Stage 01: Workgroup Report

At what stage is this document in the process?

01 Modification

02 Workgroup Report

03 Draft Modification Report

04 Final Modification Report

0563S:

Moving the NTS Optional Commodity Charge Formula into the UNC

The NTS Optional Commodity Charge (OCC) is a charge allowed under section Y of the UNC. However, the formula used to calculate the OCC is published in the NTS Transportation Statement. This means there is a lack of appropriate Governance for any changes to the formula.

✓	The Workgroup recommends that this self-governance modification should now proceed to consultation.
!	High Impact: None
!	Medium Impact: None
!	Low Impact: National Grid Transmission, Gas Distribution Network Operators, Shippers and Suppliers

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About this document:

This report will be presented to the panel on 17 December 2015.

The panel will consider whether the modification should proceed to consultation or be returned to the workgroup for further assessment.

The Proposer recommends the following timetable:	
Initial consideration by Workgroup	30 November 2015
Workgroup Report presented to Panel	17 December 2015
Draft Modification Report issued for consultation	17 December 2015
Consultation Close-out for representations	15 January 2016
Final Modification Report available for Panel	16 January 2016
UNC Modification Panel decision	21 January 2016

Any questions?

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1 Summary

Is this a Self-Governance Modification?

The proposer believes that Self Governance procedures should apply because the change proposed is unlikely to have a material effect on competition in the shipping, transportation or supply of gas conveyed through pipes or any commercial activities connected with the shipping, transportation or supply of gas conveyed through pipes because the change involves a “lift and Shift “ of an existing formula from the Transportation Statement into the UNC and an update of specific terms to reflect current UNC terminology.

Is this a Fast Track Self-Governance Modification?

Fast Track Self-Governance does not apply as it is not properly a house keeping modification.

Why Change?

The NTS Optional Commodity Charge (OCC) is a charge allowed under section Y of the UNC.

However, the formula used to calculate the OCC is published in the NTS Transportation Statement. This means that changes to the formula or the parameters of the formula can be changed by National Grid without appropriate consultation with the industry or oversight by the Regulator. SSE considers that this lacks appropriate Governance.

Solution

It is proposed to move the existing formula used to calculate the OCC from the NTS Transportation Statement and place it into the UNC TPD, Section Y.

Relevant Objectives

This modification will enable any party to propose a change to the formula and not just National Grid as is currently the case. The Proposer considers that implementation of this Modification will better facilitate achievement of the Relevant Charging Methodology Objective e) and the Relevant Objectives f) and g).

Implementation

Implementation by March 2016.

Does this modification affect the Nexus delivery, if so, how?

This does not affect the Nexus delivery.

2 Why Change?

The NTS Optional Commodity Charge (OCC) is a charge allowed under section Y of the UNC.

However, the formula used to calculate the OCC is published in the NTS Transportation Statement. The formula is shown below:

Pence per kWh
$1203 \times [(SOQ)^{\wedge -0.834}] \times D + 363 \times (SOQ)^{\wedge -0.654}$

Where D is distance in Km and the SOQ is the maximum NTS exit offtake rate in kWh/day.

This means that changes to the formula or the parameters of the formula can be changed by National Grid without appropriate consultation with the industry or oversight by the Regulator. SSE considers that this lacks appropriate governance.

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3 Solution

It is proposed that the existing OCC formula from the NTS Transportation Statement, described in section 2 above, is inserted into the UNC TPD, Section Y.

However the specific term SOQ will need to be replaced with MNEPOR, converted to KWh/day.

Hence the formula to be inserted into the UNC which will maintain the same intent is:

1203 *(M ^-0.834) * D + 363 *(M ^-0.654)

Where M is MNEPOR converted into kWh/day at the site.

User Pays	
Classification of the modification as User Pays, or not, and the justification for such classification.	No User Pays service would be created or amended by implementation of this modification and it is not, therefore, classified as a User Pays Modification.
Identification of Users of the service, the proposed split of the recovery between Gas Transporters and Users for User Pays costs and the justification for such view.	Not applicable
Proposed charge(s) for application of User Pays charges to Shippers.	Not applicable
Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.	Not applicable

4 Relevant Objectives

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;	None
aa) That, in so far as prices in respect of transportation arrangements are established by auction, either: (i) no reserve price is applied, or (ii) that reserve price is set at a level - (I) best calculated to promote efficiency and avoid undue preference in the supply of transportation services; and (II) best calculated to promote competition between gas suppliers and between gas shippers;	None
b) That, so far as is consistent with sub-paragraph (a), the charging methodology properly takes account of developments in the transportation business;	Positive
c) That, so far as is consistent with sub-paragraphs (a) and (b), compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers; and	None

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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

b) That, so far as is consistent with sub-paragraph (a), the charging methodology properly takes account of developments in the transportation business

This proposal furthers Relevant Charging Objective b) because it harmonises governance with other charging methods as introduced following earlier Code Governance Reviews, and is therefore consistent with good practices elsewhere in the UNC.

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

This proposal also furthers Relevant Charging Objective e) since Article 13 of Regulation 715/2009 states:

"Tariffs, or the methodologies used to calculate them, applied by the transmission system operators and approved by the regulatory authorities pursuant to Article 41(6) of Directive 2009/73/EC, as well as tariffs published pursuant to Article 32(1) of that Directive, shall be transparent."

This modification will provide Ofgem a means of approving the Optional Commodity Charge, which is currently denied, thereby improving compliance with Regulation 715/2009.

This modification 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;

5 Implementation

No timescale for implementation of this modification has been proposed, but it is recommended that it be implemented at the earliest practical opportunity.

No implementation costs are anticipated.

6 Impacts

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

No impacts to Switching SCR or other change projects.

One participant expressed a concern that another charging review (of GCD11 – Optional Commodity Charge) would be delayed by this modification. Other participants disagreed, believing that it was appropriate to provide due governance for such significant developments. National Grid NTS confirmed that they currently had no plans to progress GCD11 until the outcome of Modification 0563S was clear.

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7 Legal Text

Text Commentary

Uniform Network Code - Transportation Principal Document

TPD Section B - System Use and Capacity

B1.8.5 (d) has been amended to reflect that the formula for calculating the NTS Optional Commodity Rate is contained in Section Y rather than the NTS Transportation Statement.

B3.12.7 has been amended to reflect that the formula for calculating the NTS Optional Commodity Rate is contained in Section Y rather than the NTS Transportation Statement.

Uniform Network Code - Transportation Principal Document

TPD Section Y – Charging Methodologies

Part A Chapter 3 paragraph 3.5 of Section Y has been amended to include the formula for calculating the NTS Optional Commodity Rate. This formula has been lifted directly from the current NTS Charging Statement.

Text

UNIFORM NETWORK CODE – TRANSPORTATION PRINCIPAL DOCUMENT

AMEND TPD SECTION B (SYSTEM USE AND CAPACITY) PARAGRAPH 1.8.5(D)

1.8.5(d) for the purposes of paragraph 3.12.5, the Applicable Commodity Rate may be the rate determined in accordance with ~~the Transportation Statement~~ paragraph 3.5 of Chapter 3 of Part A of Section Y by reference to the distance between the Specified Exit Point and the Specified Entry Point and the capacity of the Specified Exit Point, determined in accordance with paragraph 3.12.8 (the "**NTS Optional Commodity Rate**")

AMEND TPD SECTION B (SYSTEM USE AND CAPACITY) PARAGRAPH 3.12.7

3.12.7 ~~Pursuant to the prevailing National Grid NTS Transportation Statement, a~~ A User may elect that, for the purposes of paragraph 3.12.5, the Applicable Commodity Rate of the NTS Exit (Flat) Commodity Charge in respect of a Specified Exit Point shall be the NTS Optional Commodity Rate, determined in accordance with paragraphs 3.12.9 to 3.12.14 (inclusive).

AMEND TPD SECTION Y (CHARGING METHODOLOGY) PART A CHAPTER 3 PARAGRAPH 3.5

3.5 **NTS Optional Commodity Rate**

Users can elect to pay the NTS Optional Commodity Rate as an alternative to both the NTS Entry and Exit (SO & TO) Commodity Charges. The NTS Optional Commodity Rate is derived from the estimated cost of laying and operating a dedicated pipeline of NTS specification. A charging function has been calculated based on a range of flow rates and pipeline distances. The larger the load and the closer to an Entry Point the smaller the NTS Optional Commodity Rate should be as this reflects the unit cost of laying a pipeline. Although the rate is available to all daily-metered supply points, in practice it is therefore only attractive for large supply points situated close to terminals as at certain distances and loads it will become economic not to opt for the NTS Optional Commodity Rate.

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In practice the User nominates an Exit Point and a relevant (non-storage) Entry Point. Users can nominate a number of Exit Points against the same Entry Point but cannot nominate multiple Entry Points to the same Exit Point. The NTS Optional Commodity Rate is levied on the smaller of the two daily User allocations at these points, with the assumption made that any 'extra' gas must have come from another Entry Point or alternatively flowed to another Exit Point. For the purposes of invoicing all Exit throughput is charged at the NTS Optional Commodity Rate with a reconciliation carried out a month later based on actual flows at these nominated points. To nominate an Exit Point for the NTS Optional Commodity Rate please contact the Unique Sites team at Xoserve.

The NTS Optional Commodity Rate (in pence per kWh) is site specific and is calculated by the following equation:

1203 x [(M)^-0.834] x D + 363 x (M)^-0.654

Where:

D = the direct distance from the site or non-National Grid NTS pipeline to the Specified Entry Point in km;

M = Maximum NTS Exit Point Offtake Rate (MNEPOR) converted into kWh/day at the site; and

^ = to the power of

8 Recommendation

The Workgroup invites the Panel to:

- AGREE that this self-governance modification should be submitted for consultation.

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