of the OCR – Modification 0636 considered such a review but the Modification was rejected by the Authority. Modification 0621 which also sought a change to the

calculation of the rate was also rejected and the form of a commodity charge was deemed specifically³⁷ to be non-compliant with the EU NC TAR.

Relevant objective (c): As the OCR is unduly discriminatory in its application it is considered by the proposer to be anti-competitive. Its removal will better facilitate effective competition between shippers and suppliers – and specifically, it will

- level the playing field in regard to the charges for the use of the NTS for NTS and DN connected loads
- and help to reduce transportation costs to domestic gas customers.

Relevant Objective (g): This proposal if implemented will further timely compliance with the EU TAR NC and EC 2009/715³⁸.

Some Workgroup Participants questioned how the Proposal 0686 furthers standard relevant objective d) and charging relevant objective c). The rate existing or not is not relevant to competition in this case. It could be argued that this Proposal could negatively impact this relevant objective by causing gas to flow through private networks.

Some Workgroup Participants noted that removal of the NTS OCR would make the charging regime less cost reflective overall which is a negative impact on charging relevant objective a). One of the reasons why shorthaul is so attractive is because of the amount that is required to go through commodity, which essentially undermines the cost reflectivity of the optional charge rather than the formula itself.

Other Workgroup Participants noted that everyone is paying the same for every unit of flow which equalises the cost that everyone pays, but as this is a postalised charge that does little to enhance cost reflectivity as it does not address why so much goes through commodity.

Some Workgroup Participants noted that in regard to compliance with charging relevant objective g), *overall* compliance is not achieved but rather the Proposer notes that compliance will be *furthered* by removing a commodity-based charge.

Some Workgroup Participants believed that this Modification Proposal 0686 negatively impacts standard relevant objective a) in that there are Users that would build a private pipeline if the OCR is to be removed. Some Workgroup Participants believed this would be a strong possibility. Therefore, this could have impacts on the operation of the pipeline system (such as reconfiguring of compression or building further pipelines). There are PARCA applications in existence that National Grid have indicated would require funded incremental capacity therefore if a User was to use a private pipeline instead of the NTS, this could be detrimental to the operation of the system.

³⁷ The Authority decision on Modification 0621 states that the OCR is not compliant with Commission Regulation (EU) 2017/460 (known as TAR NC or the Tariff Code). In the following extracts from the decision letter the NOC is the NTS Optional Charge and is synonymous with the OCR *"In conclusion, the proposed commodity-based NOC at non-IP points does not fall within either of the exceptions under Article 4(3) and is therefore not compliant with the TAR NC.*³⁸ and *"The UNC621 modifications (with the exception of UNC621D) convert the NOC into a capacity-based charge at IPs and hence to that extent complies with the requirement of Article 4(3) TAR NC to levy tariffs for transmission services on a capacity basis. However, our concerns regarding cost-reflectivity and cross-subsidisation remain."*

³⁸ <https://publications.europa.eu/en/publication-detail/-/publication/1a1ebe10-542c-4bca-b03f-257b1920e332/language-en>

National Grid stated that whilst standard commodity rates would come down assuming the same flow levels, the revenue amount going through the commodity charge would stay the same. Regarding charging Relevant objective a), this Modification Proposal 0686 should stand on its own and not be dependent on any other Modification and therefore the commentary from the Proposer of 0686 relating to Modification 0678 is irrelevant as 0686 should be considered on its own merits. Moreover Modification 0678 and all its Alternatives do not contain commodity charges for transmission services.

Some Workgroup Participants wished to reiterate the views covered earlier in this report that Ofgem has previously indicated the matter should be holistically addressed. Therefore, this Modification is likely to have no impact (neither positive nor negative) on charging relevant objective b).

8 Implementation

Implementation of this Modification (the Modification Direction Date) is required by 31 May 2019 or as soon as possible after this date to give as much notice to stakeholders as possible ahead of the gas year commencing 01 October 2019.

This Modification and the resulting methodology change should take effect for prices from 01 October 2019, in order to remove a major market distortion and further compliance with the EU Tariff Code (and the relevant Statutory Instrument) as well as EU 2009/715³⁹.

9 Legal Text

Workgroup were reminded that the transitional text will be as per the NTS Optional Commodity Charge (NTS OCC) arrangements under Modification 0678 and the removal under Section B as per Modification 0678. Workgroup reviewed the resulting changes required for Section Y on 30 April 2019.

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

The Legal Text provided by National Grid is published alongside this report at:

<http://www.gasgovernance.co.uk/0686>

10 Consultation

Panel invited representations from interested parties on 16 May 2019. The summaries in the following table are provided for reference on a reasonable endeavours basis only. We recommend that all representations are read in full when considering this Report. Representations are published alongside this Final Modification Report.

Of the 24 representations received 5 supported implementation, 1 offered qualified support, 1 provided comments and 17 were not in support.

Representations were received from the following parties:

³⁹ Note this is the "Regulation" referred to in Standard UNC relevant objective (g) and Charging relevant objective (e) above.

Organisation	Response	Relevant Objectives	Key Points
BP Gas Marketing Ltd	Oppose	c) Negative d) Negative g) Negative Relevant Charging Methodology Objectives a) Negative b) Negative c) Negative e) Negative	<ul style="list-style-type: none"> • Understands the industry is in the process of making changes to the current charging regime through UNC modification 0678 where, if implemented, the whole methodology for calculating transportation charges will be changing with the intention of being fully compliant with the TAR Network Code. This includes moving to a mainly capacity based charging methodology. Some of the alternative 0678 proposals also include a variant of the Optional Commodity Charge (OCC) based on a capacity charge. • Notes that the review group 0670R Review of the charging methodology to avoid the inefficient bypass of the NTS, is also looking at this area. Believes Modification 0686 is only looking at the removal of the OCC from the current charging regime, as the proposer says that this is to make GB compliant with the TAR Network Code. Does not see how removing one element from the current charging regime will make GB compliant with the TAR NC. • Understands Ofgem have already said that they do not agree with looking at just the OCC in isolation in their decision letter for UNC Modification proposal 0636. • Feels the OCC should not be looked at in isolation but should be considered holistically in the context of the wider charging landscape”. • Believes if this Modification was implemented there would be a material change to those offtakes that are making use of the NTS Optional Commodity Charge. There has been no proper analysis on the effect of removing the OCC would have on these large NTS offtakes. • Does not support any implementation date and proposes the two-month lead time set out in the proposal is totally insufficient for such a fundamental change such as this. • Proposes there has been no analysis on the impact removing the NTS Optional Commodity Charge, including the impact it will have on end consumers that are using the product. • Understands if users were to build their own pipelines the effect that any lost revenue will have on the rest of the system has not been properly analysed, the only

			<p>analysis carried out has always seen the offtakes remain on the NTS.</p> <ul style="list-style-type: none"> • Believes, the large industrial users that use the OCC rate will align their gas contracts with the gas year. These contracts would have been negotiated or will be in the process of being negotiated. Increased uncertainty around the future charging regime does not help with these negotiations and could lead to increased volatility if the contracts have to be renegotiated during a contract year.
Bristol Energy	Support	<p>c) Positive d) Positive g) Positive Relevant Charging Methodology Objectives a) Positive b) Positive c) Positive e) Positive</p>	<ul style="list-style-type: none"> • Supports this Modification as it believes it properly rebalances the cost of the system between domestic & SME customers and NTS connected users, and will ensure compliance with relevant EU legislation.
Cadent Gas Ltd	Support	<p>c) Positive d) Positive g) Positive Relevant Charging Methodology Objectives a) Positive b) Positive c) Positive e) Positive</p>	<ul style="list-style-type: none"> • Understands and supports the extent that users subscribe to the optional charge, the discount provided is absorbed by other users. Growth in the uptake of the optional charge, coupled with its parameters being anchored to a historical point in time creates a cross subsidy between user classes. Therefore, Cadent Gas do not support the retention of this optional charge. • Believes in the event of an Ofgem direction, implementation should take place as soon as possible to allow for prices to take effect from 1st October 2019, with advance price notification requirements as per licence and code. • Notes that if UNC Modification Proposal 0678 were to be implemented on a CWD basis, this would take account of both distance and load size and therefore, negate the need for the OCC.
Centrica	Oppose	<p>c - negative d – negative g – negative Relevant Charging Methodology Objectives</p>	<ul style="list-style-type: none"> • Understands the Future Optional Charge arrangements have been more comprehensively addressed via the suite of 0678 Modifications that are currently with Ofgem for its consideration. • Feels the 0678 Modifications offer a range of possible outcomes for Optional Charges and those that offer an

		<p>a – negative b – negative c – negative e - negative</p>	<p>alternative solution have done so by considering the transmission charging methodology in the round, i.e. holistically.</p> <ul style="list-style-type: none"> • Believes this holistic treatment of charging arrangements is essential to fully understand how changes to one aspect may impact on others and only in this way will a robust, compliant and improved methodology be properly assessed. • Feels implementing new charging arrangements in a piecemeal fashion will not enable industry to efficiently formulate a complete, new methodology and will only add to, and possibly extend the timescales for, the high level of uncertainty the industry faces over what future charging arrangements will be. • Proposes Modification 0686 is therefore unhelpful in that it isolates the Optional Charge for special treatment. Should the modification be implemented in the intended timescales it will require the 0678 Modifications to be returned to workgroup for re-evaluation and new analysis as the UNC baseline rules on which the 0678 solutions were based will have materially changed. • Believes the sense of urgency attached to the modification is unnecessary and unhelpful. It is unnecessary because the solution does not provide an outcome that will result in GB becoming compliant with the EU Tariff Code: many further changes to the current charging methodology are needed to ensure compliance and if compliance is a key objective of this Modification then it clearly fails to deliver this. • Proposes the impact on interconnector flows must also be considered. Optional Charge arrangements are currently in place at the Bacton and Moffat Interconnection Points so to withdraw these arrangements at relatively short notice, without assessing the consequences, could have a deleterious impact on wholesale gas trading. Intuitively, the wholesale cost of gas in Ireland and the Isle of Man will face upward pressure if Modification 0686 were to be implemented. • Believes Modification 0686 is essentially a repeat of Modification 0636 that was raised by the same Proposer. Modification 0636 sought to amend the Optional Charge arrangements to make it less attractive to the market and to significantly limit its applicability. Modification 0686 goes further by seeking to remove the product
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			<p>completely. The only new argument appears to relate to compliance with the EU Tariff Code, but implementation of Modification 0686 will not provide compliance with that code: the 0678 Modifications have been developed to specifically and comprehensively provide such compliance, whilst Modification 0686 focuses on only one possible aspect.</p> <ul style="list-style-type: none"> • Understands in rejecting Modification 0636 and its alternatives, Ofgem said: <i>Given the wider scale reform currently under consideration, we think that the OCC should not be looked at in isolation but should be considered holistically in the context of the wider charging landscape. This would allow the simultaneous examination of the OCC with the Standard Commodity Charges. A piecemeal approach at this time could create unnecessary uncertainty and undermine long-term planning and effective competition. This would not be compatible with our statutory duties and regulatory principles”.</i> • Therefore, in the same way that Modification 0636 provided an unhelpful distraction from Modification 0621, Modification 0686 has an undesirable impact on the 0678 Modifications. In conclusion, Modification 0686 should not be implemented for the same reasons that Modification 0636 was rejected by Ofgem. • Proposes Modification 0686 asserts that National Grid Gas will be “in breach of its Licence” and “in breach of relevant legal requirements”, presumably if Modification 0686 is not implemented. If this were the case, then Centrica would have expected Ofgem to have directly and proactively addressed these issues with National Grid without the need for this Modification. • Does not support implementation. Implementation on 1st October 2019 is over-ambitious and will not provide Shippers and impacted consumers with sufficient time to review and revise relevant supply contracts. • Understands all proposals would require a reassessment of existing commercial contracts that include terms related to the Optional Charge. • Believes the transmission cost information provided in the workgroup report is out of date – it refers to data for Gas Year 2017/18, but we are currently more than two thirds of the way into the 2018/19 Gas Year so more up-to-date information should be used for analysis. The
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			<p>omission of any new analysis from National Grid is a significant shortcoming.</p> <ul style="list-style-type: none"> Proposes in relation to the Relevant Objectives c) that Modification 0686 has a negative impact. Modification 0686 does not take a holistic view and disrupts the more sensible and comprehensive approach taken via the 0678 Modifications. d) Securing of effective competition. Believes Implementation of the Modification will likely have a negative impact on wholesale gas market liquidity as gas flows via interconnectors will be adversely impacted and the GB market could prove to be a less attractive destination for Norwegian gas supplies and LNG. Believes there is no evidence to suggest that the Modification will give rise to more cost-reflective charges. The Optional Charge encourages greater use of the NTS than would otherwise be the case as it discourages the use or development of private onshore pipelines.
<p>Conoco Phillips (U.K.) Limited</p>	<p>Oppose</p>	<p>c) Negative d) Negative g) Negative Relevant Charging Methodology Objectives a) Negative b) Negative c) Negative e) Negative</p>	<ul style="list-style-type: none"> Believes this modification takes a one-sided view of the Optional Commodity Charge (OCC) in that it implies that it is discriminatory and anti-competitive, however it must be noted, that the OCC attracts Users to the NTS thereby increasing National Grid's customer base and provides a benefit to all. The very real risk of private pipelines being built and the effect that that will have should not be ignored and therefore the issue, (that is a result of other aspects of the charging regime making this a more favourable option that originally envisaged) is more the over-use of the OCC rather than that the option exists. Understands a number of alternative Modifications under 0678 provided capacity based solutions, for dealing with inefficient by-pass of the NTS and there is currently a review taking place under 0670R looking at this very subject. Feels it therefore seems premature to rush through this one element of the whole charging regime before further analysis has been completed and a decision on 0678 and its alternatives has been made. Highlights that in Ofgem's rejection letter of 0636, (that was raised by the same proposer) it stated that this area should be looked at holistically and not in isolation. Suggests further analysis of this charge is required.

			<ul style="list-style-type: none"> This Modification has made an assumption about the outcome of 0678 in that the Proposer believes that an implementation date 01 October 2019 is unlikely and that this particular element of the charging regime needs to be addressed now. Feels it would be better to wait for the outcome of 0678 where either a new Optional Capacity Charge will be implemented or 0670R can become a modification and be fully developed, which will ideally have an effective date along with the new charging methodology.
Drax	Oppose	c) Negative d) Negative g) Negative Relevant Charging Methodology Objectives a) Negative b) Negative c) Negative e) Negative	<ul style="list-style-type: none"> Opposes this Modification as it believes it does not enhance the Relevant or Charging Methodology objectives and would have a negative impact. Believes this Modification should not be made as it does not take a holistic approach to the charging arrangements and introduces distortions that may lead to increased costs to consumers. Proposes an October 2019 implementation is undesirable and would lead to a negative impact on the gas and power markets that have not been assessed or addressed by the Proposer. Recognises that the ACER and Ofgem decisions on Modification 0678 also are in train and that introducing this Modification would alter the baseline. Drax opposes the modification as they believe it has a negative impact on the Relevant objectives. See the response for full details.
EDF Trading Limited	Oppose	c) Negative d) Negative g) Negative Relevant Charging Methodology Objectives a) Negative b) Negative c) Negative e) Negative	<ul style="list-style-type: none"> Proposes that the Modification should be rejected and any amendment to the present NTS Optional Commodity Rate should coincide with the introduction of the new NTS charging regime currently under consideration via UNC 0678 and alternatives. Sees no benefit in separating out changes to OCR arrangements and direct for a change in October 2019 of one single aspect of the gas charging regime while UNC 0678 is still under consideration. Feels in respect to compliance with the EU Tariff Code, the Modification has a negative impact, since the most robust and effective way to ensure full compliance with implementation of EU TAR code is through a wider approach which takes into consideration the entirety of the gas charging arrangements and not one element in isolation.

		<ul style="list-style-type: none"> • Highlights with regards to facilitating competition, the Proposer suggests OCR removal, which could level the playing field and help to reduce transportation costs to domestic gas customers. However, conversely removing OCR completely may have a negative impact on gas flows. • Understands the Proposer also suggests this Modification to be a transitional improvement; however, EDF Energy still believes a short-term change to the charging regime, which is due to be superseded by a more comprehensive review (Modification 0678) is detrimental to proper functioning of the market. • Consider this modification carries strong similarities with the rejected UNC 0636, (while going further and asking for the complete removal of OCR). Observes that the regulator clearly commented on Modification 0636 that OCC should not be looked at in isolation but should be treated as part of the comprehensive solution about gas charging in GB. • Proposes if any implementation of OCR changes occurs, the lead time for implementation should be 6 months, as an absolute minimum and occur at a 1st October date. Any shorter lead time or alternative date will undermine contractual arrangements between suppliers and customers who are locked into fixed-term contracts and potentially beach trades entered into to optimise transmission charges. • Believes where notice is limited, or the date of implementation does not fall on the 1 October there would be costs related to business agreement already entered into (or in the process of being structured) whose contractual terms take as a reference the current availability of OCR; such terms are not necessarily amendable at a later stage. Even when reopening of contracts is possible, a shipper would face costs associated with both the commercial and legal aspects of unwinding trading positions and structuring new alternatives (when/if possible). • Notes Ofgem mentioned in its Modification 0621 decision letter, that the issue with OCC stems from the commodity element rather than the concept of ensuring a way to avoid inefficient by-pass of the gas network which per se was considered as justifiable. Several alternatives to Modification 0678 provide solutions in this matter in a more comprehensive and efficient way.
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Energy UK	Oppose	<p>c) None d) Negative g) None</p> <p>Relevant Charging Methodology Objectives</p> <p>a) Negative b) None c) Negative e) None</p>	<ul style="list-style-type: none"> • Does not support a piecemeal approach to reform of the transmission charging arrangements and does not believe this Modification would enable compliance with the EU TAR code. • Opposes this Modification as it believes it does not enhance the Relevant or Charging Methodology objectives and would have a negative impact. See response for full details. • Proposes the charging arrangements are complex and since National Grid's allowed revenue is fixed, changes lead to a re-distribution of revenue recovery rather than a nett change in revenue to be recovered from customers. A detailed impact assessment with a balanced judgement of the merits for certain winners and losers is needed. • Understands Ofgem seems to concur with this view in refusing urgency for this proposal on 10 April1 noting that the proposal does not enable a fully compliant solution in its decision. • Believes Energy UK members, many of whom utilise the optional commodity charge may face significant cost increases at certain sites if the current arrangements were to be curtailed at short notice. Notes this may be as short as two months, which is inadequate when contracts and trading positions will already be in place. • Notes Ofgem recognised this in its decision for UNC proposals Modification 06365. Therefore, if Ofgem were to decide to implement Modification 0686 it must explain why its views expressed in respect of Modification 0636 have now changed. • Believes if Ofgem were to approve this proposal with effect from 1 October 2019 before making a decision in respect of Modification 0678, then the baseline for the Modification 0678 proposals, will have changed.
EP UK Investments Ltd	Oppose	<p>c) Negative d) Negative g) None</p> <p>Relevant Charging Methodology Objectives</p> <p>a) Negative b) Negative c) Negative</p>	<ul style="list-style-type: none"> • Believes that a shorthaul tariff should remain an important part of the gas transmission charging regime to avoid inefficient bypass of the NTS. • Feels the complete removal of the Optional Commodity Rate would make charges less cost-reflective for offtakes located close to entry points and increase the risk of system bypass. • Believes the primary justification for this Modification is compliance with the Tariff Network Code, but as the

		<p>e) None</p>	<p>Modification does not address any other aspects of the design of the charging regime it will not deliver compliance.</p> <ul style="list-style-type: none"> Proposes that significant changes to the gas charging regime should only be implemented at the start of a Gas Year to ensure that contracts and processes can be structured appropriately. Believes Ofgem would not be able to undertake an Impact Assessment and reach a decision on Modification 0686 by the end of July 2019 to allow for implementation in October 2019. Feels the earliest this Modification should be implemented is October 2020. Proposes to await Ofgem’s decision on Modification 0678, which is expected to include a decision on the enduring shorthaul arrangements, rather than proceeding with this modification. In the absence of a shorthaul tariff, EPUKI would incur cost undertaking design, planning, construction and maintenance of a bypass pipeline. UNC0686 would only address one small aspect of compliance with TAR NC, without addressing wider considerations. Proposes that there should be a suitable ongoing incentive to avoid inefficient bypass of the NTS. Although the OCR results in some “redistribution” of cost from OCC users to non-OCC users, this may be an efficient outcome, provided the redistribution is at an appropriate level. Does not consider that there is a convincing case completely to remove the shorthaul tariff, especially as the charging regime would remain non-compliant with TAR NC following implementation of Modification 0686.
<p>ESB</p>	<p>Oppose</p>	<p>c) Negative d) Negative g) None Relevant Charging Methodology Objectives a) Negative b) Negative c) Negative</p>	<ul style="list-style-type: none"> Believes the Modification does not enhance the Relevant or Charging Methodology objectives and would have a negative impact. view that the impact is fundamentally negative for relevant objective c), as it can only be inefficient discharge of the licensee’s obligations for changes from Modification 0686 to take place when holistic charging reform is proposed and in progress under Modification 0678. Making multiple, uncoordinated changes to the charging regime can only be negative for competition and end consumers due to uncertainty and inefficiency.

		<p>e) None</p>	<p>g) Do not consider that compliance with EU legislation is furthered by Modification 0686.</p> <p>a) Although the proposer believed this modification will improve cost reflectivity, it in fact removes an element which attempts to be cost reflective. The redistribution of commodity charge recovery will not serve to improve cost reflectivity for any Shipper or end-user as it is socialised across all as a flat rate.</p> <p>b) UNC 686 has been raised concurrently with UNC 678 and alternatives. As discussed above, raising a proposal which addresses only a single part of an holistic reform is counter-productive and clearly does not take into account developments in the transport business.</p> <p>c) Making multiple, uncoordinated changes to the charging regime can only be negative for competition and end consumers due to uncertainty and inefficiency.</p> <p>g) Do not consider that compliance with EU legislation is furthered by Modification 0686.</p> <ul style="list-style-type: none"> • Believes the choice of RPM is a central topic of the TAR NC and it entails compliance with a number of principles and rules in addition to the OCC charge treatment. • Agrees with Ofgem’s view provided in its decision not to grant Urgency to this Modification that: <i>“UNC686, by removing the OCC, would not ensure that the prevailing NTS Charging Methodology is compliant with TAR NC”</i>. • Doubts the principle of an optional charge is problematic from a compliance perspective: Ofgem’s Modification 0621 decision letter was clear that the commodity element in the approach was the identified compliance issue within the context of a full and enduring change to the methodology. Ofgem indicated that if it could be demonstrated that avoidance of inefficient bypass was justified then a suitable product would not be ruled out. • Believes, the proposal implies that current availability of the OCR charge appears to be unduly discriminatory and anti-competitive, and therefore would be in breach of EU regulation 2009/715 which prescribes that “tariffs, or the methodologies used to calculate them, shall be applied in a non-discriminatory manner”. • In the decision letter on UNC 636, Ofgem has noted the following: <i>“Finally, we note that the ‘cross subsidy’ that UNC 636 aims to remedy, may arise in part from the increase in the Standard Commodity Charges; not from the OCC itself. As such, we consider there are benefits to reviewing the OCC as part of the wider-scale reform currently being considered.”</i> This strengthens the point that compliance with TAR NC would require a much
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			<p>more holistic and enduring solution rather than reviewing this separate aspect of the charging methodology.</p> <ul style="list-style-type: none"> • Believes an incomplete solution and a short-notice change to OCR and commodity tariffs would lead to increased uncertainty for the industry and consumers. • Proposes implementation of this proposal would have a significant material impact on existing commercial contracts and would lead to higher costs for shippers and I&C consumers, resulting from a need to review and re-open trading and hedge positions, as well as associated commercial and legal costs. • Feels the proposal aims to act as a transitional solution until a more permanent charging model is implemented as part of Modification 0678 or its alternatives. The proposal acknowledges that <i>“Modification 0678 would affect other tariffs including the possibility of a new “efficient by-pass” charge if desirable.”</i> Believes that such a transitional arrangement would create uncertainty and instability in the market and would result in an increased operational and financial cost to the industry. • Feels Modification 0686 places an increased reliance on Modification 0678 or any of its alternatives for the introduction of an enduring product. While the proposal states that it does not aim to replace Modification 0678, but instead to compliment it, Modification 0678 itself is a Modification in progress and is subject to Authority Direction. Does not believe it is prudent to include a reference to a Modification that may or may not be progressed. • Furthermore, eventual removal of the OCC in any form would be a potential conclusion of UNC 670R if it found that OCC were not compliant and could not be justified. Note UNC 670R progress was suspended during UNC 678 development to prevent overlaps, distraction and avoid uncertainty of baseline; the aim was for full and detailed analysis to be carried out to resolve the issue of inefficient bypass in the GB context. • Understands Ofgem has noted in the decision letter on Modification 0636 that a consideration has to be given to the wider statutory duties of the Regulator when assessing a change. ESB has concerns that implementing a disjointed and incomplete solution such as Modification 0686 will not be in line with regulatory best practice and could be considered as disproportionate and inconsistent.
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		<ul style="list-style-type: none"> • Agrees with Ofgem’s view expressed in the Modification 0636 decision letter that: <i>“a piecemeal approach at this time could create unnecessary uncertainty and undermine long-term planning and effective competition’, which would not be compatible with Ofgem’s statutory duties and regulatory principles.”</i> • Does not support implementation of this modification. If the proposal is approved in accordance with its requested and recommended timelines, it would have a detrimental effect on the commercial arrangements of many NTS users as well as an increase in charges for many end consumers. • The Proposer has included analysis of benefits that would be passed through to end users. Given timelines for contracting and the lag in pass-through to small end-users in particular, the likelihood of these benefits being realised by consumers is minimal. • Believes as with Modification 0636 before, the impact of this proposed change is wide ranging: whole system economics need to be considered. This includes electricity markets as well as gas, as National Grid’s analysis for Modification 0636 clearly indicates that power station exit points are OCC users. Also the effects on the entire United Kingdom should be reviewed. • Suggests the actual impacts and costs of the proposal are not clear and there is no detailed analysis to underpin the decision. The envisaged benefits are based on high-level assumptions and projections. We do not think there is sufficient analysis for Ofgem to make a decision on the impacts of this mod on charging relevant objectives as well as overall impacts on competition and long-term planning. • As with UNC 636, the stated impact disregards the potential impact on gas flows and changes in booking behaviours resulting from the changes in commodity charges for OCC users. • Feels the lack of analysis does not reflect the impact on existing commercial contracts that are already likely to be in place for GY 2019. Ofgem issued a call for evidence for Modification 0636, in order to gather confidential information from OCC users to gain understanding of the potential impacts, and recommends Ofgem refers to this and/or consider a similar exercise for this Modification.
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			<ul style="list-style-type: none"> • Feels the Proposer believes that National Grid NTS will be in breach of relevant legal requirements, specifically TAR NC, as the prevailing NTS Charging Methodology will not be compliant with TAR NC. Yet the Modification itself proposes to address only one element of existing charging arrangements and acknowledges that the prevailing NTS Charging methodology will remain until Modification 0678 or its alternative is introduced. This implies that the proposal will not deliver compliance with TAR NC since the prevailing methodology will remain the same.
ExxonMobil	Oppose	c) None d) Negative g) None Relevant Charging Methodology Objectives a) Negative b) None c) Negative e) None	<ul style="list-style-type: none"> • Believes use of the Optional Commodity Rate (or “shorthaul”) does appear to have become excessive in recent years, extending beyond what could be considered to be the risk of inefficient system by-pass, and driving some cross-subsidisation between Users who take advantage and Users who cannot. • Does not support this proposal to completely end the current arrangement with no immediate replacement. • Believes without an effective shorthaul arrangement in place, this situation would incentivise those shippers to seek to by-pass the NTS via competing pipelines. This would be an inefficient outcome for the GB gas industry, since lower overall NTS utilisation would results in higher unit costs for remaining Users. • Notes comments made by Ofgem in its decision to reject Modification 0636, in particular, that the future of shorthaul should be considered as part of a wider charging review. • Appreciates Modification 0678 is still live, and all of those proposals seek to end shorthaul in its current form. Given the close relationship between Modification 0678 and shorthaul, Exxon Mobil’s strong preference would be for Ofgem to consider these matters holistically in order to deliver the best possible outcome for the GB gas market and its end consumers and the smoothest transition between regimes. • Development of potential replacement shorthaul solutions under workgroup 0670R, and latterly under the 0678 process, has seen the emergence of what we consider to be an appropriate shorthaul methodology – set out in 0678D, G, H and J. Believes implementing this proposal in isolation will not ensure compliance with EU TAR.

<p>Gazprom Marketing and Trading</p>	<p>Oppose</p>	<p>c) Negative d) Negative g) Negative Relevant Charging Methodology Objectives a) Negative b) Negative c) Negative e) Negative</p>	<ul style="list-style-type: none"> Proposes that as the industry is currently seeking to make comprehensive changes to UK gas market design, proper consideration is needed given the significance and severity of the proposals being discussed under Modification 0678. Understands UK plc requires an enduring solution that recognises the European Tariff Network Code requirements. Notes Ofgem’s decision letter on Modification 0636 the principle still holds that “<i>The OCC [optional commodity charge] should not be looked at in isolation but should be considered holistically in the context of the wider charging landscape</i>”. Suggests it is curious that the proposer fails to recognise that other aspects of the current charging methodology are inconsistent with the TAR NC yet fails to recommend corrective measures which would further its principle aim of achieving compliance. Understands this proposal makes a direct link to Modification 0678, stating that the implementation of Modification 0686 is necessary as there is an expectation that Modification 0678 will not be effective from 1 Oct 2019. This implies that Modification 0686 is contingent upon the outcome of Modification 0678 and for this reason Gazprom do not believe that it is a valid Modification proposal as a proposal cannot be submitted which is dependent upon the outcome of another proposal which has yet to be decided upon. Highlights the proposer has not provided compliance analysis or provided any analysis on the potential impact on OCC users if the service was removed.
<p>Lucite International UK Ltd</p>	<p>Oppose</p>	<p>c) Negative d) Negative g) None Relevant Charging Methodology Objectives a) Negative b) None c) Negative d) None</p>	<ul style="list-style-type: none"> Believes that this Modification negatively impacts the standard Relevant Objective a) and, if adopted, would likely incentivise LIUK to bypass the NTS and build a private pipeline to Lucite’s nearest gas processing terminal, approx. 4.5km away. Feels implementation in October 2019 will cause significant concern to LIUK. This is within a budget year for which commercial contracts and operational arrangements with Shippers have already been agreed and implemented. Believes early implementation will have significant implications for operating costs and potential investment decisions for Lucite business now and into the future.

			<p>Should this modification be adopted, adequate notice means that implementation should not occur until October 2020 at the very earliest.</p> <ul style="list-style-type: none"> • Understands it is estimated that the impact of the removal of the OCR will cost LIUK of the order of £500,000 per annum. • Feels based upon discussions with other businesses and previous studies into opportunity costs, that a significant number of consumers and connectees, particularly in the Teesside area, will bypass the NTS. LIUK gas consumption alone could account for c1300GWh per annum.
National Grid NTS	Comments	<p>c) None d) Negative g) None Relevant Charging Methodology Objectives a) Positive b) None c) Negative e) None</p>	<ul style="list-style-type: none"> • Of the view that Standard Relevant objective (c) and Charging Methodology Relevant Objective (b) overall are not furthered by the Proposal. The proposal does not provide justification as to why the NTS Optional Commodity charge should be removed in isolation without reviewing the rest of the charging methodology. UNC0636 (which proposed changes to the current NTS Optional Charge without considering the broader charging methodology) was rejected by Ofgem. At the time, broader UNC changes were being considered under UNC0621. UNC0621 was rejected in December 2018 and UNC0678 was raised in January 2019 and UNC0678 is a comprehensive set of proposed changes to the charging methodology, incorporating full EU Tariff Network Code (TAR NC) compliance and addressing Ofgem’s reasons for rejecting UNC0621. • Understands Modification 0686 was raised towards the end of the Modification 0678 UNC change governance process in the knowledge that Modification 0678 and all the alternatives, propose to remove the current NTS OCC. Some introduce a new Optional Capacity Charge, others advocate Modification 0670R as the most efficient means of reviewing arrangements for managing inefficient bypass of the NTS through a transportation charging framework. • Notes the Proposer stresses compliance with the TAR NC for the removal of the NTS Optional Commodity Charge (NTS OCC). To propose partial or incremental compliance does not deliver full compliance with TAR NC, something key to moving to a TAR NC compliant regime. Given UNC0678 is also being considered by Ofgem, as mentioned above, should UNC0686 be implemented before UNC0678 then this could be a

			<p>disruptive period for Users, managing two step changes in the charging framework in potentially quick succession. Taken together, we do not believe this furthers the Licensee's obligations as per Relevant Objective (c) and Charging Methodology Relevant Objective (b). For the same reason on TAR NC compliance we are of the view this does not further Relevant Objective (g) and Charging Methodology Relevant Objective (e).</p> <ul style="list-style-type: none"> • Believes Charging Methodology Relevant Objective (a) would be furthered by this Modification. • Of the view that Relevant Objective (d) and Charging Methodology Relevant Objective (c) would not be furthered by this Modification. With UNC0678 being considered by Ofgem, and with UNC0686 being presented at a similar time, this could leave industry managing two large changes potentially very close together. • Believes it is necessary to review any arrangements for managing inefficient bypass within the context of the whole charging methodology. One key argument by the proposer is that of furthering compliance with the TAR NC. Whilst it can be argued that a commodity based charge is not stipulated under Article 4 of TAR NC is non-compliant, there is no other consideration of how the rest of the current charging methodology is compliant. • Agrees that the level of access to the NTS OCC and amounts redistributed to those paying standard commodity rates means that the NTS OCC warrants review. National Grid has raised a review group proposal, Modification 0670R, to provide a wholesale review of the arrangements for managing inefficient bypass of the NTS through the transportation charging framework, which we believe is a more suitable vehicle for delivering changes in this area recognising that Modification 0678 is also being considered by Ofgem. • Believes should it be implemented the lead times as given in the proposal are sufficient.
Nephin Energy Ltd	Support	<p>c) Positive d) Positive g) Positive Relevant Charging Methodology Objectives</p>	<ul style="list-style-type: none"> • Supports as there is no valid reason for the current Optional Commodity Charge – its underpinning analysis has languished through neglect, creating a level of cross-subsidy of around £150m between those who can and those who cannot access the charging option. It is also non-compliant with TAR NC. There is no real dependency between the other changes in Modification 0678 and this

		<p>a) Positive b) Positive c) Positive e) Positive</p>	<p>specific charging structure, OCC, will be removed under all options.</p> <ul style="list-style-type: none"> • Agrees with the Proposer that this offers an effective fallback position in the move towards full compliance. As such it delivers impetus in the continuous development of an appropriate gas transportation charging system. • Believes every effort should be made to have this in place for the new charging year, starting October 2019. • Understands the industry has been fully aware of the proposal to remove the OCC in its current form under Modification 0678 for which there was an accelerated timetable directed to an October 2019 implementation. Thus, planning should have been flexible to this outcome in all relevant organisations. • Has concerns that the quotes from Ofgem’s Modification 0636 decision letter, which are used in the report as precedent, are out of context; this letter was in response specifically to Modifications to the parameters in the OCC. Reasonable to consider the removal of OCC on a standalone basis.
<p>PETRONAS Energy Trading Ltd</p>	<p>Oppose</p>	<p>c) Negative d) Negative g) Negative Relevant Charging Methodology Objectives a) Negative b) Negative c) Negative e) Negative</p>	<ul style="list-style-type: none"> • Opposes this Modification as believes it negatively impacts the Relevant Charging Methodology Objective a). • Believes if Modification 0686 is adopted, it will encourage users of the GB gas transmission and distribution system to bypass the National Transmission System (NTS) and construct their own private pipelines closest to their respective current gas processing terminals. • Proposes that PETRONAS is already aware of proposals of this nature and notes that PETRONAS has already engaged in initial discussions with counterparts on this exact topic should Modification 0686 be adopted. • Believes rather than decrease costs for standard charge users, it will actually increase costs because of a decrease in flows to industrial users. Given the wider scale reform currently under consideration, PETRONAS thinks that the OCC should not be looked at in isolation. • Feels the proposed implementation date of October 2019 is highly problematic due to the lack of sufficient lead time. Contractual negotiations for Supply and Offtake contracts for the gas year 2019/20 have in most instances commenced, and in many cases already been finalised. • Understands all such contracts will be based on the existing charging arrangements, and it is critical that

			<p>Shippers and Customers have certainty on the charging regime in determining pricing. Fundamental changes to the charging regime at this stage of the year are not conducive to a stable business environment and would have a significant detrimental commercial impact.</p> <ul style="list-style-type: none"> • Notes operating costs and strategic investment decisions have already been made against this contractual baseline. • Impacts and costs to be provided separately due to the confidential nature of such information. • Proposes the underestimation of the loss of the OCC flows needs to be taken into account when assessing the Modification Report.
Sembcorp	Oppose	<p>c) None d) Negative g) None</p> <p>Relevant Charging Methodology Objectives</p> <p>a) None b) None c) None e) None</p>	<ul style="list-style-type: none"> • Opposes a disjointed approach to reform of the transmission charging arrangements and believes that the OCC should be considered in the context of the wider charging landscape, particularly when the range of reform currently being progressed is brought into consideration. • Does not believe this Modification, via the removal of the OCC, would enable compliance with the EU TAR code. Given that this is a key point of justification for the modification, we oppose its implementation. • Feels as a user of the OCC, Sembcorp would expect to face cost increases, particularly if the current arrangements were to be curtailed at short notice. • Suggests that Ofgem conducts and impact assessment to better understand the impacts and costs, as we saw with Modification 0636.
Shell Energy Europe Ltd	Oppose	<p>c) None d) Negative g) None</p> <p>Relevant Charging Methodology Objectives</p> <p>a) Negative b) None c) Negative/ None e) None</p>	<ul style="list-style-type: none"> • Believes the industry is currently facing an almost unprecedented level of uncertainty with respect to changes to the GB charging regime. • Ofgem in its decision to reject urgency status for this proposal, refers to a statement made by National Grid Gas as part of the 0670 Workgroup that '<i>Short Haul should be considered as an integral part of an overall methodology and not in isolation</i>'. • Agrees with this assessment and whilst work is ongoing to better understand the range of options, established principles and potential outcomes in the context of wider changes to the GB charging regime, this proposal risks undermining the ongoing work and assessment of the other proposals by seeking to change the charging

			<p>regime before the costs and benefits of an optional charge are fully understood.</p> <ul style="list-style-type: none"> • Believes this proposal does not offer more certainty to the market. In contrast, it creates greater uncertainty as alternative options to address inefficient bypass of the NTS could be implemented after this proposal is planned to take effect. • Feels implementing a fundamental change to the GB charging regime on a potentially transitional basis could negatively impact existing contracts and increase the perception of risk with respect to flowing gas to / from the GB market. • Proposes according to the Workgroup 0670R: <i>Review of the charging methodology to avoid the inefficient bypass of the NTS</i>, the objective of the Workgroup recognises ‘an enduring need to avoid inefficient bypass of the NTS, despite of or due to future uncertainty’ and further points out that construction of independent pipelines bypassing the NTS risks increasing costs as they are spread over a smaller base. • Believes the basis on which Ofgem rejected proposal Modification 0636 and the alternatives still stand, that is, incomplete analysis, due account not given to the benefits of avoiding inefficient by-pass of the NTS and that ‘the “cross subsidy” that UNC636 aims to remedy, may arise in part from the increase in the Standard Commodity Charges; not from the OCC itself...as such, Shell Energy UK consider there are benefits to reviewing the OCC as part of the wider-scale reform currently being considered. • Proposes the impact and costs cannot be fully understood until an Impact Assessment is carried out as part of a holistic review of proposed changes to the GB charging regime.
<p>Sisman Energy Consultancy Limited</p>	<p>Support</p>	<p>c) Positive d) Positive g) Positive Relevant Charging Methodology Objectives a) Positive b) Positive c) Positive e) Positive</p>	<ul style="list-style-type: none"> • Believes GB appears currently to be in the position of having an unlawful transmission tariff regime. • Proposes implementation of this proposal is assessed as removing one major area of non-compliance. • Additionally notes, implementation of the proposal will remove a major cross-subsidy. • Believes timely implementation will reduce the risk of disputes, legal challenge and infraction procedures associated with GB’s transmission charging arrangements.

		<ul style="list-style-type: none"> • Recommends that this proposal is implemented from 01 October 2019. • Feels the current arrangements are inappropriate and should not be allowed to continue. The industry has known about the fundamental problems associated with the NTS Optional Charge which necessitate its removal since 2014 and hence has been “on notice” for some considerable time. • Believes implementation of this proposal will create a redistribution of transmission costs across users of the system. • Believes the domestic, industrial and commercial consumers in the DNs will see reductions in their transmission prices. This will unwind a long running and major cross-subsidy that has persisted in the regime for many years and which National Grid has assessed as a £150m/annum cross-subsidy recently. • Suggests implementation should take place as soon as reasonably possible to ensure that the benefits of price reductions feed through to consumers as soon as possible. • Notes that “<i>some Workgroup participants believed the views about compliance with current EU legislation are the assertion of the Proposer of Modification 0686 only.</i>” Others, including this responder, have consistently argued that the NTS Optional Commodity Rate is not compliant. This non-compliance can reasonably be inferred based upon Ofgem’s compliance assessment contained within its Modification Proposal 0621 decision letter. • Notes this response has been written to provide a domestic and smaller industrial and commercial gas consumer perspective upon this change proposal. • Notes that the industry has been discussing the issues associated with the NTS Optional Commodity Rate for approaching five years. It has been apparent that the NTS Optional Commodity Rate has been delivering inappropriately low transportation charges along a range of transportation routes that could not reasonably contemplate any prospect of alternative by-pass pipelines. • Feels in the unfortunate event that this proposal is not implemented on 01 October 2019 then a change proposal should be raised to ensure an appropriately greater level
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			<p>of transparency about the uptake of the NTS Optional Commodity Rate.</p> <ul style="list-style-type: none"> Proposes that it has to be recognised that the implementation of Modification Proposal 686 may create some major price increases for large loads situated very close to beach terminals. Believes from a transmission charging perspective the loss of these loads, should the cheaper service remain available, would create only a very small revenue loss. Proposes implementation would significantly increase revenues from those currently availing of the NTS Optional Commodity Rate, but who could never realistically bypass, who would then be facing appropriate charges reflecting the underlying costs of the service they are receiving. Thus the removal of the NTS Optional Commodity Charge would deliver net benefits to those currently unable to avail themselves of that cheaper service; even if some load was lost to bypass it is inconceivable that sufficient losses would occur to cause a net detriment to those currently unable to avail of the NTS Optional Commodity Rate.
<p>South Hook Gas Company Limited</p>	<p>Oppose</p>	<p>c) Negative d) Negative g) None Relevant Charging Methodology Objectives a) Negative b) Negative c) Negative e) None</p>	<ul style="list-style-type: none"> Opposes this Modification and does not believe the removal of the Optional Commodity Charge better facilitates effective competition between shippers and suppliers – in fact it may be detrimental by causing gas to flow through private pipelines. Understands the analysis within the Modification indicates that the combined standard commodity rate would be £700/GWh and South Hook Gas believes this would create a significant incentive for Exit Points close to Entry Points to look to bypass the NTS. Proposes the only impact analysis within the Modification looks at the aggregate commodity charge level should the OCC flows be reduced. There has been no analysis conducted within the Modification to identify the subsequent impacts on competition that the removal of the OCC has on sites that currently avail to the OCC (noting that a number of these could economically build a private pipeline). Does not believe the removal of the OCC furthers compliance with EU TAR. There is no provision within EU TAR that explicitly defines that the current OCC charge is non-compliant. To “further” compliance (in terms of this modification) commodity charges need to be addressed – not the “secondary” OCC charge which is based upon

			<p>commodity charges. As a result, we do not believe this modification furthers compliance with EU TAR.</p> <ul style="list-style-type: none"> • Notes Ofgem stated within its Modification 0636 Authority Decision letter that “the OCC should not be looked at in isolation but should be considered holistically in the context of the wider charging landscape”, therefore South Hook Gas question why this has been raised as a standalone modification and not as an alternative to Modification 0678. There are 0678 Modifications which exclude a Shorthaul option (albeit to be addressed via UNC 0670R). Therefore, if Ofgem deem it appropriate to not include an Optional Charge within a GTCR solution then they have the option to do so as part of the Modification 0678 process. • Believes an Optional Charge solution is an essential part of any Charging Methodology and therefore do not support the removal of such charge without a full review. South Hook Gas do agree that the current Optional Commodity Charge needs to be reviewed and this should be done holistically with the wider charging methodology – as it has been within several Modification 0678 proposals and within the ongoing 0670R review group. • Feels should the modification be implemented, South Hook Gas would expect to see a minimum lead time of 2 months – in line with the current charging publications • The analysis also assumes that all other things are kept equal aside from the change in commodity prices – which is unlikely to be the case given some flows would leave the NTS (whether because of exit points ceasing operations completely or investing in a private pipeline). • Believe a more a more balanced impact analysis to determine the merits of the proposal prior to any implementation. • Believes the removal of the OCC would result in several NTS Users building private pipelines which would consequently cause supply and demand to be removed from the NTS. We believe that this reduction in supply and demand would likely have an impact on the operation of the NTS, however this modification contains no analysis on this topic and therefore we feel it is incomplete.
SSE	Oppose	c) None d) Negative g) None	<ul style="list-style-type: none"> • Considers that Ofgem should undertake a regulatory impact assessment to more fully consider the wide ranging impacts of implementing this proposal, including; customer contracts from October 2019, the impact on

		<p>Relevant Charging Methodology Objectives</p> <p>a) Negative</p> <p>b) None</p> <p>c) Negative</p> <p>e) None</p>	<p>domestic customers, cross border trade and wholesale gas and electricity prices.</p> <ul style="list-style-type: none"> • Believes Ofgem should also carefully consider the merits of implementing this proposal if it plans to approve any of the 678 proposals. Some 678 proposals may need to be amended, analysis re-run and justification re-written if 686 is implemented because the reference point to assess if furthering the relevant objectives has been achieved will have changed. This may create a governance issue because there is no provision for changing a modification once the Final Modification Report for 678 has been submitted to Ofgem. • Does not support a piecemeal approach to reform of the transmission charging arrangements. The charging arrangements are complex and since National Grid's allowed revenue is fixed, any changes lead to a re-distribution of revenue recovery which can have unforeseen consequences from changes in behaviour to contracting for capacity and wholesale gas and power prices. A detailed impact assessment with a balanced judgement of the merits, if any, is required supported by evidence. • Understands Ofgem seems to concur with this view in refusing urgency for this proposal on 10 April noting that the proposal does not enable a fully compliant solution and in its decision letter for UNC proposals 0636 "we think that the OCC should not be looked at in isolation, but should be considered holistically in the context of the wider charging landscape". • Proposes it would be more useful to consider a review of 'shorthaul' arrangements under the ongoing 670R modification, consequently, SSE recommends suspending consideration of 686. • See response for commentary on Relevant Objectives. • Believes SSE and others who utilise the optional commodity charge will face significant cost increases at certain sites if the current arrangements were to be curtailed at short notice. We note this may be as short as two months, which is inadequate when contracts and trading positions are already in place. This will have a distortive impact on the gas and electricity markets. • Understands Ofgem recognised this in its decision for UNC proposals 0636. Therefore, if Ofgem were to decide to implement 0686 it must explain why its views expressed in respect of mod 0636 have now changed.
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			<ul style="list-style-type: none"> We would recommend that Ofgem seeks information from affected parties as it did for UNC mod 0636 and conduct an impact assessment.
Uniper	Oppose	<p>c) Negative d) Negative g) Negative</p> <p>Relevant Charging Methodology Objectives</p> <p>a) Negative b) Negative c) Negative e) Negative</p>	<ul style="list-style-type: none"> Strongly oppose this proposal not only from a competition point of view, but also from a good governance standpoint, as it cuts across two major industry initiatives currently in progress – the NC TAR (UNC 0678) proposals and the UNC Review Group 0670. The specific concerns of the Proposer could have been raised more constructively as an alternative proposal under either initiative and progressed accordingly. Instead, we now have a Proposal which seeks to undermine good governance processes, as it pre-empts Ofgem decisions and attempts to disrupt the 0670 Review Group which is currently working towards a compliant shorthaul solution based on industry consensus. Views this proposal as special pleading, which, if implemented may benefit the Proposer’s business in the Republic of Ireland at the direct expense of many GB Shippers and consumers already engaged in the long-established shorthaul arrangements. The number of UNC 0678 consultation responses from consumers and consumer representatives supporting the continuation of shorthaul should be evidence of the important role it is currently playing in the gas market. Notes Uniper responded to Ofgem’s request for information on the impact of Vermillion’s previous UNC Modification Proposal 0636 on the same subject of shorthaul. For commercial confidentiality reasons we cannot repeat that information in a UNC consultation response, but we would expect Ofgem to conduct another information request regarding this proposal. We consider this proposal to be more significant than UNC 0636 as it is seeking to remove shorthaul in its entirety, rather than amending the formula. As it seeks to remove text from the UNC, it appears to deliver the intent. However, we note that the legal text was not reviewed by the UNC workgroup. Believes the potential savings / benefits for consumers identified by the Proposer are misleading. See response for further details. Firmly believes this proposal is negative when assessed against the UNC relevant objective (d) – the securing of effective competition between Shippers, Suppliers, etc.

		<ul style="list-style-type: none"> • Understands it is clear that most industry participants have a different perception to the Proposer regarding “adequate notice” of changes to established charging arrangements. As has already been noted in both the 0678 Workgroup and at UNC Panel, many large industrial customers contract on multiple gas year contracts and therefore any change in October 2019 would directly impact existing contracts. Furthermore, many shorthaul-based trading contracts often span multiple years to maximise efficiency and to lock-in the benefits. We note that most contract negotiations take place during the Summer preceding the Gas Year and, in many cases, will have already been finalised. Therefore, any decision to remove shorthaul in October 2019 would force a re-opening of these contracts (if that was possible), with the resulting legal and operational costs of doing so. Expect the increased risk premia to be priced into future contracts. • Understands much of the proposal is based on Ofgem making a decision by 31 May, which in turn has been used as justification for the phrase “adequate notice”. As this consultation is taking place in June, it is no longer, in our view, appropriate to use this term. Given the Proposer’s failed (and in our view unjustified) attempt to request Urgent status for this proposal, we are now faced with a potential notice period of less than 3 months. This is inadequate for the wholesale market to function efficiently. • In addition, Uniper disagree with the Proposer’s assertion that: “it will be possible to implement this Proposal for effect on the OCR tariff from October 2019 and any one of Modification 0678 (or Alternatives) for effect on other tariffs at the same time (Oct 2019) or any subsequent date.” From our point of view, this is incorrect as many proposals include a shorthaul replacement and therefore it would be impossible to simultaneously implement a proposal that removes part of the charging arrangements and another proposal that also removes the current shorthaul (but replaces it with something else). • Due / Undue Discrimination - the proposer of 0686 argues that “Users of the current OCR receive the same service as non-Users for significantly lower charges. The service received is the transport of gas through the National Transmission System using standard capacity products with no specific restrictions about the use of these capacity products”. In the Proposer’s view this arrangement is “unduly discriminatory”, arguing that it is
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			<p>“primarily to the disadvantage of domestic and larger I and C customers within the Distribution Networks”.</p> <ul style="list-style-type: none"> • Argues that the OCR currently uses distance as a driver of costs, which influences the OCR rate available to Shippers. As such, it is clear that different consumers impose different costs on the system and therefore the costs of transporting gas is not the same for every Entry / Exit combination across all Networks. • As noted in the Competition Commission decision “An appeal under section 173 of the Energy Act 2004: E.ON UK plc and GEMA and British Gas Trading Limited”: “the legal test for unlawful discrimination is whether relevantly similar parties are being treated differently, or whether relevantly different parties are being treated in the same way.” • Argues that Users qualifying for shorthaul are relevantly different from Users who do not qualify by reason of distance or location. This is because those NTS Exit points located close to an Entry point are imposing materially less costs on the system by reason of their efficient decision to locate where they have. Therefore, in respect of the charging arrangements, treating all Network Users the same for the purposes of shorthaul eligibility could be argued to be unlawful discrimination. On this basis, it could be argued that removal of shorthaul would create, rather than remove alleged unlawful discrimination issues. • EU Compliance - it is the Proposer’s opinion that: “This proposal aims to offer the possibility to have a more compliant methodology by 31 May 2019”. In our view, this proposal offers no such solution as it is merely removing one aspect of the current charging arrangements, without objectively justifying the remaining arrangements as compliant with EU regulatory requirements. It therefore fails to offer a complete, compliant solution for the purposes of implementing NC TAR. On this basis, we consider the proposal to be negative when assessed against Charging Relevant Objective (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”.
<p>Vermilion Energy Ireland Limited</p>	<p>Support</p>	<p>c) Positive d) Positive g) Positive Relevant</p>	<ul style="list-style-type: none"> • Vermilion (as proposer) supports implementation of Modification 0686 for the following reasons: • Believes any NTS Optional Charge should be justified in relation to its compliance with the EU Tariff Code. Key

		<p>Charging Methodology Objectives</p> <p>a) Positive</p> <p>b) Positive</p> <p>c) Positive</p> <p>e) Positive</p>	<p>principles underlying the EU Tariff Code are “the same price for the same service” and no undue discriminatory access to any special services. The existing NTS Optional Charge does not meet these criteria.</p> <ul style="list-style-type: none"> • Some industry participants have stated this is a possibility gas will flow through private networks if the current optional charge is removed but Vermilion has estimated that those unable to avail of the current Optional charge would only be worse off if 82% of the current flow availing of the optional rate by-passed the NTS. This seems inconceivable. There may be cases where by-pass is more likely but this should be balanced against the expected revenues such flows provide. • Notes National Grid has stated that whilst standard commodity rates would come down assuming the same flow levels, the revenue amount going through the commodity charge would stay the same. This is indeed true but as a large component of the present standard commodity charge arises from revenue under-recovery it is more consistent with Ofgem’s stated aims within the Targeted Charging review for Electricity that such charges are applied to all rather than disproportionately applied to those who may in fact already be contributing more than a fair share (ie DN connected loads). Due to the 1 in 20 booking obligations DN networks book and pay for a higher proportion of NTS capacity than NTS directly connected loads which are more able to benefit from zero priced capacity products. • This proposal furthers compliance with the Regulation (EU 715/2009) and the EU Tariff Code (EU 2017/460). UNC Modification 0678 would not be prejudiced by Modification 0686 and indeed allows time to consider more fully the necessary steps for full compliance. This may be particularly pertinent given the recent industry consultation and Modification Panel decision on Modification 0678 which has not recommended implementation of any of the 11 Alternative proposals. It may indeed prove to be the case that a fully holistic proposal is too difficult and incremental improvements to the charging methodology may be more acceptable. This 0686 Proposal may mitigate National Grid’s inability to meet its Licence obligations caused by a delay to Modification 0678 by complying with the EU Tariff Code in respect of the current optional charge. • States it is up to individual Users how their onward charges are negotiated. There may be a lag in the system
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			<p>but this should not be used as an excuse to delay reform. Standard Commodity charges are already subject to change twice a year. It is hard to believe that such changes would not be passed on to end consumers in a timely manner in a competitive environment. The Optional Charge has been the subject of much industry debate over at least 4 years and so change in these rates should have been anticipated and factored into contract negotiations e.g. price formulas linked to changes in or removal of Optional Charges.</p> <ul style="list-style-type: none"> • Charging Relevant objective (a): Adjustments to the OCR will reduce the Standard Commodity rates (all other things being equal) and thereby reduce cross subsidies and improve the cost reflectivity of the NTS commodity charges. The existing high commodity charges have been a cause for concern for some time not least because of the upward spiral of commodity charges as more Users avail of the OCR. The high commodity rate was determined an issue in the Transition period within the Mod 621 decision. This Proposal would make a significant reduction to the existing Standard commodity charges. • Charging Relevant objective (b): Increasing take-up of the OCR over longer distances has led to a need to review the parameters within the calculation of the OCR – Modification 0636 considered such a review but the Modification was rejected by the Authority. Modification 0621 which also sought a change to the calculation of the rate was also rejected and the form of a commodity charge was deemed specifically to be non-compliant with the EU NC TAR. • Charging Relevant objective (c): As the OCR is unduly discriminatory in its application it is considered by the proposer to be anti-competitive. Its removal will better facilitate effective competition between shippers and suppliers – and specifically, it will level the playing field in regard to the charges for the use of the NTS for NTS and DN connected loads and help to reduce transportation costs to domestic gas customers. • Charging Relevant Objective (e): This proposal if implemented will further timely compliance with the EU TAR NC and EC 2009/715. • Highlights that National Grid has maintained that Modification 0678 is the vehicle to deliver timely compliance with the EU tariff Code. Unfortunately, this looks likely to be significantly delayed. Vermilion notes
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			<p>that National Grid's proposal did not include a proposal for an ongoing optional charge as it was not considered to be essential and instead committed to progressing through the Modification 0670R review group if necessary. Given that the target date for implementation of Modification 678 was October 2019 (or ASAP thereafter) they assume it was acceptable to National Grid and Ofgem that there may be a period of time at least without an optional arrangement. They see no reason why work on 670R should be delayed and believe the removal of the current non-compliant arrangements will encourage efficient and timely consideration of the issues.</p>
<p>Wales & West Utilities</p>	<p>Qualified Support</p>	<p>c) Positive d) Positive g) Positive Relevant Charging Methodology Objectives a) Positive b) None c) Positive e) Positive</p>	<ul style="list-style-type: none"> Wales & West Utilities offers qualified support for this proposal. Implementation would further relevant charging objective a) and relevant objective g) as the optional charge does not reflect the costs incurred by National Grid. It would also further relevant charging objective c) and relevant objective d) by encouraging competition by removing the cross subsidy to users of the optional charge. It would also further relevant charging objective e) and relevant objective g) because the current optional charge is not compliant with the EU Tariff Code. The change benefits customers on DN networks by reducing their charges. This would occur due to the higher contribution paid by NTS directly connected customers who would no longer benefit from the optional charge and who would therefore contribute more to Exit Capacity revenue. Wales & West Utilities note that this proposal will have an adverse affect on those customers that currently benefit from the NTS optional charge and that some of the 0678 alternatives also remove the optional charge. Supports implementation at the start of a gas year. They note that this modification could be implemented in advance of the implementation of 0678 or an alternative particularly if Ofgem was minded to implement Modification 0678 or an alternative that removed the optional charge. If Ofgem was minded to implement an alternative that had an optional charge either on or after 1st October 2019 then implementation of this modification would probably not be sensible.

Please note that late submitted representations will not be included or referred to in this Final Modification Report. However, all representations received in response to this consultation (including late submissions) are published in full alongside this Report, and will be taken into account when the UNC Modification Panel makes its assessment and recommendation. 1 further representation was classed as confidential and has been

forwarded to Ofgem for their consideration.

11 Panel Discussions

12 Recommendations

Panel Recommendation

Members recommended that Modification 0686 **should [not]** be implemented.