UNC Modification

At what stage is this document in the process?

01 Modification
02 Workgroup Report
03 Draft Modification Report
04 Final Modification Report

UNC 0636D:

Updating the parameters for the NTS Optional Commodity Charge while complying with the EU Tariff Code

Purpose of Modification:

To update the parameters used in the derivation of the Optional Commodity Charge tariff but with the provision for an exemption for interconnection points from the updated parameters used in the derivation of the OCC until an enduring solution recognising the European Tariff Network Code requirements has been implemented.

The Proposer recommends that this modification should be:

- considered a material change and not subject to self-governance
- be assessed by Workgroup 0636

This modification will be presented by the Proposer to the Panel on 19 April 2018. The Panel will consider the Proposer's recommendation and determine the appropriate route.

High Impact:

Users opting for the Optional Commodity Charge could expect an increase in the tariff reflective of today's cost environment but these changes would not apply to interconnection exit points until an enduring solution is implemented that recognises the European Tariff Network Code requirements.

Note that it is expected that the tariff would still be available as an option to avoid inefficient bypass of the NTS.

Medium Impact: None

Low Impact: None

Contents

Timetable

The Proposer recommends the following timetable:

Initial consideration by Workgroup	09~~3~~ May 2018 - TBC
Workgroup Report presented to Panel	23~~17~~ May 2018
Draft Modification Report issued for consultation	24~~18~~ May 2018
Consultation Close-out for representations	TBC~~08~~ June 2018
Final Modification Report available for Panel	~~14 June 2018~~TBC
Modification Panel decision	21 June 2018

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 since inception. Therefore, it is proposed that the parameters within the NTS OCC formula could be updated to be more reflective of current costs and pipeline utilisation, while at the same time ensuring compliance with the EU Tariff Network Code.

Why

The OCC was introduced in 1998 with the express intention of providing a mitigating option for shippers seeking short distance transportation, and is justified on the basis of avoiding inefficient bypass of the NTS. The tariff, however, has not been updated since inception.

National Grid NTS have advised the NTSCMF 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.

This proposal would update the OCC tariff formula to ensure that it remains fit for purpose in today's cost environment but it would exempt all Interconnection exit points ("IPs") from these changes on the following grounds:

- IPs require an enduring solution that recognises the European Tariff Network Code requirements, has been given due consideration by all relevant parties, and avoids short-term disruption. This is consistent with the approach set out previously under GCD11[1], and more recently in Modification Proposal 621.
- Such a process is expected to be delivered under Modification 0621.
- IPs would be exempted from the proposed changes to the parameters used in the derivation of the OCC tariff until this solution is implemented and this approach would mitigate any potential impacts in neighbouring markets, including security of supply.

How

It is proposed to give effect to this modification by way of changing UNC TPD, Section Y paragraph 3.5 "NTS Optional Commodity Rate".

Updating of the cost components of the NTS Optional Commodity Charge Rate formula by indexing to RPI.

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

All Interconnection Exit Points to be exempt from these changes until an enduring solution, recognising the European Tariff Network Code requirements, is implemented as anticipated under Modification Proposal 0621 or any of its alternatives.

[1] https://www.nationalgrid.com/uk/gas/charging-and-methodologies

2 Governance

Justification for Authority Direction

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

This modification ensures that the robust principle of the OCC calculation remains intact yet also ensures that the formula remains robust in today's cost environment.

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

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

Requested Next Steps

This modification should:

- be considered a material change and not subject to self-governance
- be assessed by Workgroup 0636

3 Why Change?

The parameters within the NTS Optional Commodity Charge (OCC) formula should be updated to ensure that the formula remains fit for purpose in the current cost environment.

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 is justified on the basis of avoiding inefficient bypass of the NTS. Given that the tariff has not been updated since inception, however, it should now be updated by indexing the formula to RPI.

1. The proposal requires a change to the OCC charging formula contained within Section Y of the UNC.
2. This modification ensures that the robust principle of the OCC calculation remains intact yet also ensures that the formula remains robust in today's cost environment and that the share of revenue to be recovered from OCC and non-OCC users is appropriate.

However, all Interconnection Points (exit) should be exempted from the changes to the derivation of the OCC on the following grounds:

- GCD11 foresaw that methodology change to the charging system in order to comply with the EU Regulation TAR would impact the OCC. It concluded that a review and any change to the OCC should take place at a later date with the intention to produce an enduring, compliant solution. Such a process is taking place under Modification UNC 0621 with the recommended solution being subject to a full review by ACER, neighbouring NRAs and other interested parties via consultation (subject to Brexit transitional arrangements being agreed), as prescribed under TAR.[2]

- While TAR compliance is not required until October 2019, the Regulation has been in place since April 2017 and most of the gas markets have already taken steps to adjust charging methodologies in line with TAR. As the TAR content and required process is published and known, it would be prudent to take it into account when making any changes to the charging system in order to avoid unnecessary disruption and inefficiency (i.e. due to an interim change, followed by a transition phase to the enduring solution).

  This approach to minimise duplication of work was recognised by Ofgem in its consultation[3] on proposals to implement aspects of the Regulation (EU) 2017/460, the European Network Code on harmonised transmission tariff structures for gas (TAR NC) which closed on 6 November 2017.In the consultation, Ofgem proposed to align the stakeholder consultations required for UNC0621 and TAR NC by using a single consultation document that satisfies the requirements of both. Ofgem's proposal is

  "…to facilitate alignment of the consultation processes, we propose that the UNC0621 industry consultation, which is required under UNC modification rules, and the extended final article 26 consultation, are carried out using a single consultation document. We propose that this document shall be the UNC0621 draft modification report ("DMR"), including any alternative modification proposals that may arise."

  Ofgem published its Decision on 8th March 2018[4] in which they directed National Grid Gas plc (NGG) to undertake specific tasks which arise under TAR NC

  By Ofgem extending the scope of UNC 0621 to include the matters required under EU TAR NC, the impact of changes to the OCC tariff on all IPs would be addressed under UNC 0621 and therefore IPs should be exempt from any changes to the OCC tariff until a decision is made and implemented under UNC 0621.

- Modification UNC 0621 discussions include transitional arrangements to avoid step change impacts on Shippers and consumers. No transitional arrangements for Interconnection Points exist under the proposed UNC 0636 Modification or any of the alternatives which conflicts with Ofgem's Decision to direct NGG to undertake specific tasks which arise under TAR NC.

[2] Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas, Art. 26 - 28.

[3] https://www.ofgem.gov.uk/publications-and-updates/consultation-proposals-implement-aspects-regulation-eu-2017460-european-network-code-harmonised-transmission-tariff-structures-gas-tar-nc

[4] Decision to direct National Grid Gas plc (NGG) to undertake specific tasks to implement aspects of Regulation (EU) 2017/460, the European Network Code on harmonised transmission tariff structures for gas (TAR NC)

4 Code Specific Matters

Reference Documents

1. The Statement of Gas Transmission Transportation Charges

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

2. Proposed Modification UNC 0621

3. Ofgem Decision to direct National Grid Gas plc (NGG) to undertake specific tasks to implement aspects of Regulation (EU) 2017/460, the European Network Code on harmonised transmission tariff structures for gas (TAR NC)

Knowledge/Skills

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

5 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 x M ^-0.834 x D + 363 x 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 revision to the calculation of the NTS Optional Charge will be to update the above formula by indexing the relevant parts of the formula to reflect inflation at a rate of RPI over the period since inception to today. The formula is designed to take into account the estimated costs of laying and operating a dedicated pipeline of an appropriate specification and also takes into account a range of flow rates and pipeline distances. These fundamental assumptions remain valid.

The revised formula is based on the principles set out in Option 1 of National Grid's GCD11 Report[5]. The formula has been updated to reflect more recent RPI levels in accordance with the update provided by National Grid as part of the Modification UNC 0621 development.

[5] National Grid GCD11, June 2015: https://www.nationalgrid.com/uk/gas/charging-and-methodologies/gas-charging-discussion-gcd-papers

The **proposed** change to the formula is as follows for non-IP Exit Points:

The Non-IP Exit Point OCC:

2077~~2086.59~~ x M ^-0.835 x D + 608~~610.70~~ x 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 update to the parameters would be effective for all non-IP sites availing of the OCC from the time of implementation of the Mod and no further updates are envisaged prior to October 2019.

Note that the OCC only applies to IP Exit Points as the OCC product is designed on the basis of the direct route of a nominated exit point from the selected entry point and not vice versa. Where a nominated non-IP Exit Point selects an IP Entry Point as the relevant Entry Point for the purposes of OCC, then the Non-IP Exit Point OCC formula will apply.

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 values contained in the formula; whilst remaining a valid principle, should be subject to indexation to the Retail Prices Index (RPI) for the relevant charge period consistent with RIIO-T1 Licence RPI calculations. The cost base will be updated using publicly published RPI figures from the previous completed formula year (i.e. October 2019 will be updated using April 2018 to March 2019 data) and the formula for determine the RPI will be as follows:

$$RPI_t = RPI_{t-1} / RPIt_{1998/99}$$

RPI_t means the arithmetic average of the monthly Retail Price Index published or determined with respect to each of the twelve months from 1 April to 31 March in formula Year t

It is proposed that the NTS Optional Charge rate (in place for an individual Supply Point Registration) will be subject to change annually (as a consequence of the indexation described above).

Where an OCC Exit Point route contains an Interconnection Point it will continue to use the current formula, as follows:

The IP Exit Point OCC:

1203 x M ^-0.834 x D + 363 x M ^-0.654)

For avoidance of doubt:

- The revised Non-IP Exit Point OCC rate as proposed would only apply where the exit point is a Non-IP.

- The Non-IP Exit Point OCC rate will always apply when the Exit Point is a non-IP, including in the event that the specified Entry Point is an IP.
- The indexation of the costs underpinning the OCC formula will not apply to the IP Exit Point formula.
- No changes are being proposed to the current application process for the OCC.

6 Impacts & Other Considerations

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

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

Consumer Impacts

This modification ensures that the robust principle of the OCC calculation remains intact yet also ensures that the formula remains robust in today's cost environment. As a result the costs (and revenues) apportioned between OCC and non-OCC Users are more cost reflective.

Cross Code Impacts

There is no impact expected.

EU Code Impacts

None[6] – this change is expected to be for the interim period until the charging review is implemented in 2019 for compliance with the EU Tariff Network Code. The proposer anticipates that the wider charging review will include a more comprehensive update of the OCC.

Central Systems Impacts

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

7 Relevant Objectives

Impact of the modification on the Relevant Objectives:	
Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	None
b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters.	None

[6] Only if all IPs (exit) are exempt otherwise TAR due process would apply

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.	Positive
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 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

Impact of the modification on the Relevant Charging Methodology Objectives:

Adjustments to the OCC rate will ensure that the OCC formula is robust to the current cost environment and that charges to OCC and non-OCC Users are more reflective of current cost – relevant objective (a).

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

Ensuring greater cost reflectivity of those costs incurred by National Grid NTS, by uplifting costs in accordance with RPI, will better facilitate the achievement of relevant objective 9b)

Under relevant charging objective (e) and relevant Code objective (g), the proposal will facilitate compliance with the TAR NC intention of full consultation with affected adjacent markets and ACER. The TAR NC specifically refers to consideration and treatment of Interconnection Points and exit points to infrastructure with the purpose of ending isolation of Member States' gas systems; Northern Ireland and the Republic of Ireland constitute isolated systems. Full consultation as described for TAR NC compliance is already planned to take place under UNC 0621, where any change at IPs shall be assessed by relevant parties in affected adjacent markets and TAR NC compliance better served.

8 Implementation

No implementation timescales are proposed, however:

- 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 as soon as possible.

- 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.

9 Legal Text

Text Commentary

To be provided by Transporters

Text

To be provided by Transporters

10 Recommendations

Proposer's Recommendation to Panel

Panel is asked to:

- Agree that Authority Direction should apply.

- Refer this proposal to Workgroup 0636 for assessment.