**PART I SECTION 1 Workgroup report 0621/A/B/C/D/E/F/G/H/J**

**Title/cover page**

**How to use this report, including navigation**

**Table of Contents**

**Introduction**

National Grid initially submitted Modification 0621 to the UNC Modification Panel in June 2017 with the aim of designing an amendment to the gas charging regime which was to better meet the relevant charging objectives and customer/stakeholder provided objectives and deliver EU Compliance (reference). One consolidated Modification rather than several since interactions were extremely difficult to separate and to enable submission of alternatives and finally to facilitate easier decision making for Ofgem.

**PART I SECTION 2**

**Comparison Tables – introduction and caveats etc.**

**Simplified Comparison Table**

**Full Comparison Table**

**PART I SECTION 3**

**Overall Workgroup Conclusions**

**Overall Workgroup recommendation to Panel**

**Workgroup recommendation for further analysis and assessment**

*This is a checklist of items of analysis requested by Workgroup participants that were not able to be carried out by the Workgroup and therefore may need to be covered by Ofgem in its RIA.*

* *The Impact of Mod 621 and any alternates need to be assessed against the counterfactual of the current methodology. – what is the current methodology at the time of final mod report submission?*
* *The impact on the GB gas market in terms of:* 
  + *NBP liquidity; including in relation to other hubs in NW Europe, especially TTF*
  + *GB competitiveness in relation to NW European markets*
  + *Wholesale prices, including volatility and risk of extreme prices*
  + *Wholesale market competition*
  + *Competition in supply*
  + *Attractiveness of GB as a destination for gas, within EU and globally*
  + *Security of Supply / price*
* *Impact on the availability of flexible gas and on the operation of the NTS*
* *Impact on gas balancing costs*
* *Impact on the volatility and price level at the NBP*
* *Impact on the volatility and price level of the electricity market*
* *Impact on Security of Supply and on required network investment to pass N-1 test*
* *~~The impact on stakeholders by type, existing and new~~*
* *Cross market impacts with electricity; impact on electricity wholesale prices, capacity mechanism, balancing costs and any issues arising from different approaches to charging*
* *Cost allocation in context of cost reflectivity, and cost reflectivity in the context of Article 8 relevant flow scenarios*
* *Environmental impacts, if any?*
* *Regional impact of the cost re-distribution on customer bills*
* *~~The ability to accurately forecast costs~~*
* *~~Cost reflectivity~~*
* *The impacts of the level of K.*

**PART II WORKGROUP SUB-REPORT 0621**

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| **UNC Workgroup Report** | | At what stage is this document in the process? |
| UNC 0621, 0621A, 0621B, 0621C, 0621D, 0621E, 0621F, 0621G, 0621H, 0621J:  Amendments to Gas Transmission Charging Regime | |  |
| **Purpose of Modification:**  The purpose of this modification proposal is to amend the Gas Transmission Charging regime in order to better meet the relevant charging objectives and customer/stakeholder provided objectives for Gas Transmission Transportation charges and to deliver compliance with relevant EU codes (notably the EU Tariff Code). | | |
| Description: Description: YES_GREEN | The Proposer recommends that this modification should be assessed by a Workgroup | |
| Description: Description: High_Impact | High Impact:  All parties that pay NTS Transportation Charges and / or have a connection to the NTS, and National Grid NTS | |

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| Contents  Timetable 2  1 Summary 3  2 Governance 4  3 Why Change? 4  4 Code Specific Matters 11  5 Solution 14  6 Impacts & Other Considerations 23  7 Relevant Objectives 31  8 Implementation 32  9 Legal Text 32  10 Recommendations 32  11 Appendices 32  Timetable   |  |  | | --- | --- | | **The Proposer recommends the following timetable:** | | | Workgroup Report presented to Panel | 15 March 2018 | | Draft Modification Report issued for consultation | 15 March 2018 | | Consultation Close-out for representations | 17 May 2018 | | Final Modification Report available for Panel | 31 May 2018 | | Modification Panel decision | 21 June 2018 | |  |  | | **Any questions?** |
| Contact:  **Joint Office of Gas Transporters** |
| **Description: Description: email_us_go_online** [**enquiries@gasgovernance.co.uk**](mailto:enquiries@gasgovernance.co.uk) |
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|  |

Summary

#### What

This modification proposes to introduce a new Gas Transmission Charging regime that produces stable and predictable transportation charging and is compliant with the forthcoming EU Tariff Code (Regulation 2017/460).

#### Why

The Transportation Charging Methodology currently in place for the calculation of Gas Transmission charges, and the methodology to recover Transmission Owner (TO) and System Operator (SO) revenue through Entry and Exit charges, have been in place for a number of years. Whilst there have been some changes in the last ten years, the basic approach to calculating Entry and Exit Capacity charges and the approach to revenue recovery has not substantially changed.

#### A critique of the current Long Run Marginal Cost (LRMC) methodology has identified that it is too volatile, unpredictable and does not provide stability of charges for Users.

#### How

This modification proposes to introduce changes to the charging framework by way of making changes to UNC TPD Section Y. It may be necessary to update other sections of the UNC TPD (e.g. TPD Section B, EID Section B) and these will be accommodated as necessary.

This modification proposes to move from a Reference Price Methodology (RPM) that calculates the capacity prices using the LRMC method to one that is based on a Capacity Weighted Distance (CWD) approach. It also proposes to review other aspects of the charging framework to consider if change is necessary to better meet the required objectives.

It introduces some terminology from the EU Tariff Code, specifically Transmission Services Revenue and Non-Transmission Services Revenue. The revenues will map across to TO and SO revenues thereby not changing the total revenue to be collected through Transportation charges. The more material change will be the amendments to the charging methodologies in calculating the charges that will be applied to recover the allowed revenues from NTS network Users through the Transportation charges.

This proposal also introduces, for some aspects of this methodology change, some transitional arrangements and mechanisms to review and refine components of the charging framework over time so they continue to better facilitate the relevant methodology objectives[[1]](#footnote-1) and support the evolution of the GB charging regime.

Governance

#### Justification for Authority Direction

Modification Proposals 0621, 0621A, 0621B, 0621C, 0621D, 0621E, 0621F are all Authority Direction as Panel has determined they are likely to have a material effect on commercial activities relating to the shipping, transportation and supply of gas. This is because, if implemented, they are likely to have a material impact on the allocation of charges across NTS networks Users.

#### Requested Next Steps

This modification should:

* be assessed by a Workgroup

Why Change?

**Drivers**

* 1. The methodology which is currently in place for the calculation of Gas Transmission charges, and the methodology to recover TO and SO revenue through Entry and Exit charges, has been in place for a number of years. Whilst there have been some changes in the last ten years, the basic approach to calculating NTS Entry and Exit Capacity charges and the approach to revenue recovery arrangements have not substantially changed. What has been seen is change in the patterns of capacity booking behaviours, and the impact on the charges as a result due to the interactivity inherent within the methodology that were not anticipated. Additional regulatory drivers for changes to the charging framework are:
     1. The EU Tariff Code[[2]](#footnote-2);
     2. Ofgem’s Gas Transmission Charging Review[[3]](#footnote-3)
  2. As a result of changing behaviours, such as increased uptake in short term zero-priced capacity, there is an increase in reliance on commodity charges to recover TO revenue. Zero priced capacity has arguably resulted in overbooking of capacity, surplus to User’s requirements. The high TO commodity charges, driven largely by the zero priced capacity can also result in unstable and unpredictable charges. Other charges, such as the NTS Optional Commodity charge (also referred to as “Shorthaul”), have also seen a significant increase in its use which has impacted on other charges in a way that was not originally envisaged.

**Mapping Revenues**

* 1. Within the collection of revenue there are some changes to the terminology used to assign the revenue for the purposes of ultimately calculating charges. These changes are required by the EU Tariff Code. This relates to mapping TO Revenue and SO Revenue to Transmission Services Revenue and Non Transmission Services Revenue. This does not affect the actual allowed revenue National Grid will be required to recover through the charges.
  2. There are a number of targeted charges in the current methodology and it is necessary to consider which revenue they will contribute towards:
     1. The Distribution Network (DN) Pensions Deficit Charge and NTS Meter Maintenance Charge, under the EU Tariff Code (Article 4), do not fall into the specific criteria for Transmission Services. This modification proposes that these will be classified as Non-Transmission Services charges thereby contributing towards Non-Transmission Services Revenue.
     2. The St. Fergus Compression charge will be a Non-Transmission Services charge. The methodology used to calculate the St. Fergus Compression Charge is not proposed to be reviewed at this stage.
     3. The methodologies to calculate these charges (DN Pensions Deficit, NTS Meter Maintenance and St. Fergus Compression) are not proposed to be reviewed at this time. Whilst these could be considered as either Transmission Services or Non-Transmission Services, providing it is approved by the National Regulatory Authority (NRA), it is proposed this is a pragmatic way to charge for these items.

**Pricing Methodology**

* 1. The current RPM (including the adjustments applied in order to calculate capacity charges) produces charges that are volatile and unpredictable. This causes challenges for investment decisions and in predicting operational costs for connected parties year on year and as such, is a key area to be addressed.
  2. Through an assessment of RPM’s[[4]](#footnote-4), the main alternative considered from the current method was the CWD model. By design this approach is generally more predictable, less volatile and more stable in nature and is more suited to a system that is about use and revenue recovery associated to use rather than linked to investment (marginal pricing).
  3. The proposed use of CWD in the RPM resolves this issue by narrowing the range of prices and as such making them more predictable. This makes the RPM more relevant to how the NTS is used and expected to be used. It would better suit the current and future expectations for the NTS and maximising its use (driven through market behaviour) rather than using a RPM built on the foundation of continued expansion whilst continuing to provide some locational diversity in charges through the use of locational capacity and the average distances applied under the CWD approach.
  4. As a result of changing the RPM, any adjustments, discounts and other charges must be reviewed in order to avoid unintended consequences and to ensure that a clear impact assessment (including any Ofgem Impact Assessment) can be carried out on the total impact of these adjustments, discounts and other charges to NTS customers and to the end consumer.
  5. This Proposal considers EU compliance with the EU Tariff Code which has a deadline to implement the changes of 31 May 2019. Price changes would apply from 01 October 2019.
  6. This Proposal also seeks to establish a framework for review and update of key inputs to the newly established RPM which will further the objectives of the RPM.
  7. This Proposal aims to simplify the charging methodology, limiting aspects of the methodology whereby some charges can materially impact other charges and also eliminating the influence between Transmission and Non Transmission Services.

**Forecasted Contractual Capacity**

* 1. If implemented, the proposed changes to the charging regime may result in changes to commercial behaviours in the procurement of capacity rights. Given this uncertainty, a transitional approach for the period commencing 01 October 2019 is proposed based on capacity values documented in the National Grid Licence.
  2. Beyond 30 September 2021, National Grid proposes an approach that ensures FCC is reviewed annually and updates considered, and updated in the appropriate transportation charging statement and charging models. This review of FCC values will, at an appropriate point, take account of any behavioural changes in capacity procurement observed under the revised charging regime with the aim of aligning the FCC closer to actual bookings. At the same time the FCC is reviewed and updated, beyond 30 September 2021, there will be an additional adjustment to the reserve prices in order to account for the anticipated under collection driven by the application of any discounts (e.g. interruptible and specific capacity discounts).

**Multipliers**

* 1. Adjustments or separate charges can be applied in the calculation of the Entry and Exit Capacity Reserve Prices. These can serve a number of functions such as to acknowledge any potential risk associated with the type of Entry or Exit Capacity, to facilitate the recovery of revenues where relevant or beneficial to do so, and to encourage behaviours along with ensuring National Grid fulfils any relevant obligations.
  2. Multipliers are applied to the Reference Price to produce the Reserve Price. Under the EU Tariff code (Article 13), the Multipliers for Interconnection Point (IP) quarterly standard capacity products and for IP monthly standard capacity products should be no less than 1 and no more than 1.5. For IP daily standard capacity products and IP within-day standard capacity products, the Multipliers should be no less than 1 and no more than 3. For the IP daily standard capacity products and IP within-day standard capacity products, the multipliers may be less than 1 but higher than 0 or higher than 3, where duly justified.
  3. Beyond 30 September 2020, Multipliers for IPs need to be consulted on each year (as per Article 28 of the EU Tariff code).

**Discounts**

* 1. The pricing of Interruptible (Entry) / off-peak (Exit) capacity will change from the current pricing approach.

It will be consistent with the EU Tariff Code Article 16 and applied to all points. The changes proposed permit an adjustment to the relevant firm entry or exit Reserve Price in the calculation of a non-zero Reserve Price and the calculation of that Reserve Price for interruptible products.

* 1. The adjustment applied will be proportional to the probability of interruption and will be forward looking based upon an expectation of interruption over the coming year. An adjustment factor (‘A’ factor) may also be applied to reflect the estimated economic value of the product which will be factored into the assessment. Together, the probability of interruption and the ‘A’ factor make up the adjustment to be applied to the Reserve Price of the equivalent standard firm capacity product.
  2. Within the EU Tariff Code there are requirements to apply further discounts for storage capacity, where that discount must be at least 50%. This minimum discount is specific to storage in order to avoid double charging and in recognition of the general contribution to system flexibility and security of supply of such infrastructure. National Grid proposes an enduring storage discount value but recognises that EU Tafiff Code requirements for the charging regime to be reviewed, as a whole, at least every 5 years.
  3. Any specific ‘site type’ discounts contemplated by the EU Tariff Code (Article 9) are applied to the Reserve Price to produce a final Reserve Price for the particular Firm Entry or Exit Capacity product at that particular point. The adjustment for Entry Points and Exit Points will be based on the values specified in the Transportation Statement and will be subject to the required annual consultation.

**Revenue Recovery**

* 1. National Grid’s proposals incorporate a mechanism to manage the consequence of under or over recovery of revenues from Transmission Services Capacity Charges. The approach advocated is an initial period where these Revenue Recovery charges are applied as a flow based (commodity) charge which then transitions to a capacity based charge on an enduring basis.
  2. Whilst National Grid recognises that use of commodity (as opposed to capacity) charges must be the exception within the overall charging proposals to be compliant with the EU Tariff Code, National Grid believes this approach is appropriate in this case. This is on the basis that it is beneficial to managing the under or over recovery of Transmission Services revenue until such time as National Grid, and industry, can have confidence in the production and use of a capacity forecast that can be used both for the purposes of setting capacity reserve prices and for managing revenue recovery, where needed.
  3. National Grid believes that the proposed transition is as short as practicable and provides a means to mitigate the risks associated with Transmission Services revenue being wholly capacity based from October 2019. Without evidence of the change in behaviours for capacity bookings under the new regime, and given National Grid’s experience to date in the use of commodity to manage revenue recovery, the temporary use of commodity as revenue recovery charge will be an effective way to manage the revenue under / over recovery in compliance with Article 17(1) of the EU Tariff Code. It will also afford National Grid time to develop a capacity booking forecast capability learning from any changing capacity booking behaviours in the market.
  4. From October 2021, the charging framework moves away from the commodity charge to a greater dependency on a capacity forecast and a significantly reduced revenue recovery charge that would be capacity based achieving 100% capacity basis for recovery of Transmission Services revenue.
     1. From October 2021, the calculation of the capacity prices will, at the time of calculation, take into account the revenue shortfall from any discounts referred to in paragraphs 3.17 to 3.20 of Section 3) in order to adjust the reserve prices such that the amount forecast to be under collected as a result of these discounts is reduced. For the avoidance of doubt the calculation of capacity charges from 1 October 2019 to 30 September 2021 will not have this additional step.
     2. The approach in 3.24.1, applicable from October 2021, less revenue will be required to be collected from the Transmission Services Revenue Recovery charges than if it were not carried out. It is most relevant to do this step from October 2021 at the same time as the FCC is updated.

**NTS Optional Charge**

* 1. National Grid proposes to retain a charge that discourages inefficient bypass of the NTS. The general principle is to retain an incentive to utilise the NTS rather than construct a dedicated pipeline to exit points that are sufficiently close to an entry point. Such a product should consider the most appropriate method of applying such a charge and in its derivation should consider such elements as the costs of building an alternative pipeline and a reasonable limit over which this may be considered economic to construct and how the charge functions with the rest of the charging framework to be in keeping with the general principle of the NTS Optional Charge.
     1. Within the transition period, National Grid proposes to effectively retain this through the use of, in principle, the existing NTS Optional Commodity (‘NTS shorthaul’) charge as an alternative charge to the transitional flow based Transmission Services entry and exit Revenue Recovery charges.
     2. We continue to believe it is appropriate to dis-incentivise the construction of dedicated pipelines to exit points which are sufficiently close to an entry point.
  2. Recognising the proposed transition to an entirely capacity based Transmission Services charges in October 2021 (after the end of the transition period), National Grid proposes that the application of the NTS Optional Charge as an alternative to the transition period flow based Transmission Services charges expires at the end of the transition period. For the calculation and application of an equivalent charge on an enduring basis after the transition period (i.e. from 01 October 2021), we anticipate a future change proposal to be raised to achieve this.
  3. As a means of applying the NTS Optional charge in the transition period, there are two key differences that will apply in the transition period:
     1. *Inclusion of a 60km distance cap*.

As the existing charge is based on a fixed formula (as opposed to a percentage discount for example), the number of exit points for which the optional charge is less than the standard change is far in excess of the numbers initially intended. Consequently, the entry to exit point distances within scope are also far in excess of the distances initially envisaged.

National Grid believes that the distance cap proposed constrains the availability of the incentive to those exit points sufficiently close to entry points (to genuinely consider construction of a dedicated pipeline) in line with the original aims of the optional charge.

* + 1. *Indexation of the costs incorporated into the charge formula.*

The existing formula incorporates four numeric values which are driven by the estimated cost of laying and operating a dedicated pipeline of NTS specification in 1997. National Grid proposes that these cost inputs are updated to October 2017 values via indexation using the Retail Prices Index. Prospectively, National Grid believes it is appropriate to update these costs (via indexation) for the relevant charging period and proposes to use the Retail Prices Index for this purpose (i.e. for October 2019 the cost inputs will be updated using RPI to October 2019 and for October 2020 updated using RPI to October 2020).

* 1. Other aspects of the existing NTS Optional Commodity charge derivation are proposed to be retained within the new NTS Optional Charge:
     1. The existing range of pipe sizes taken into account;
     2. The maximum daily capacity, as derived from the maximum hourly volume as specified in the Network Exit Agreement, as an input to the formula; and
     3. The maximum daily capacity load being subject to a 75% load factor adjustment

**Existing Contracts and Interim Contracts (Collectively referred to as Historical Contracts)**

* 1. National Grid proposes provisions to apply for Entry Capacity allocated before the date of the Ofgem direction to implement this Proposal that will have been booked for 01 October 2019 or beyond.
     1. This will include Existing Contracts, as outlined in Article 35 in EU Tariff Code where the “*contract or capacity booking concluded before the entry into force of the EU Tariff Code – 6 April 2017, such contracts or capacity bookings foresee no change in the levels of capacity and/or commodity based transmission tariffs except for indexation, if any*”.
     2. This will also include Interim Contracts, as defined in this Proposal the contract or capacity booking concluded subsequent to entry into force of the EU Tariff Code (06 April 2017) but before the date of the Ofgem direction to implement this Proposal. Beyond this date, sufficient clarity of the charging regime to apply from 01 October 2019 is apparent and therefore no specific treatment (for capacity subsequently booked) is proposed.
     3. The capacity procured under these contracts impact the application of the CWD charging model (specifically when determining Reference Prices at Entry Points) [and calculation of Transmission Services Revenue Recovery Charges].

**Periodic Consultation Processes**

* 1. This Proposal advocates determination of a number of pricing related values on a periodic basis following consultation with stakeholders. Where National Grid believes it is efficient to do, consultation on more than one pricing related value may, in practice, be incorporated into a single consultation document and process.

**Aspects of the GB Charging Regime where there are no proposals for change:**

The following is a list of items for which changes are not being proposed at this time but could be the next steps in the evolution of the GB charging regime.

* Auction Structure – All timings for auctions will be as per prevailing terms (including any changes implemented to comply with CAM).
* Entry/Exit Split – No change is proposed to the current 50:50 split.
* Gas Year/Formula Year – the Formula Year (April to March) and Gas Year (October to September) will be retained.
* DN Pensions Deficit Charge – No change to the calculation or the application of the charge.
* St. Fergus Compression Charge – No change is proposed to the calculation or the application of the charge.
* NTS Metering Charge - No change is proposed to the calculation or the application of the charge
* Categorisation of Entry and Exit Points – Maintain the link to the Licence for categorisation.
* Seasonal Factors – Not used in current methodology and propose not to introduce.
* Fixed Pricing – As per Modification 0611, Amendments to the firm capacity payable price at IPs.
* Allowed Revenue – No change as per the Licence.
* Principles and application of Interruptible – As per prevailing terms. In respect of IPs, the terms implemented pursuant to Modification 0500, EU Capacity Regulations - Capacity Allocation Mechanisms with Congestion Management Procedures.

**For information only:**

As an overall package this updated draft modification proposal is an update reflective of current views and following discussions at NTSCMF with industry stakeholders. This can be updated within the UNC modification process where there are areas requiring additional detail or discussion. These are highlighted in the relevant parts of the solution.

Code Specific Matters

#### Reference Documents

There are summary documents available on each of the topics (mentioned in the solution section of the modification proposal) which have been discussed at NTSCMF and sub-groups related to the gas charging review, which are available at: <http://www.gasgovernance.co.uk/ntscmf/subg1page> and <http://www.gasgovernance.co.uk/ntscmf/subg1model>.

A CWD Model and User Guide have been produced which can be found at: <http://www.gasgovernance.co.uk/ntscmf>.

A Postage Stamp model is also available to be able to do a comparison of the prices in each of these models (found at the same location).

A Non-Transmission Services model has been produced which can be found at: <http://www.gasgovernance.co.uk/ntscmf>

Uniform Network Code (UNC) Section Y:

<http://www.gasgovernance.co.uk/sites/default/files/TPD%20Section%20Y%20-%20Charging%20Methodologies_29.pdf>

#### UNC European Interconnection Document (EID):

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

#### EU Tariff Code:

#### <http://www.gasgovernance.co.uk/sites/default/files/EU%20Tariff%20Code%20-%20final%20clean.pdf>

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:

<http://www.gasgovernance.co.uk/sites/default/files/TPD%20Section%20B%20-%20System%20Use%20&%20Capacity_55.pdf>

NTS Transportation Statements:

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

Customer and Stakeholder Objectives:

<http://www.gasgovernance.co.uk/sites/default/files/NTS%20Charging%20Review%20Objectives%2006Sep16%20v1.0.pdf>

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

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

#### Knowledge/Skills

An understanding of the Section Y Part A within the UNC, NTS Transportation Statements, the EID within the UNC, Section B within the UNC, the EU Tariff code, GTCR documentation and the customer/stakeholder objectives developed within NTSCMF would be beneficial.

#### Definitions

|  |  |
| --- | --- |
| **Term (Abbreviation)** | **Description** |
| **Capacity Weighted Distance (CWD) Model** | The CWD approach fundamentally requires three main inputs:   * A revenue value is required, which will be the target revenue required to be recovered from Transmission Services; * A distance matrix for the average connecting distances on the NTS; and * A capacity value for each Entry and Exit point that will be the Forecasted Contracted Capacity (FCC) (which is mentioned later in this section).   The CWD model produces the Transmission Services Reference Prices and with additional adjustments produces the Transmission Services Reserve Prices. |
| **Existing Contracts (ECs) (for the purposes of this modification)** | Arrangements ECs relating to Long Term Entry capacity allocated before 6 April 2017 (Entry into Force of EU Tariff Code) and Long Term Entry capacity allocated before the implementation of this modification. |
| **Forecasted Contracted Capacity (FCC)** | FCC is the capacity input to the RPM that will be used Transmission Services capacity charges calculation that for this proposal will be through a CWD methodology. There should be an FCC value for every Entry and Exit point. |
| **Historical Contracts (HCs)** | The combination of Existing Contracts (ECs) (for the purposes of this modification) and Interim Contracts (ICs). |
| **Interim Contracts (ICs)** | Arrangements relating to Long Term Entry capacity allocated after 6 April 2017 but before the date of the Ofgem direction to implement this Proposal. |
| **Long Run Marginal Costs (LRMC) Model** | This is the current underlying RPM used in the calculation of the Entry and Exit Capacity Prices. Whilst there are different approaches in Entry and Exit as to how secondary adjustments are applied, the underlying LRMC principles are there in both. The LRMC approach is an investment focused methodology where the intention is to have strong locational signals to facilitate decision making. More information is available in TBD Section Y of UNC. |
| **Multipliers** | The factor applied to the respective proportion (runtime) of the Base Reference Price in order to calculate the Reference Price for non-yearly standard capacity product |
| **Network Distances (for the purposes of modelling in the RPM)** | A matrix of distances used in the RPM that are the pipeline distances on the NTS. |
| **Non-Transmission Services** | The regulated services other than transmission services and other than services regulated by Regulation (EU) No 312/2014 that are provided by the transmission system operator; |
| **Non-Transmission Services Revenue** | The part of the allowed or target revenue which is recovered by non-transmission tariffs |
| **Reference Price** | Price for a capacity product for firm capacity with a duration of one year, which is applicable at entry and exit points and which is used to set capacity based transmission tariffs. This will produced in p/kWh/a (pence per kWh per annum). |
| **Reference Price Methodology (RPM)** | The methodology applied to the part of the transmission service revenue to be recovered from capacity based transmission tariffs with the aim of deriving Reference Prices. Applied to all entry and exit points in a system.  The RPM therefore is the framework to spread certain costs / revenues (relevant to the methodology in place) to the Entry and Exit points and thereby on to network users. |
| **Reserve Price** | **Reserve Price for Yearly standard capacity** = the Reference Price  **Reserve Price for Non- yearly standard capacity** is calculated by applying any Multipliers (if applicable).  This will be produced in p/kWh/d (pence per kWh per day). |
| **Target Revenue** | This is the revenue required to be recovered from a particular set of charges. |
| **Transmission Services** | The regulated services that are provided by the transmission system operator within the entry-exit system for the purpose of transmission. |
| **Transmission Services Revenue** | The part of the allowed or target revenue which is recovered by transmission tariffs. |
| **Transportation Statement** | The Transportation Statement containing the Gas Transmission  Transportation Charges |

Solution

#### This modification proposal seeks to amend TPD Section Y, Part A (The Gas Transmission Transportation Charging Methodology) of the UNC, by changing the methodology for the calculation of gas transmission transportation charges. Changes to TPD Sections B (System Use and Capacity) and Annex S-1 (Invoice Types and Invoice Items), and European Interconnection Document (EID) Section B (Capacity) [may be / are] required [and this will be kept under review and the modification updated accordingly].

#### Mapping of the revenue to Transmission Services revenue and Non-Transmission Services revenue (see paras 3.3 and 3.4 in section 3)

**Transmission Services Charges**

It is proposed that Transmission Services charges will be collected via:

* Transmission Services Capacity charges made up of;
  + Transmission Entry Capacity charges;
  + Transmission Exit Capacity charges;
* Transmission Services Entry Revenue Recovery charges;
* Transmission Services Exit Revenue Recovery charges; and
* Avoiding inefficient bypass of the NTS charges.

**Non Transmission Services Charges**

It is proposed that Non-Transmission Services charges will be collected via:

* Non Transmission Services Entry and Exit Charges;
* St Fergus Compression Charges;
* NTS Metering Charges; and
* DN Pensions Deficit charges.

#### Transmission Services Charges

#### Reference Price Methodology (see paras 3.5 to 3.11 in section 3)

It is proposed that a CWD approach is used in the RPM.

One RPM will be used for the calculation of Reference Prices for all Entry Points and Exit Points on the system. The RPM produces Entry and Exit Capacity Reference Prices for the applicable gas year which in turn through the relevant adjustments and calculation steps will determine the Entry and Exit Capacity Reserve Prices.

#### Final Reference Prices

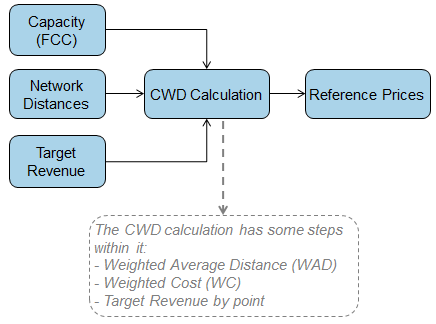
It is proposed that the calculation of the final Reference Price for a given Entry Point or Exit point cannot be zero. If application of the CWD methodology derives a zero price as a result of the FCC value or the Existing Contracts (EC) influencing the CWD calculation (see below), then the Reference Price to be used for such points will be the nearest non-zero priced Entry Point (for an Entry Point) or the nearest non-zero priced Exit Point (for an Exit Point). The applicable distance is the shortest distance based on the distance matrix from the relevant entry or exit point to the nearest non-zero priced entry or non-zero priced exit point respectively.

#### Calculations within the CWD Model

**Proposed CWD Model for calculating Entry and Exit Capacity Base Reference Prices:**

The proposed CWD approach fundamentally requires three main inputs:

* Target Entry or Exit Transmission Services Revenue - Revenue which is Allowed Revenue net of known Existing Contracts (EC) revenue and Interim Contracts (IC) revenue.
* Network Distances – derived from a distance matrix for the average connecting distances on the NTS
* Capacity (FCC) - FCC (by point) net of EC (by point) capacity booked to recover the target Entry or Exit Transmission Services revenue and Interim Contracts (IC) revenue.



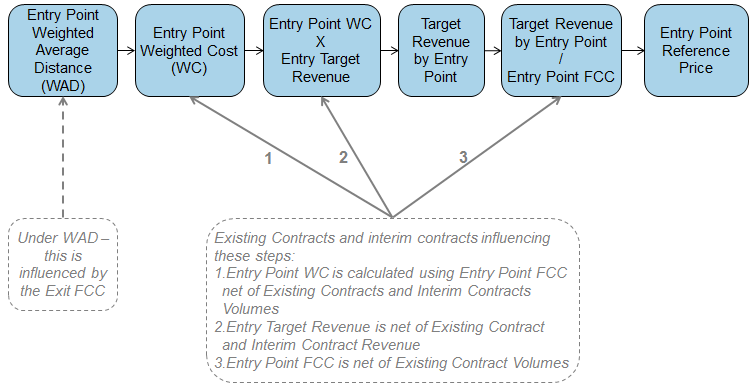
**Key steps in the CWD calculations:**

|  |  |  |
| --- | --- | --- |
|  | **Entry Capacity Calculation** | **Exit Capacity Calculation** |
| Weighted Average Distance (WAD) | (Sumproduct Exit Point FCC x Distance to Entry Point)  /  Sum Exit Point FCC | (Sumproduct Entry Point FCC# x Distance to Exit Point)  /  Sum Entry Point FCC# |
| Weighted Cost (WC) | Entry Point FCC\* x WAD  /  (Sumproduct Entry Point FCC\* x WAD) | Exit Point FCC x WAD  /  (Sumproduct Exit Point FCC x WAD) |
| Target Revenue by point (TRP) | Entry Target Revenue x WC | Exit Target Revenue x WC |
| Reference Price (RefP) | Entry TRP / Entry Point FCC\* | Exit TRP / Exit Point FCC |

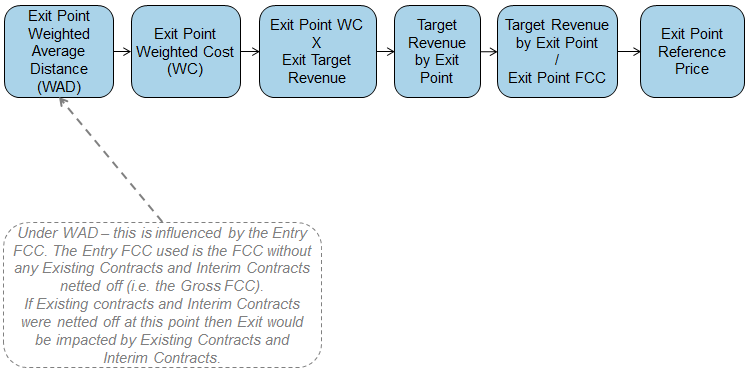
#Entry Point FCC – this is Gross Entry Point FCC (not reduced by capacity associated with Existing Contracts and Interim Contracts)

\*Entry Point FCC – this is the Entry Point FCC net of capacity associated with Existing Contracts and Interim Contracts.

**Entry Point Reference Prices are calculated in the following steps in the CWD model:**



**Exit Point Reference Prices are calculated in the following steps in the CWD model:**



#### Forecasted Contracted Capacity (FCC) (see paras 3.12 and 3.13 in section 3)

It is proposed that:

* for the period commencing 01 October 2019 until 30 September 2021 (inclusive), the FCC for an Entry Point or an Exit Point will be equal to the ‘Baseline capacity’ specified within National Grid’s Licence (Special Condition 5F Table 4B for Entry Points, and Special Condition 5G Table 8 for Exit Points) for the relevant Entry Point or Exit Point; and
* for the period commencing 01 October 2021 onwards, the FCC for an Entry Point or an Exit Point will be equal to a forecast value determined by National Grid taking account of capacity booking trends observed at respective Entry Points and Exit Points from 1st October 2019. The approach to determine a capacity forecast will be developed and shared with industry and the intention is that it be transparent and to keep the approach flexible to develop the best possible forecast to be applied to the relevant year from 2021 onwards in the calculation of the capacity charges.

#### Reserve Prices produced from Reference Prices (see paras 3.14 to 3.16 in Section 3)

It is proposed that Reserve Prices for capacity will be produced in p/kWh/d. The Reserve Prices will be calculated each year based on the latest available set of inputs and once published, these will be the Reserve Prices applicable for the relevant gas year regardless of when the capacity product is procured. For example, capacity procured in 2019 for a period in October 2025 will be subject to the Reserve Prices determined for gas year 2025/26 including, where applicable, any auction premium.

It is proposed that the Reserve Price for Firm capacity at an Entry Point or an Exit Point is determined by application of any applicable Multipliers to the relevant Reference Price.

It is proposed that Multipliers

* shall not be zero for any capacity type or product;
* are not to be used for the purposes of managing revenue recovery;
* shall be calculated on an ex-ante basis ahead of the applicable year.

It is proposed that:

* for the period commencing 01 October 2019 until 30 September 2020 (inclusive) the Multiplier applied to the Reference Prices for all Entry Point and Exit Points in order to determine the Reserve Price will be 1.
* for the period commencing 01 October 2020 onwards, the applicable Multipliers for a given gas year will be subject to an annual consultation. Once approved [method to be determined] they will be published in the Transportation Statement.

#### Interruptible (Entry) and Off Peak (Exit) Capacity (see paras 3.17 to 3.18 in Section 3)

It is proposed that the Reserve Price for Interruptible Capacity at an Entry Point and Off Peak Capacity at an Exit Point is derived by application of an ex-ante discount to the Reserve Prices for the corresponding Firm capacity products (the day ahead firm price at the relevant Entry Point and the daily firm price at the relevant Exit Point).

It is proposed that when determining the level of discount applied in respect of Interruptible and Off Peak Capacity from 01 October 2019, the likelihood of interruption and the estimated economic value of the Interruptible or Off Peak capacity products are used to determine a discount value (as per Article 16 of EU Regulation 2017/460). It is further proposed to adopt a ‘banding approach’ for the period commencing 01 October 2019 and for subsequent years, such that the proposed discount value will be rounded up to the nearest 10%:

It is proposed that:

* for the period commencing 01 October 2019 until 30 September 2020 (inclusive) the discount applied in respect of Interruptible and Off Peak Capacity:
  + at Entry Points is 10%; and
  + at Exit Points is 10%.
* for the period commencing 01 October 2020 onwards, the level of discount applied in respect of Interruptible and Off Peak Capacity will be subject to an annual consultation. Once approved [method to be determined], they will be published in the Transportation Statement.

#### Specific Capacity Discounts (see paras 3.19 to 3.20 in section 3)

It is proposed that Specific Capacity Discounts will be applied to the [Reserve] Prices in respect of Firm and Interruptible or Off Peak Capacity at the Points detailed below.

It is proposed that in respect of **storage sites**, (locations where the type of Entry point/Offtake is designated as a ‘Storage Site’ in National Grid’s Licence (Special Condition 5F Table 4B for Entry Points, and Special Condition 5G Table 8 for Exit Points) the applicable Specific Capacity Discount for a given gas year will be equal to 50%.

It is proposed that in respect of **Liquefied Natural Gas (LNG) sites**, (locations where the type of Entry point is designated as a ‘LNG Importation Terminal’ in National Grid’s Licence (Special Condition 5F Table 4B)):

* for the period commencing 01 October 2019 until 30 September 2020 (inclusive), the applicable Specific Capacity Discount for a given gas year will be equal to 0%; and
* for the period commencing 01 October 2020 onwards, the applicable Specific Capacity Discount for a given gas year will be subject to an annual consultation. Once approved [method to be determined], they will be published in the Transportation Statement.

It is proposed that no other Specific Capacity Discounts are applied.

#### Additional Calculation Step under CWD for Reference / Reserve Prices applicable from 01 October 2021 (see para 3.24 in section 3)

This step is only applicable for Capacity reference prices from October 2021 in line with the time when the FCC is updated to be based on a more informed forecast. Once the reserve prices have been calculated taking into account all the required multipliers and discounts there will be an under recovery driven by the levels of discounts (e.g. interruptible and specific capacity discounts). The anticipated under recovery will result in an adjustment being applied to the CWD calculation in order to recalculate reference prices, and therefore reserve prices, so that the under recovery is estimated to be zero or close to zero to minimise the size of the Transmission Services Entry and Exit Revenue Recovery charges. This will be applied to the Entry and Exit Capacity calculations to recalculate the Entry and Exit Capacity reference / reserve prices for all Entry and Exit points.

#### Summary of Reserve Price Derivation

The following diagram summarises the proposed approach to the derivation of Reserve Prices (from the applicable Reference Price) for both Firm and Interruptible Capacity products (including Capacity at Storage and LNG sites).

#### 

#### Transmission Services Revenue Recovery Charges

It is proposed that where a proportion of revenue could be under/over recovered (i.e. compared to the target Transmission Services revenues) as a consequence of application of Reserve Prices applicable for the following gas year, a revenue recovery mechanism is applied.

The Transmission Services Revenue Recovery charges (Transmission Services Entry Revenue Recovery charge and Transmission Services Exit Revenue Recovery charge) will be calculated after the Reserve Prices have been determined and will be calculated as follows for Entry and Exit in the same way:

#### 

It is proposed that the ‘Anticipated Bookings’ value will be based on National Grid’s forecast of capacity bookings and therefore used to forecast the anticipated under or over recovery.

It is proposed that for the period commencing 01 October 2019 until 30 September 2021 (inclusive) the transmission services revenue recovery mechanism is calculated in a number of steps and applied differently to Interconnection Points and Non Interconnection Points:

* The required revenue to be applied to the transmission services revenue recovery mechanism will be determined in the same manner for Entry and for Exit in the steps highlighted above. The steps below apply to both Entry and to Exit to produce Transmission Services Entry Revenue Recovery charges and to produce Transmission Services Exit Revenue Recovery charges.
* The total anticipated flows on the NTS excluding Storage flows unless it is flowed as “own use” gas at the Storage point will be used as the main denominator.
  + For Non interconnection points, the anticipated Non Interconnection Point flows as a proportion of the total anticipated flows on the NTS will be applied to the required revenue from the transmission services revenue recovery mechanism to determine the revenue to be collected from Non Interconnection points. This amount divided by the applicable Non Interconnection Point flows shall determine the Transmission Services Entry and Exit revenue recovery charges for Non Interconnection Points for the relevant period. This charge shall be applied to all Non Interconnection Point flows except Storage flows not considered “own use” gas at the storage point. The Transmission Services Entry and Exit revenue recovery charges for Non Interconnection Points will be produced in p/kWh.
  + For interconnection points, the anticipated Interconnection Point flows as a proportion of the total anticipated flows on the NTS will be applied to the required revenue from the transmission services revenue recovery mechanism to determine the revenue to be collected from Interconnection Points. This amount divided by an aggregate forecast of bookings at Interconnection points shall determine the Transmission Services Entry and Exit revenue recovery charges for Interconnection Points for the relevant period. This charge shall be applied to all Interconnection Point bookings. The Transmission Services Entry and Exit revenue recovery charges at Interconnection Points for this period will be produced in p/kWh/d.

#### It is proposed for the period commencing 01 October 2021 onwards, the transmission services revenue recovery mechanism is capacity based and applied as additional capacity charges to all booked capacity except Historical Contracts for Storage. The Transmission Services Entry and Exit revenue recovery charges for this period will be produced in p/kWh/d. For the avoidance of doubt, any Entry Capacity (except Historical Contracts for Storage) or Exit Capacity booked for the applicable year (irrespective of when this capacity was procured from National Grid) would be subject to Revenue Recovery charges.

[Further consideration is to be given to the application of Transmission Entry and Exit Revenue Recovery charges at IPs, and specifically its interaction with the NTS Optional Charge as outlined in this solution. This will be discussed through the UNC0621 workgroup].

#### NTS Optional Charge (see paras 3.25 to 3.28 in Section 3)

#### It is proposed that for the period up until and including 30 September 2021, the NTS Optional Charge is available as an alternative to the flow based Transmission Services Revenue Recovery charges (entry and exit). The principles that underpin the NTS Optional Charge will take into consideration those items referred to in paragraphs 3.25 to 3.28.

#### The method of updating the NTS Optional Charge for the relevant year in the transition period will be to follow the following formula structure and indexation approach to provide an updated formula to be applicable in the relevant year.

Formula Structure to apply whilst NTS Optional Charge is applicable as an alternative to the flow based Transmission Services Revenue Recovery charges:

***2086.59****\*(M^****-0.835****)\*D +* ***610.70****\*(M^****-0.654****)* where:

D means the direct (‘as the crow flies’) distance from the site or non-National Grid NTS pipeline to the Specified Entry Point in km (up to a maximum distance of 60km);

M means the Maximum NTS Exit Point Offtake Rate (MNEPOR) converted into kWh/day at the site as specified in the relevant Network Exit Agreement; and

^ means to the power of

Indexation approach:

It is proposed that the estimated costs (of laying and operating a dedicated pipeline of NTS specification) which underpin the calculation that derives the four numeric values in bold above (which are based on costs for the gas Year commencing 1st October 2017) are subject to indexation to the Retail Prices Index for the relevant charge period consistent with RIIO-T1 Licence RPI calculations. It is proposed that the updated formula for the relevant year (within the period for which the NTS Optional charge is applicable as an alternative to the flow based Transmission Services Revenue Recovery charges i.e. up to 30 September 2021) are specified in the Transportation Statement.

#### 

#### Existing Contracts (EC) and Interim Contracts (IC) (see para 3.23 in section 3)

It is proposed that before the Base Reference Prices are calculated, in respect of Existing Contracts [and Interim Contracts]:

* the Entry Capacity booked will be removed from the Entry Capacity input into the CWD model; and
* the Entry Revenue will be removed from the Entry Target Revenue input into the CWD model

It is proposed that [application of Existing and Interim Contracts in Transmission Services Revenue Recovery Charges]

#### Non-Transmission Services Charging

It is proposed that revenue due for collection via Non-Transmission Services Entry and Exit Charges will be equal to the Non-Transmission Services revenue minus the DN Pensions Charges, NTS Meter Maintenance Charges and the St. Fergus Compressor Charges

The revenue due for collection via Non-Transmission Services Entry and Exit Charges will be recovered through a flow based charge as a flat unit price for all Entry Points and Exit Points.

It is proposed that this is applied to all flows excluding Storage flows unless it is flowed as “own use” gas at the Storage point.

The Non-Transmission Services charge will be produced in p/kWh.

#### Treatment of under/over recovery (K) – after each formula year

It is proposed that a separate under or over revenue recovery (otherwise known as the “K” value) will be calculated for Transmission Services and Non-Transmission Services for the formula year. This will be different to the TO and SO “K” values however the principle of reconciling Transmission Entry and Exit revenues separately will remain.

It is proposed that the approach and calculation will be specified in the UNC, to be approved by Ofgem. In addition to Transmission and Non Transmission being reconciled this modification also proposes to have reconciliation between Entry and Exit under Transmission Services.

***Transmission Services Revenue:***

It is proposed to maintain 50/50 split between Entry and Exit (for the purposes of allocating revenues to the charges to recover Transmission Services Entry and Exit Revenues). It is also proposed to maintain the reconciliation of Entry and Exit for Transmission Services, as per the current approach for TO charges. This would continue to mean that Entry and Exit, under Transmission Services, when reconciled would not result in Entry impacting Exit or vice versa.

The applicable years Transmission Service Revenue will be split 50:50 between revenue to collect on Entry Capacity charges and revenue to collect on Exit Capacity charges. This value will then be added to any under/over recovery (Transmission Services K value) which was calculated in y-2 (two years ago) and split between Entry and Exit in the correct proportion, to make the applicable revenue which will be used in the CWD model to calculate the capacity charges.

***Non Transmission Services Revenue:***

It is proposed that all those charges in respect of Non-Transmission Services shall contribute towards Non Transmission Services revenue recovery. All charges are set on an ex-ante basis.

It is proposed that any under or over recovery attributed to the charges other than the Non-Transmission Services Entry and Exit Charge shall not be subject to reconciliation with any K value (Non Transmission Services K value) adjusting the Non Transmission Services Revenue recovery charge. Non Transmission Services revenue charge will be added to the Non Transmission Services K value which was calculated in y-2 (two years ago) which will be used to calculate the applicable years Non Transmission Services Revenue which will be used for calculation of the Non Transmission Services Charges.

#### Features Comparison Table

Impacts & Other Considerations

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

N/A

#### Consumer Impacts

Depending on the final proposal of the charging methodologies there will be impact on different consumer groups but the allowed revenue collected by National Grid NTS will not change. This section will be developed as this modification proposal develops.

|  |  |  |
| --- | --- | --- |
| Consumer Impact Assessment(Workgroup assessment of proposer initial view or subsequent information) | | |
| Criteria | Extent of Impact | |
| Which Consumer groups are affected? | Please consider each group and delete if not applicable.  * Domestic Consumers * Small non-domestic Consumers * Large non-domestic Consumers * Very Large Consumers | |
| What costs or benefits will pass through to them? | *Please explain what costs will ultimately flow through to each Consumer group. If no costs pass through to Consumers, please explain why. Use the General Market Assumptions approved by Panel to express as ‘cost per consumer’.*  Insert text here | |
| When will these costs/benefits impact upon consumers? | *Unless this is ‘immediately on implementation’, please explain any deferred impact.*  Insert text here | |
| Are there any other Consumer Impacts? | *Prompts:*  *Are there any impacts on switching?*  *Is the provision of information affected?*  *Are Product Classes affected?*  Insert text here | |
| ***General Market Assumptions as at December 2016*** *(to underpin the Costs analysis)* | | |
| *Number of Domestic consumers* | | *21 million* |
| *Number of non-domestic consumers <73,200 kWh/annum* | | *500,000* |
| *Number of consumers between 73,200 and 732,000 kWh/annum* | | *250,000* |
| *Number of very large consumers >732,000 kWh/annum* | | *26,000* |
| *Number of connections* | | *DN - NTS -* |
| *total AQ* | |  |

#### Cross Code Impacts

None

#### EU Code Impacts

EU Tariff Code compliance is considered as part of this modification proposal.

#### Central Systems Impacts

There will be impacts on Gemini and UK Link invoicing systems. Discussions on these impacts are already underway.

#### Workgroup Impact Assessment

*Checklist of what the workgroup impact assessment should cover (some items may need to be covered by Ofgem RIA)*

* *The Impact of Mod 621 and any alternates need to be assessed against the counterfactual of the current methodology.*
* *Intended and unintended consequences need to be identified*
* *Wherever possible the impacts should be quantified as transparently as possible*
* *The impact on the GB gas market in terms of:* 
  + *NBP liquidity; including in relation to other hubs in NW Europe, especially TTF*
  + *GB competitiveness in relation to NW European markets*
  + *Wholesale prices, including volatility and risk of extreme prices*
  + *Wholesale market competition*
  + *Competition in supply*
  + *Attractiveness of GB as a destination for gas, within EU and globally*
  + *Security of Supply / price*
* *Impact on the availability of flexible gas and on the operation of the NTS*
* *Impact on gas balancing costs*
* *Impact on the volatility and price level at the NBP*
* *Impact on the volatility and price level of the and electricity market*
* *Impact on the SoS and on required network investment to pass N-1 test*
* *The impact on stakeholders by type, existing and new*
* *Cross market impacts with electricity; impact on electricity wholesale prices, capacity mechanism, balancing costs and any issues arising from different approaches to charging*
* *Cost allocation in context of cost reflectivity, and cost reflectivity in the context of Article 8 relevant flow scenarios*
* *Environmental impacts, if any?*
* *Regional impact of the cost re-distribution on customer bills*
* *The ability to accurately forecast costs*
* *Cost reflectivity*
* *The impacts of the level of K.*

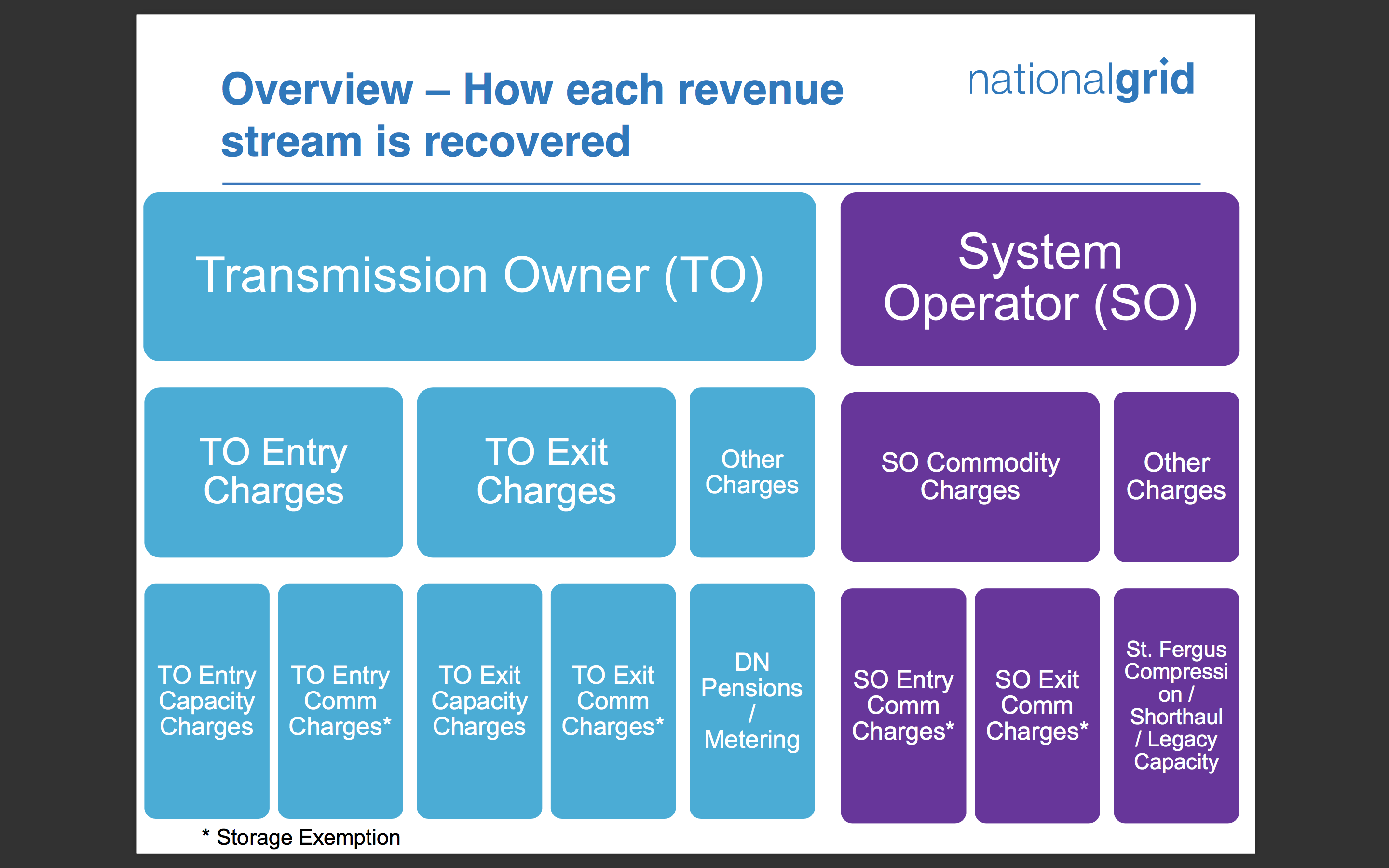
**Objectives**

[Reference to Appendix 1: Customer/stakeholder objectives developed within NTSCMF ]

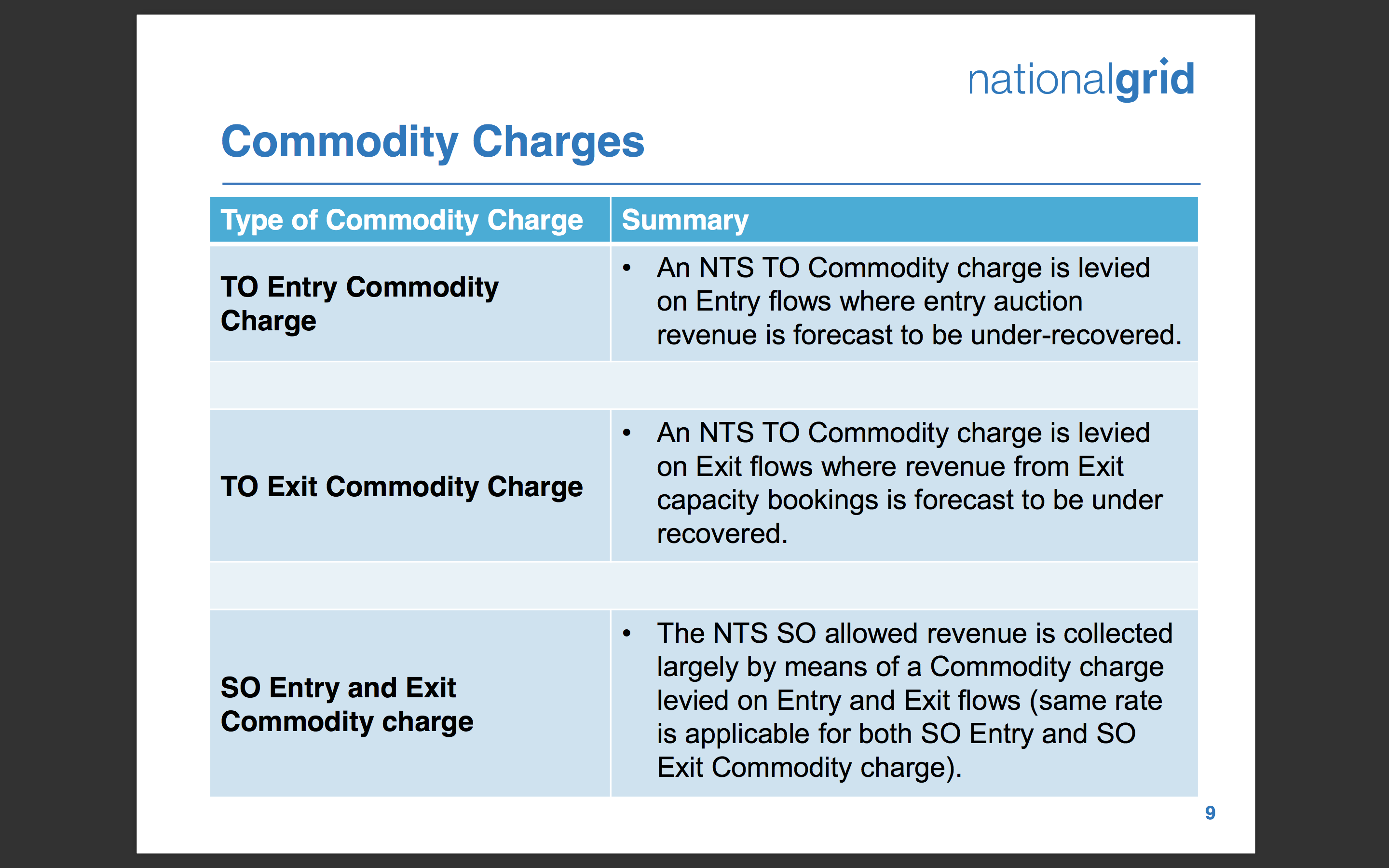
* *Minimise Volatility*
* *Predictability*
* *Stability of prices*
* *Fairness*
* *Security*
* *Network Efficiency*

(discussed at Sept and Oct 2016 NTSCMF)

**RPM - Decision to use Capacity Weighted Distance rather than other options such as LRMC or postalised charging**



Currently NTS Capacity charges (TO Entry and TO Exit charges) are calculated using Long Run Marginal Costs (LRMC).



Commodity charges (TO Entry, TO Exit and SO Energy and Exit) are used for revenue recovery.

The decision to use Capacity Weighted Distance for charges to be effective from October 2018 was taken for the following reasons:

* Xx
* Yy
* Zz

**Legislative compliance**

Some workgroup participants requested clarification from National Grid on legislative compliance of the Modification proposal with reference to TAR NC. Specifically, there remain questions about use of commodity charging for some of the future implementation years of the Modification. *[National Grid to supply further information from its legal team.]*

**Commodity vs Capacity charging**

**Historical/Existing Contracts**

*Why the need to differentiate between historical and existing contracts?*

*Link with Colin Hamilton’s pre-mod Treatment of Capacity at Combined ASEPs which is being discussed at Transmission Workgroup. (if needed)*

**Forecasted Contracted Capacity**

**Multipliers**

**Specific Capacity Discounts**

***Storage***

***0621A Justification for 86% capacity charge discount***

*The 86% discount was derived in accordance with the methodology set out in the Waters Wye Associates supporting document to Mod 621A. The document can be found* [*here*](https://www.gasgovernance.co.uk/sites/default/files/ggf/book/2017-12/WWA_GSOGMod621Alernate_coretextv2.0.pdf)*.*

*In summary, the proposer contends that the minimum discount of 50% to capacity-based transmission charges levied at storage system points in the EU Tariff Code is inadequate and does not take into account the general contribution made by storage to system flexibility and security of supply. The full benefits of storage to the NTS and its Users were detailed in two papers submitted by Storengy and GSOG to the NTSCMF in July 2017 and can be accessed* [*here*](https://www.gasgovernance.co.uk/ntscmf/170717)*. The WWA paper acknowledges that the benefits are broad, but difficult to quantify, however, estimates are provided for a number of the individual benefits identified.*

*The proposer believes that the aggregated benefits should provide for a discount at, or very close to 100%, noting that based on Storengy’s calculations that a 100% would result in only £8m of additional charges being levied on non-storage users.*

*In order, to derive a level of discount more aligned with the wider benefits generated by storage, the WWA document developed a methodology based on the principle that storage is embedded in the system, close to demand, akin to the justification for the application of the “shorthaul” tariff at NTS Exit Points located close to NTS Entry Points.*

*Using version 1.3 of the CWD model, WWA calculated that, on average, capacity charges are 36% higher when delivering gas to neighbouring exit points, via storage, than they would be if the gas was delivered directly from the non-storage NTS Entry Points to the same NTS Exit Points. On this basis, Mod 621A proposes that the 50% discount set out in Mod 621 is insufficient and that the total storage related capacity discount should equate to 86%.*

*Further, based on the GTCR Policy Position set out by Ofgem in Nov 2015, the Proposer believes that NTS capacity bookings at storage facilities should not attract any capacity based revenue reconciliation charges from 2021. The imposition of any such charge would result in double charging for each unit of gas delivered to, and from storage facilities*

**LNG**

**Discount for Interconnection points**

National Grid’s Modification 0621 does not provide for a discount for Interconnection Points.

Some Workgroup participants believed this to be appropriate. Others, including the proposer of Modification 0621F believed this to be a failure to address a market distortion and a failure to recognise and value the benefits to the GB system of interconnectors, which offer a contribution to security of supply and system flexibility.

<This is the Alternative text for this title required for 0621F:

**Why the need for change**

Interconnector UK’s proposes in its Modification 0621F that capacity discounts equal to those that apply to GB storage, are also applied to physically bi-directional interconnection points (IPs) – to the extent that they provide a comparable seasonal service through entry bookings which are equal to exit bookings within a Gas Year. With the closure of the Rough storage site it is timely to address the market distortion caused by double charging - whether for access to continental storage through physically bi-directional IPs, or for access to GB storage points. Providing for equal charging treatment will ensure a level playing field and more effective competition in the provision of seasonal flexibility to GB consumers.

In summary the key reasons to make the changes in Modification 0621F are:

a) Level playing field: To avoid double charging of bi-directional IP flows, and thereby to remove a market distortion. This reflects the fact that the interconnectors, working in partnership with continental storage, provide the same seasonal flexibility benefits to the GB market as GB Storage. Double charging of bi-directional flows versus bi-directional flows at storage points is a competitive distortion.

b) System benefits: To reflect that the reasons why storage assets merit a discount apply equally to physically bi-directional interconnectors, including their contribution to security of supply and their contribution to system flexibility.

c) Practical benefits: given the closure of Rough, the GB national system has a very low level of seasonal storage capacity, compared to other large gas demand countries in Europe. This raises a number of challenges and risks for GB consumers. It is an opportune time, therefore, to remove market distortions which penalise GB shippers and consumers accessing Continental Storage assets through the bi-directional interconnectors and benefiting from non-discriminatory National Grid charges. The change is not only fully justified and necessary to remove a competitive distortion, it could also be a matter of real practical benefit to the GB system and GB consumers in the next period of the market’s evolution.

**The solution and how it has sought to address the feedback of stakeholders**

Specific discounts were discussed by the NTSCMF in the summer of 2017. Interconnector UK submitted a detailed paper[[5]](#footnote-5) in August 2017 outlining the necessity for equal charging treatment for bi-directional IPs as part of that discussion. A number of shipper Workgroup participants supported a discount at the bi-directional IPs particularly noting the market integration benefits. Some other Workgroup participants were against such a proposal fearing that additional discounts for bi-directional IPs would mean additional charges for their points.

Some Workgroup participants, whilst sympathetic, noted that the interconnectors provide arbitrage as well as seasonal flexibility and argued that, unlike Storage, it could not always be guaranteed that interconnector flows would be entering and exiting the NTS (the double charging argument). The solution put forward in Modification 0621F has sought to mitigate this concern.

The Modification 0621F enduring solution applies the same discount as is applied to storage sites also to physically bi-directional IPs. However this is only for the proportion of anticipated entry bookings at the physically bi-directional IPs which, over the same year, equals the anticipated exit bookings at the IP. Any additional entry/or exit bookings would receive no discount and thus would be treated in the same manner as any other entry or exit point. By combining these two discount levels in proportion to the anticipated bookings to determine a weighted capacity reserve price, it ensures an enduring solution that can adapt to, and reflects in an appropriate way, future variations in how the interconnectors may be used. If we continue to see seasonal flexibility provided via the physically bi-directional IPs a proportionate discount will be accordingly applied. If, however, we see the physically bi-directional IPs becoming predominately importing or exporting, then little or no discount would be applied through the solution.

Given obligated technical capacity will be used for forecasting bookings in the interim period (October 2019 until September 2021), it is however necessary to apply the same discount as applied to storage for all this capacity for this short period.

**Impact and how the proposal 0621F furthers the relevant objectives**

Using historical flows as a proxy for the enduring solution, Interconnector UK estimated that applying a 50% discount to entry =exit flows amounted to around a 2.1% additional charge to recover around £12m at other NTS points[[6]](#footnote-6).

For the interim period, Interconnector UK estimated, based on the National Grid CWD[[7]](#footnote-7), the amount of money to be recovered by the redistribution of NG charges to other entry/exit points to meet any discount at the physically bi-directional IPs (Bacton) would be around £16m assuming a 50% discount at the Bacton IP (as well as for storage). This would amount to an additional 2.7% increase in charges to these other points.

However, whilst there would need to be a redistribution of NG’s charges to other entry/exit points, this is happening anyway as part of the NTS Charging Review. It is important to note that NG’s overall revenues would be unchanged following this redistribution. There would therefore be no additional net burden on GB consumers. Indeed, any additional cost that could arise from having to subsidise new GB seasonal storage would be avoided and by facilitating effective competition at the Bacton IP, GB can continue to benefit from the wider societal benefits that the interconnectors provide. It should also be noted that by 2021, National Grid will be in a new price control period and its allowed revenue may be less than it is now. By the time of the enduring solution therefore, if National Grid’s allowed revenue is lower, the re-distribution of charges will not increase as much as the estimates above and indeed it is possible there would be no additional increase in charges at other points.

**>(end of 0621F section – still need workgroup response to this section above**

GJ would like an understanding of how Interconnection Points are going to be treated from 2019 onwards (there is no product available for 2021 onwards as yet).

**Revenue Reconciliation/Recovery**

**NTS Optional Charge/AIBoNTS/Shorthaul/OCC**

*From subgroup paper March 2017:*

*For the avoidance of doubt, it is considered beneficial to have a charging item that discourages inefficient bypass of the NTS, only that any such charge may not be the same as it is under the current methodology.*

*From minutes 24th April 2017,*

*…Any alternative charging arrangement developed to ‘Avoid Inefficient Bypass of the NTS’ should only give rise to a financial benefit to relevant users where such bypass might be economically viable rather than a discounted transportation service anticipated to have more wider usage.*

Rationale for the decision to have the distance limit set at 60km.

GJ would like an understanding of how Shorthaul would work for Interconnection Points; how are they going to be treated from 2019 onwards? (there is no product available for 2021 onwards as yet).

**Interruptible**

*Interruptible capacity is offered is so that capacity is always available.*

*10% gives some incentive whereas a lower value e.g. 5% banding does not give sufficient incentive.*

*Buy back costs as substitute? See Action 0621-1101*

**Periodic process to determine Parameters and information publication**

National Grid proposes in Modification 0621 to utilise a so-called light-touch consultation process to determine the applicable Multipliers, Interruptible and Off peak Capacity discounts and Specific Capacity Discount for LNG which will apply to the period beyond 01 October 2020. Ofgem will have a veto option. The process is described in Section 3.30 of Section 3.

A small number of Workgroup participants deemed this process made it too easy for National Grid to change the values and believed the transparency offered by the process as described was insufficient. One of these participants therefore included in their own Alternative Modification (e.g. 0621B) the requirement for such values to be published in Code which would therefore require a UNC Modification to change the values. Their reasoning was that the UNC Modification process is a known and accepted route likely to result in the enabling of a thought-through and transparent change.

Most Workgroup participants agreed with National Grid that the light-touch consultation process taking place outside of Code was sufficient, given the likely materiality of any change and was therefore a pragmatic solution.

<This is the Alternative text for this title required for 0621E:

SSE proposes in Modification 0621E to place the values for the applicable Multipliers, Interruptible and Off peak Capacity discounts and Specific Capacity Discount for LNG in Code.

Most Workgroup participants deemed this unnecessary and instead agreed with National Grid that the light-touch consultation process described in Modification 0621, which would take place outside of Code was sufficient, given the likely materiality of any change and was therefore a pragmatic solution.

A small number of Workgroup participants agreed that National Grid’s proposed light touch consultation process made it too easy for National Grid to change the values and believed the transparency offered by the process as described by National Grid in its Modification was insufficient. They agreed with SSE that such values should be published in Code which would therefore require a UNC Modification to change the values. Their reasoning was that the UNC Modification process is a known and accepted route likely to result in the enabling of a thought-through and transparent change. >

Peak Capacity discounts and Specific Capacity Discount for LNG

**Justification for use of transition period (moving from Commodity to Capacity).**

**Impact on security of supply and the National Balancing Point (NBP) price and any potential unintended consequences.**

Several Workgroup participants requested analysis relating to the impact of Modifications 0621/A/B/C/D/E/F/G/H/J on security of supply. Several Workgroup participants felt that aspects of the changes proposed by National Grid in its Modification 0621 were likely to have effects or consequences which could contribute to an improvement in the security of supply such as

Xxx

Others proposed consequences of the proposed changes which were likely to have a detrimental effect on security of supply were suggested, such as increasing charges for onshore storage facilities which may lead to economic decisions to close such facilities. Other consequences were proposed with regard to charges at entry points, in particular St Fergus, where potential charge increases may lead to economic decisions which could affect the viability of the facilities at the entry point, with concomitant effects on those North Sea fields supplying gas to the GB market through such facilities.

Changes to charges at Interconnection Points could also clearly affect the NBP with more liquidity provided where flow to the GB market was favourable compared with other destinations and vice versa.

The Workgroup as whole recognised that any quantified analysis of this nature would not be provided by National Grid and therefore requested that the Regulator to assess this factor in its Regulatory Impact Assessment.

**ACER Consultation**

*[Note of how National Grid and Ofgem will satisfy requirements for EU/ACER consultation – to be supplied by National Grid, update to be supplied on 06 February 2018 – CW/Ofgem/RH]*

*Timelines information - see JO slides 06 February 2018.*

Note ACER Consultation Template. Tariff NC Article 26(5): <https://www.acer.europa.eu/Official_documents/Public_consultations/Pages/ACER-Consultation-Template.-Tariff-NC-Article-26(5).aspx>

*[Note of where information for ACER consultation will be/are contained in this document].*

**Rough Order of Magnitude (ROM) Assessment** *(Cost estimate from CDSP)*

#### Cost estimate from CDSP where the Modification relates to a change to a CDSP Service Document

Related change proposal documents:

ROM update 06 February 2018 if possible

* CP4262 “EU Gas Change Roadmap - 2018/19 Feasibility and Analysis. This change proposal was approved as completed by DSC Change Management Committee on 13/12/17. see: <https://www.gasgovernance.co.uk/Change-Proposals>
* XRN 4376 “GB Charging & Incremental (IP PARCA) Capacity Allocation Change Delivery (2019)”. see: <https://www.gasgovernance.co.uk/Change-Proposals>

***OR***

|  |  |
| --- | --- |
| **Rough Order of Magnitude (ROM) Assessment** *(Workgroup assessment of costs)* | |
| Cost estimate from CDSP | Insert text here |
| Insert Subheading here | Insert text here |

ROM request for alternatives…

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; | Positive |
| aa) That, in so far as prices in respect of transportation arrangements are established by auction, either:   1. no reserve price is applied, or 2. 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; | Positive |
| 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 |

This modification proposal does not conflict with:

1. *paragraphs 8, 9, 10 and 11 of Standard Condition 4B of the Transporter's Licence; or*
2. *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.

Demonstration of how the Relevant Objectives are furthered:

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

The update to the Transmission Services methodology proposal takes into account developments which have taken place in the transportation business, in particular that the network is no longer expanding.

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.

The EU Tariff Code compliance is taken into account in this modification proposal.  
  
To the extent that TPD Section B is impacted, this will require a review of the standard Relevant Objectives in addition to the above.

For 0621B: Jeff Chandler

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. Positive

“Charges derived from the Capacity Weighted Distance (CWD) methodology will only be stable and predictable if the FCC (Forecasted Contracted Capacity) values are stable. FCC values based on Obligated capacity, are published in advance in National Grid’s licence and change infrequently, they will be more stable than values based on forecasts derived by National Grid using a methodology that is yet to be defined and exposed to annual change. More predictable and stable charges will facilitate competition because, all else being equal, greater cost certainty will lower risk and will result in lower cost of capital for Shippers which will reduce barriers to entry and facilitate competition.

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 of 0621B believes the modification is fully compliant with the COMMISSION REGULATION (EU) 2017/460, of 16 March 2017, establishing a network code on harmonised transmission tariff structures for gas. One area that may benefit from further clarification is Article 4(3), Transmission and non-transmission services and tariffs. The default position is that the transmission services revenue shall be recovered by capacity based tariffs but “as an exception” and subject to the approval of the national regulatory authority, *a part*of the transmission service may be recovered by (a) flow based charge; or (b) complementary revenue recovery charge (being identified as “commodity based transmission tariffs”) provided that they meet the requirements contained in Article 4(3)(b), summarised below:

* the complementary revenue recovery charge shall be:

1.      Levied for the purpose of managing revenue under recovery.

2.      Calculated on the basis of forecasted flows

3.      Applied to points other than IPs

4.      Applied after the NRA has made an assessment of cost -reflectivity and on cross -subsidisation between IPs and non-IPs.

* To the extent that use of such commodity based transmission tariff is approved there is no time period for which this must apply – i.e. there is nothing that would prohibit long term use of a commodity based transmission tariff and make the 0621 proposal more favourable/compliant with the Regulations;
* There is a reference to the application of a commodity based transmission tariff being potentially permitted for a *part*of the transmission services.  Whilst this is a matter of interpretation (“part” could mean the entire part for example) this suggests that a commodity based transmission tariff would be used together with a capacity based transmission tariff, as is the intention of 0621B.”

For 0621F; P Dhesi

**Positive impact on the relevant objectives and relevant charging objectives**

Relevant objectives

|  |
| --- |
| c) Efficient discharge of the licensee's obligations:  Standard Special Condition A5(5) of the NTS Licence sets outs the relevant methodology objectives and Interconnector UK believes that these objectives are better facilitated for the reasons detailed below. |
| d) Securing of effective competition:  Effective competition will be enhanced through the equal charging treatment of storage and physically bi-directional interconnection points. It will remove a market distortion for shippers using continental storage via the interconnectors to meet GB’s seasonal flexibility. It will create more of a level playing field for different sources of seasonal flexibility available to shippers, and ultimately to GB consumers. It increases the choice of shippers when procuring seasonal flexibility - they can consider Continental Storage accessed via physically bi-directional IPs or GB-located storage, without the distortion of differential National Grid charges.  This is particularly relevant to the GB market and GB consumers following the closure of the Rough storage facility. It is widely recognised that the GB market now has a relatively low level of seasonal storage within national boundaries. Improved access to Continental Storage, on a levelized and competitive charging basis, would be a step in the right direction to meet the market’s current structural needs. |
| g) Compliance with the Regulation:  Key objectives of the EU’s third energy package are to facilitate efficient gas trade and competition across borders. Given that physically bi-directional IPs compete with GB storage and that the unequal treatment distorts cross border trade, the Modification 0621F solution is necessary to ensure GB compliance with:   * Tariffs for access to networks under Regulation (EC) No 715/2009:   Article 13.1 of *Tariffs for access to networks* in Regulation (EC) 715/2009 which says *“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”*  And 13.2 which requires *”Tariffs for network access shall neither restrict market liquidity nor distort trade across borders of different transmission systems”*   * Reference price methodology application under Article 6 of Commission Regulation (EU) 2017/460   Under Article 7(e), TSOs must ensure that the reference prices do not distort cross-border trade.  It should be noted that a discount for physically bi-directional IPs is entirely consistent with the TAR code given TSOs can make adjustments to the application of the reference price methodology in accordance with Article 6.4 or Article 9.  Under Article 6.4(a), TSOs can make adjustments to reference prices at any given entry or exit point to meet the competitive level of the reference price. |

Relevant Charging Objectives

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| --- |
| aa)(l) best calculated to promote efficiency and avoid undue preference in the supply of transportation services:  By removing double charging of bi-directional IP flows a market distortion will be removed. The solution ensures a level playing field for users of GB storage and seasonal flexibility via physically bi-directional IPs. |
| aa)(II) best calculated to promote competition between gas suppliers and between gas shippers:  Effective competition will be enhanced through the equal charging treatment of storage and physically bi-directional interconnection points. It will remove a market distortion for shippers using continental storage via the interconnectors to meet GB’s seasonal flexibility. It will create more of a level playing field for different sources of seasonal flexibility available to shippers, and ultimately to GB consumers. It increases the choice of shippers when procuring seasonal flexibility - they can consider Continental Storage accessed via physically bi-directional IPs or GB-located storage, without the distortion of differential National Grid charges.  This is particularly relevant to the GB market and GB consumers following the closure of the Rough storage facility. It is widely recognised that the GB market now has a relatively low level of seasonal storage within national boundaries. Improved access to Continental Storage, on a levelized and competitive charging basis, would be a step in the right direction to meet the market’s current structural needs. |
| e) Compliance with the Regulation:  Key objectives of the EU’s third energy package are to facilitate efficient gas trade and competition across borders. Given that physically bi-directional IPs compete with GB storage and that the unequal treatment distorts cross border trade, the Modification 0621F solution is necessary to ensure GB compliance with:   * Tariffs for access to networks under Regulation (EC) No 715/2009:   Article 13.1 of *Tariffs for access to networks* in Regulation (EC) 715/2009 which says *“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”*  And 13.2 which requires *”Tariffs for network access shall neither restrict market liquidity nor distort trade across borders of different transmission systems”*   * Reference price methodology application under Article 6 of Commission Regulation (EU) 2017/460   Under Article 7(e), TSOs must ensure that the reference prices do not distort cross-border trade.  It should be noted that a discount for physically bi-directional IPs is entirely consistent with the TAR code given TSOs can make adjustments to the application of the reference price methodology in accordance with Article 6.4 or Article 9.  Under Article 6.4(a), TSOs can make adjustments to reference prices at any given entry or exit point to meet the competitive level of the reference price |

* Impact on [which?] standard relevant objectives
* National grid view
* narrative of workgroup view
* look at 0501…
* 0517

Implementation

No implementation timescales proposed, these will be discussed within the workgroups.

This modification and the resulting methodology change will take effect for prices from October 2019, in order to achieve compliance with the EU Tariff Code.

*Latest Ofgem decision date? May 2019?*

Legal Text

#### Text Commentary

To be provided later

#### Text

To be provided later

Recommendations

#### Workgroup’s Recommendation to Panel

The Workgroup recommends to Panel that the workgroup report should proceed to consultation.

* ~~Agree that Authority Direction should apply~~
* ~~Refer this proposal to a Workgroup for assessment.~~

*~~The Code Administrator may set alternative subheadings appropriate to the specific Code.~~*

#### ~~Insert subheading here~~

~~Insert text here~~

Appendices

Appendix: Customer/stakeholder objectives developed within NTSCMF

Part III Workgroup sub-report 0621A

Part IV Workgroup sub-report 0621B

Part V Workgroup sub-report 0621C

Part VI Workgroup sub-report 0621D

Part VII Workgroup sub-report 0621E

Part VIII Workgroup sub-report 0621F

Part IX Workgroup sub-report 0621G

Part X Workgroup sub-report 0621H

Part XI Workgroup sub-report 0621J

1. As described in Standard Special Condition A5: ‘Obligations as Regard Charging Methodology’ of the NTS Licence, paragraph 5. [↑](#footnote-ref-1)
2. #### <http://www.gasgovernance.co.uk/sites/default/files/EU%20Tariff%20Code%20-%20final%20clean.pdf>

   [↑](#footnote-ref-2)
3. [*https://www.ofgem.gov.uk/gas/transmission-networks/gas-transmission-charging-review*](https://www.ofgem.gov.uk/gas/transmission-networks/gas-transmission-charging-review) [↑](#footnote-ref-3)
4. See <https://www.gasgovernance.co.uk/ntscmf/subg1model> [↑](#footnote-ref-4)
5. <https://www.gasgovernance.co.uk/sites/default/files/ggf/book/2017-08/Bacton%20IP%20capacity%20discount%20paper%20IUK%20v2.0.pdf> [↑](#footnote-ref-5)
6. Interconnector UKused the 2014/15 gas year as an illustration assuming profiled capacity bookings. In this year, there were 42TWh of GB exports and 31TWh of GB imports through the Bacton IP with a total NTS transmission volume of 750TWh (Energy Trends monthly data shown in Figure 1). Applying a discount of 50% to the Bacton net IP total of 62TWh compared to total entry + exit of 2\*750TWh = 1500TWh would mean 2.1% of TSO revenue would be redistributed and recovered from other points on the network (62/1500 \* 50%). A 50% discount on the gross Bacton IP flows under this illustration for an option (a) approach would mean a 2.4% increase in charges at other points (73/1500 \* 50% = 2.4% impact). [↑](#footnote-ref-6)
7. Interconnector UK analysis based on NG Transmission Services CWD Model for the 2018/19 gas year. Interconnector UK has based the revenue estimate on the obligated capacity bookings but have assumed that, as the Bacton IP is bi-directional the full obligated capacity will be booked in one or other direction, but not both at the same time. [↑](#footnote-ref-7)