





UNC Modification		At what stage is this document in the process?
<h1>UNC 0636A:</h1> <h2>Updating the parameters for the NTS Optional Commodity Charge</h2>		<div style="display: flex; flex-direction: column; gap: 5px;"> <div style="border: 1px solid green; background-color: #00a651; color: white; padding: 5px; display: flex; align-items: center; justify-content: center;"> <span style="font-weight: bold; font-size: 1.2em; margin-right: 5px;">01</span> Modification         </div> <div style="border: 1px solid #00a651; padding: 5px; display: flex; align-items: center; justify-content: center;"> <span style="font-weight: bold; font-size: 1.2em; margin-right: 5px;">02</span> Workgroup Report         </div> <div style="border: 1px solid #00a651; padding: 5px; display: flex; align-items: center; justify-content: center;"> <span style="font-weight: bold; font-size: 1.2em; margin-right: 5px;">03</span> Draft Modification Report         </div> <div style="border: 1px solid #00a651; padding: 5px; display: flex; align-items: center; justify-content: center;"> <span style="font-weight: bold; font-size: 1.2em; margin-right: 5px;">04</span> Final Modification Report         </div> </div>
<p><b>Purpose of Modification:</b></p> <p>To update the parameters used in the derivation of the Optional Commodity Charge tariff in order to limit the distance against which Users may apply the Optional Commodity Charge</p>		
	<p>The Proposer recommends that this modification should be:</p> <ul style="list-style-type: none"> <li>considered a material change and not subject to self-governance</li> <li>assessed by a Workgroup</li> </ul> <p>This modification will be presented by the Proposer to the Panel on 18 January 2018. The Panel will consider the Proposer’s recommendation and determine the appropriate route.</p>	
	<p><b>High Impact:</b></p> <p>Users opting for the Optional Commodity Charge for longer distances will no longer be able to benefit from the OCC following implementation. Note that it is expected that the tariff would still be available as an option to avoid inefficient bypass of the NTS.</p> <p>The Standard Commodity tariff would be consequentially reduced.</p>	
	<p><b>Medium Impact:</b></p>	
	<p><b>Low Impact:</b></p>	

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Timetable	
<b>The Proposer recommends the following timetable:</b>	
Consideration by Workgroup	06 February 2018
Workgroup Report presented to Panel	19 April 2018
Draft Modification Report issued for consultation	19 April 2018
Consultation Close-out for representations	TBC
Final Modification Report available for Panel	TBC
Modification Panel decision	TBC

 **Any questions?**

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## 1 Summary

### What

The NTS Optional Commodity Charge (OCC) was introduced in 1998 and the tariff has not been updated for nearly 20 years. Therefore, it is proposed that the parameters within the NTS OCC formula need to be updated to be more reflective of its original intention to avoid inefficient bypass of the NTS.

### Why

The OCC was introduced in 1998 with the express intention of providing a mitigating option for shippers seeking short distance transportation and was justified on the basis of avoiding inefficient bypass of the NTS. Given that the tariff has not been updated in nearly 20 years whilst standard commodity charges have risen significantly over the same period, the OCC has become a very attractive option even for exit points that are increasingly distant from an associated entry point.

National Grid NTS have advised the NTSCMF1 that Users opting to avail of the OCC during the current Gas Year (17/18) will pay an estimated £48.5 million in optional commodity charges but, in doing so, will avoid paying up to £195 million in standard commodity charges.

### How

It is proposed to give effect to this modification by way of a single change to the UNC TPD, Section Y paragraph 3.5 “NTS Optional Commodity Rate”.

Introduction of a distance cap, which will be applied in the application of the term “D” in the NTS Optional Commodity Charge Rate formula. Where the distance from the relevant offtake and the specified entry point exceeds this cap, the Optional Commodity Rate cannot be applied. It is proposed that the distance cap is set at 115 km.

It is proposed that the changes arising from this code modification be implemented on 01 October 2018

### Justification for Authority Direction

National Grid NTS have advised the NTSCMF2 that Users opting to avail of the OCC during the current Gas Year (17/18) will pay an estimated £48.5 million in optional commodity charges but, in doing so, will avoid paying nearly £195 million in standard commodity charges. . It is proposed that the changes arising from this code modification be implemented on 1 October 2018..

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

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<sup>1</sup> NTSCMF 26 September 2017

<sup>2</sup> NTSCMF 26 September 2017

## Requested Next Steps

This modification should:

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

## 2 Why Change?

The parameters within the NTS Optional Commodity Charge (OCC) formula need to be updated to better reflect the original intention of the Charge to avoid inefficient bypass of the NTS.

The OCC is available as an alternative (instead of the Standard Commodity Charges) to Users nominating a “point to point” path for transportation from an NTS entry point to an NTS offtake point. If a User elects for the OCC, all NTS Entry and Exit (SO & TO) Commodity Charges are avoided. The NTS OCC is derived from the estimated cost of laying and operating a dedicated pipeline of NTS specification. This is defined in UNC TPD Section Y. The OCC was introduced in 1998 with the express intention of providing a mitigating option for shippers seeking short distance transportation and was justified on the basis of avoiding inefficient bypass of the NTS. Given that the tariff has not been updated in nearly 20 years whilst standard commodity charges have risen significantly over the same period, the OCC has become a very attractive option even for exit points that are increasingly distant from an associated entry point.

National Grid NTS have advised the NTSCMF<sup>3</sup> that Users opting to avail of the OCC during the current Gas Year (17/18) will pay an estimated £48.5 million in optional commodity charges but, in doing so, will avoid paying nearly £195 million in standard commodity charges.

1. The proposal requires a change to the OCC charging formula contained within Section Y of the UNC ).
2. If the change is not made there will be up to £195 million in charges transferred to Users unable to benefit from the OCC (largely within the Distribution Networks) in the period between October 2018 and October 2019.

The proposer is aware that National Grid is planning to address this transfer of costs from October 2019 as part of Modification 0621. It is expected that this proposal will be replaced by the OCC arrangements set out on Modification 0621 or any of its alternatives. The inclusion of a distance cap in the OCC formula will remove any routes which exceed this distance from operating under the OCC.

The distance of 115 km has been selected on the basis of the analysis provided by National Grid to NTS Charging Methodology Forum on 6 May 2015. It reported that if the top 25% of OCC users (by distance) were not on OCC, and on a recalculated normal commodity rate, the revenue from that group would increase from £14m to £71m and revenue from shippers not on OCC would decrease from £624m to £569m. Since this meeting National Grid has informed the proposer that the average distance (in terms of route) of the top 25% (by distance) of OCC users is 115 km (based on April 2014 flows).

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<sup>3</sup> NTSCMF 26 September 2017

## 3 Code Specific Matters

### Reference Documents

The Statement of Gas Transmission Transportation Charges

<https://www.gasgovernance.co.uk/sites/default/files/ggf/book/2017-09/Transportation%20statement%20October%202017%20.pdf>

### Knowledge/Skills

Understanding of the NTS charging methodology in respect of the Optional Commodity Charge.

## 4 Solution

The proposal requires a change to the charging formula contained within Section Y (3.5 NTS Optional Commodity Rate).

The parameters of the NTS Optional Commodity charge formula are derived from flow rates, pipeline distances and underlying costs. The current formula is as follows:

$$p/kWh = 1203 \times M^{-0.834} \times D + 363 \times M^{-0.654}$$

Where:

D is the direct distance of the site or non-National Grid NTS Pipeline to the elected Entry Terminal

M is the Maximum NTS Exit Point Offtake Rate (MNEPOR) at the site, converted into kWh/day

^ means 'to the power of.'

The proposed change to the formula is to insert a distance cap in relation to the D function of 115 km. as follows:

$$p/kWh = 1203 \times M^{-0.834} \times D + 363 \times M^{-0.654}$$

Where:

D is the direct distance of the site or non-National Grid NTS Pipeline to the elected Entry Terminal, where D must be equal to or less than 115 km

M is the Maximum NTS Exit Point Offtake Rate (MNEPOR) at the site, converted into kWh/day

^ means 'to the power of.'

The update to the definition of D would be effective for all sites availing of the OCC from the time of the effective date of the Mod.

### Interim phase

Following receipt of the ROM proposal, it is apparent that the full system solution cannot be delivered on the effective date of this proposal. On this basis, a workaround transition has been developed to ensure the new OCC arrangements can be implemented without disruption to Users. The following sets out

some rules to be applied, in the event that the modification proposal is directed for implementation prior to the delivery of a fully automated solution.

1. A minimum of 2 months prior to the effective date of the change, National Grid will write to all Users registered at the relevant Supply Points that the application of the OCC will not be valid from the implementation date (where the relevant Supply Points are those points which are greater than 115km from the nominated Entry Point and subject to the OCC)
2. Users will be instructed to withdraw the Supply Points from the OCC and re-register as the Registered User in accordance with UNC Section B2. The Supply Point Offer made by the CDSP in this instance will reflect non-OCC charges. Registered “ownership” of the Supply Point under non-OCC terms will commence on the effective date of this modification proposal
3. National Grid will monitor the deployment of OCC on a daily basis on the day after each Gas Day commencing on D+1, where D is the effective date of this Modification Proposal:
  - a. The CDSP will provide National Grid with a daily report setting out those sites which are subject to OCC rates and the distances pertaining to each designated route. This will be provided on D+1.
  - b. National Grid will identify any sites where the Distance exceeds 115km and therefore, non-compliant with the application of the OCC
4. For those Supply Points which are non-compliant, National Grid, in conjunction with the CDSP will withdraw the OCC and re-register as Supply Points subject to the standard transportation charges.
5. National Grid will write to those registered Users which have been impacted by Step 4 and removed from the OCC rates.

## 5 Impacts & Other Considerations

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

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

### **Consumer Impacts**

If implemented, the modification will reduce the overall level of TO and SO commodity charges to be applied to non-OCC Users.

### **Cross Code Impacts**

There is no impact expected.

### **EU Code Impacts**

None

### **Central Systems Impacts**

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

## 6 Relevant Objectives

### Impact of the modification on the Relevant Objectives:

Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	None
b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters.	None
c) Efficient discharge of the licensee's obligations.	None
d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	None
e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers.	None
f) Promotion of efficiency in the implementation and administration of the Code.	None
g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	None

### 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: (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	Positive

with the charging methodology facilitates effective competition between gas shippers and between gas suppliers; and	
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.	None

Adjustments to the OCC rate will reduce the Standard Commodity rates (all other things being equal) and thereby reduce the transfer of costs between users and improve its cost reflectivity – relevant objective (a).

An OCC rate that better reflects the underlying costs of appropriately sized alternative by-pass pipelines will better facilitate effective competition between shippers and suppliers – relevant objective (c) and specifically, help reduce transportation costs to domestic gas customers.

Increasing take-up of the OCC over longer distances has led to a need to review the parameters within the OCC rate calculation – relevant objective (b).

## 7 Implementation

- The usual date for charging changes is October or April in any year (but changes can be implemented at other dates subject to Ofgem approval). Ideally the proposer would like to implement the modification proposal on 1 October 2018
- If decision to implement is received after 31 July 2018, implementation 2 calendar months following the decision to implement.

Should the proposal proceed, National Grid will be asked to give (on a “reasonable endeavours” basis) 150 days’ indicative notice that the OCC rate may change at exit points availing of the OCC and if possible an indicative rate. Similarly, National Grid will be asked to give 2 months’ notice of the actual charges should the Modification be approved.

## 8 Legal Text

### Text Commentary

To be provided

### Text

To be provided



## 9 Recommendations

### Proposer's Recommendation to Panel

Panel is asked to:

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