UNC Modification	At what stage is this document in the process?

UNC 0686:

Removal of the NTS Optional Commodity Rate with adequate notice

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

Purpose of Modification:

Removal of the NTS Optional Commodity Rate[1] with adequate notice.

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

✔	The Proposer recommends that this Modification should: • proceed to Consultation
!	High Impact: All Users of the GB gas transmission and distribution system and their downstream customers. National Grid in its role as the Transmission Licensee. Users currently opting for the NTS Optional Commodity Rate could expect an increase in the tariff, whilst those not using the NTS Optional Commodity Rate could expect a decrease in tariff.
!	Medium Impact: None
!	Low Impact: None

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

Contents

Timetable

The Proposer recommends the following timetable:	
Modification presented to Panel	18 April 2019
Amended Modification considered by Workgroup	30 April 2019
Workgroup Report presented to Panel	16 May 2019
Draft Modification Report issued for consultation	16 May 2019
Consultation Close-out for representations	07 June 2019
Final Modification Report available for Panel	12 June 2019
Modification Panel decision	20 June 2019

Any questions?

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1 Summary

What

The NTS Optional Commodity Rate (OCR)[2] needs to be removed such that the tariff is no longer available from 01 October 2019 (beginning of the Gas Year). This should be achieved in a manner that gives adequate[3] notice to stakeholders.

Why

Users of the current OCR[4] receive the same service as non-Users for significantly lower charges. The service received is the transport of gas through the National Transmission System using standard capacity products with no specific restrictions about the use of these capacity products[5]. The average unit commodity rate for those using the OCR has been estimated at 18% of the standard commodity unit rate in gas year 17/18[6]. The same capacity charges apply irrespective of the choice to elect the OCR. The Proposer of this Modification believes this is unduly discriminatory and anti-competitive and therefore not compliant with EU[7] and UK Law, and National Grid's Licence Conditions. Specifically this includes compliance with EC 2009/715 as well as EU 2017/460.

National Grid proposes through its Urgent Modification 0678 " to remove the NTS OCR" from "01 October 2019 or as soon as possible thereafter". In view of the recent extension to the Modification 0678 timetable it is the view of the Proposer of this Modification that there is now a significant risk of delay to the effective date for tariffs rendering National Grid Gas in breach of its Licence in respect of the National Transmission System[8].

During consideration of Modification 0678 and other Modifications, workgroup members[9] have consistently requested that National Grid provide as much notice as possible of changes to tariffs, in particular with regard to the mandatory removal of OCR.

How

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

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

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

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

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

[5] Provision of a point to point service is not allowed under EU 2009/715. Article 13(1)"*By 3 September2011, the Member States shall ensure that, after a transitional period, network charges shall not be calculated on the basis of contract paths."*

[6] More detail is provided in Section 3

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

[8] National Grid Gas (NGG) would be in breach of its Licence by not complying with its relevant methodology objectives in respect of charging – specifically (e) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.

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

2 Governance

Justification for Urgency

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

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

The Proposer believes:

1. NGG will be in breach of relevant legal requirements, specifically Commission Regulation (EU) 2017/460 (known as TAR NC or the Tariff Code) as the prevailing NTS Charging Methodology will not be compliant with TAR NC[11][12].
    a. While Mod 0678 was granted the necessary Urgent status it has already been delayed from the original Authority determined timetable and may even be delayed further[13]. Mod 0678 was granted urgency because of an imminent date related issue[14].
    b. It would be inconceivable for the Authority to make a decision by 31 May 2019 if it only receives the Final Mod Report on 29 May 2019 given the expected complexity of this report and necessary governance and procedures of Ofgem's decision making process.
2. This proposal aims to offer the possibility to have a more compliant methodology by 31 May 2019 by being compliant in respect of the OCR which has already been recognised as non-compliant.[15]
3. Charges under the TAR NC need to be effective from the gas year following 31 May 2019, that is 1 October 2019[16]
    a. A TAR NC Methodology is necessary by 31 May 2019 to have TAR NC compliant capacity charges effective from 1 October 2019 [17]
    b. However, commodity charges can be notified by 30 August 2019[18].
    c. Stakeholders have consistently argued for longer notice periods and especially with regard to the OCR and so a decision by 31 May 2019 consistent with 2 above is recommended.

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

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

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

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

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

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

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

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

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

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

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

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

- The Proposer believes it is important to be compliant with EU legislation:
  - Firstly EU 2009/715. "Tariffs, or the methodologies used to calculate them, shall be applied in a non-discriminatory manner" and "tariffs, or the methodologies used to calculate them, shall facilitate efficient gas trade and competition, whilst at the same time avoiding cross-subsidies between network users and providing incentives for investment and maintaining or creating interoperability for transmission networks."
  - Secondly the TAR NC. This Regulation entered into force on 6 April 2017. Article 38(3) provides for Chapters VI and VIII to apply from 1 October 2017 and Chapters II, III and IV to apply from 31 May 2019. Chapter 1 is therefore already in force and re-affirms compliance with EU 2009/715. Specifically, there is no provision within Article 4 for the present OCR.
- Article 38 of the TAR NC requires the reference price methodologies (amongst other things) to be published by 31 May 2019 and the resulting charges to be effective from the next tariff period i.e. for tariffs applicable from 1 October 2019. Therefore, the charge should be withdrawn from 1 October 2019.
- Shippers have consistently argued that it will be beneficial to provide as much notice as possible[19].

Why is this proposed Modification not an Alternative to Modification 678[20] or potential Modification 670R?

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

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

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

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

Justification for Authority Direction

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

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

Requested Next Steps

This Modification should be:

- subject to Authority Approval and should proceed straight to Consultation.

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

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

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

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

3 Why Change?

Users of the current OCR receive the same service as non- Users for significantly lower charges. The average unit commodity rate for those using the OCR has been estimated at 18% of the standard commodity unit rate in gas year 17/18[22].This results in a cross-subsidy recently estimated[23] at £146m per annum by sites unable to benefit from the OCR to those opting for the OCR. This cross-subsidy is primarily to the disadvantage of domestic and larger I and C customers within the Distribution Networks.

This would appear to be unduly discriminatory and anti-competitive, and furthermore has already been identified by the Authority as "non-compliant", as discussed above in Section 2. National Grid have presented on the topic at NTSCMF meetings[24] and do not propose to retain the OCR in Modification 0678.

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

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[22] See detail in table 1 below

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

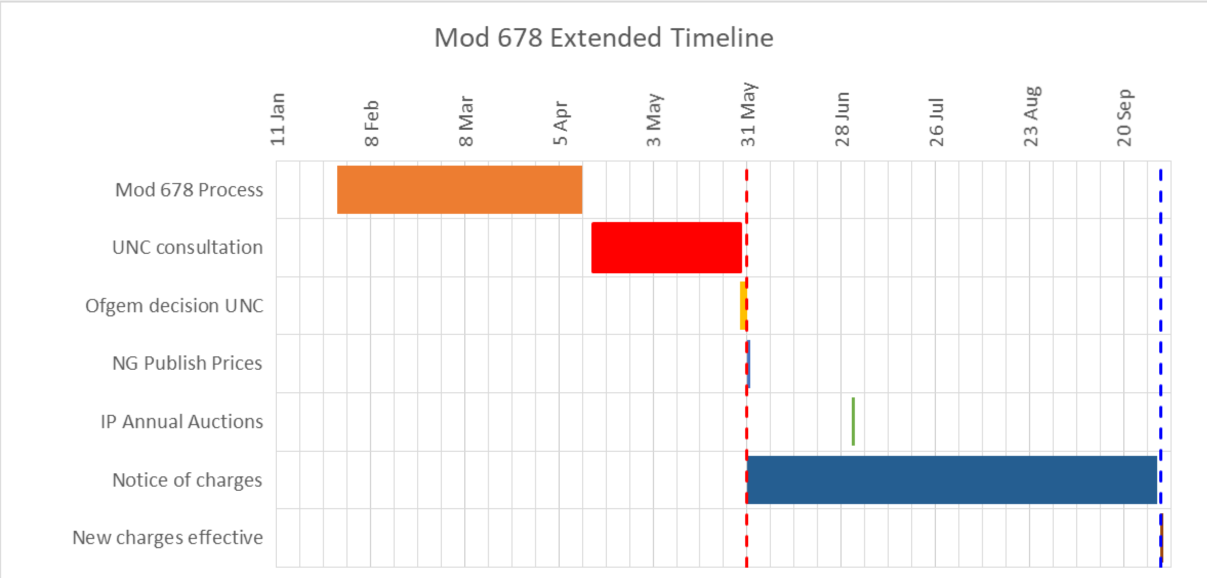
[24] https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/book/2019-01/190205%20NTSCMF%200670R%20-%20Proposals.pdf

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

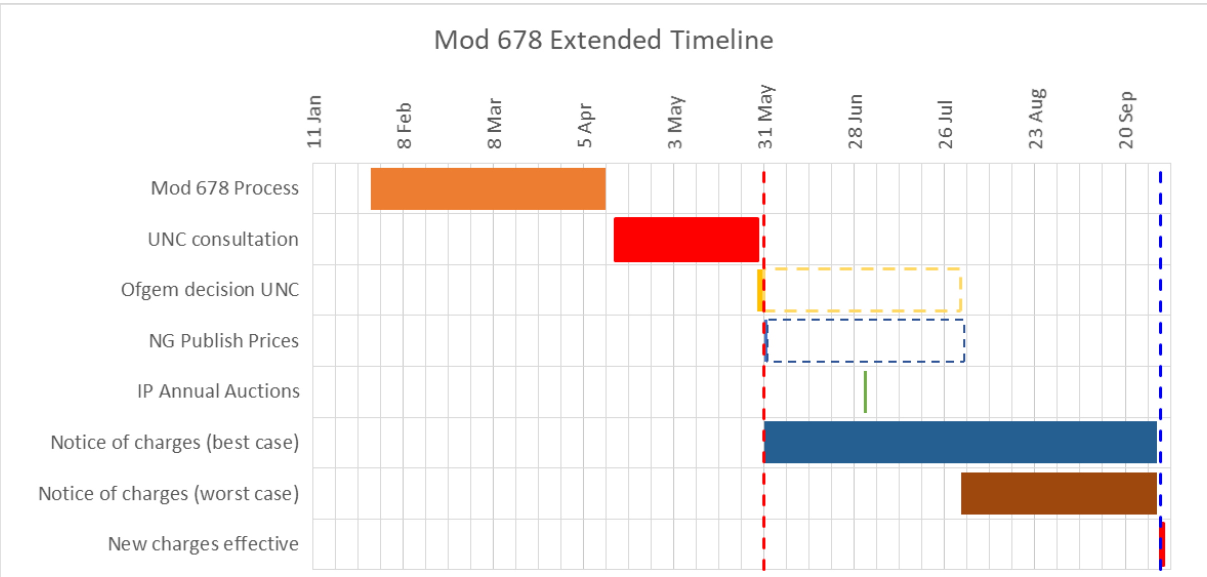
Without a timely application of Modification 0678 or a suitable Alternative, National Grid will be in breach of its Licence. Given the current timeline for Modification 0678 and the necessary Ofgem process that will follow, short notice periods and/or mid-year changes may be seen as necessary in order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

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

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



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



Why change now

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

- Modification 0678 is subject to an Urgent timetable and has recently had an extension to its timetable – The Final Modification Report is to be sent to Ofgem on 29 May 2019.[25]
- Further delays are not impossible, despite the hard work of all involved.
- The timetable for subsequent Ofgem processes[26] is not yet published but with two months' notice of charges a decision would need to be made by the end of July for effective charges from 1 October 2019. This therefore provides a maximum of two months for Ofgem processes.
- There are now 10 Alternative proposals to Modification 0678 being considered by the Workgroup (for subsequent Ofgem consideration). The Modification 0678 Workgroup is working hard to deliver a comprehensive and clear analysis of these options but this is not without significant challenge and some issues may not be fully resolved in the time available. It is not impossible that the Proposals will not meet all the Modification Panel criteria for a recommendation for approval. The Proposer believes this could pose a risk for Ofgem and National Grid. There will be many issues for Ofgem to consider including but not limited to Licence changes, compliance issues and consumer impacts. Therefore two months may not be adequate for the necessary Ofgem processes.

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

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

Considering each in turn:

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

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

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

1. **Comparison of OCR with Standard Commodity Charges**

Table 1 below compares the average unit rate[27] with Standard Commodity charges. The average unit commodity rate for those using the OCR has been estimated at 18% of the Standard Commodity unit rate in gas year 17/18. The same capacity charges apply irrespective of the choice to elect the OCR. Note that

[25] Ofgem 0678 Urgency Decision letter: https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/book/2019-01/unc0678_-_urgency_decision.pdf
Ofgem 0678 Extension Decision Letter: https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/book/2019-03/unc678_-_extension_of_timetable.pdf

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

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

where the standard commodity charge is less than the OCR Users typically elect to return to the Standard Commodity rate.

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

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

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

National Grid NTS have advised the NTSCMF[28] that Users opting to avail of the OCC during the current Gas Year (17/18) will pay an estimated £48.5 million in optional commodity charges but, in doing so, will avoid paying nearly £195 million in standard commodity charges. This represents a potential cross-subsidy to those OCC Users of about £146 million per annum at the expense of those sites which are unable to benefit from the option of the OCC.

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

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

- The annual flow on the OCC is some 280,562 GWh (as provided by NGG for the Mod 0636 report) whilst the flow on standard rates is around 638,000 GWh (number from NGG charge setting report which was not specifically provided by NGG for the workgroup report). Hence the OCC flows are around 30% of total chargeable flows but only contribute 7% (£48.3m) of total commodity revenues (total commodity revenue estimated at £648.5m from NGG charge setting report Oct 2017).
- The above information has been used to estimate what percentage of current OCC flow could be discontinued (as a potential reaction to removal of the OCR rate changes) without making non-OCC Users worse off. (For simplicity it has been assumed that the same percentage reduction applies to all existing OCC flows.) The analysis shows that 82% of current OCC flow (or the equivalent of 25% of total chargeable GB and Interconnector flow) would need to cease before Non-OCC Users would be disadvantaged compared to the current situation[29]. The proposer of this Mod believes this is a highly unlikely scenario.

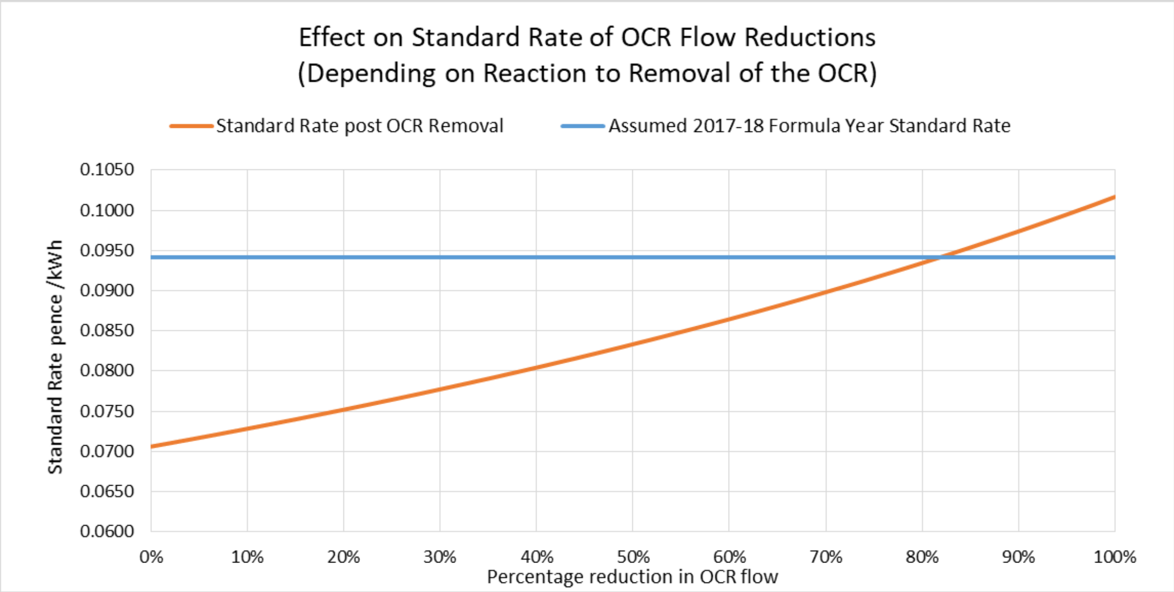
Table 1: Comparison of OCR with Standard Commodity Charges

[28] NTSCMF 26 September 2017
[29] Note: this assumes all other things being equal and specifically no change in capacity revenues.

Implied rates with OCR	flows GWh	revenue £m	unit rates p/kWh
OCR	280,562	48.31	0.0172
standard	637,858	600.19	0.0941
total	918,420	648.5	0.0706

Implied rates OCR removed - no loss of flow	flows GWh	revenue £m	unit rates p/kWh
OCR	-	0	
standard	918,420	648.5	0.0706
total	918,420	648.5	0.0706

OCR flow reduced by: 81.7%	flows GWh	revenue £m	unit rates p/kWh
OCR	-	0	
standard	689,201	648.5	0.0941
total	689,201	648.5	0.0941
lost flow	229,219		



4 Code Specific Matters

Reference Documents

Uniform Network Code (UNC) Section Y:

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

UNC European Interconnection Document (EID):

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

EU Tariff Code:

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

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

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

Uniform Network Code (UNC) Section B:

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

NTS Transportation Statements:

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

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

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

Knowledge/Skills

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

5 Solution

NTS Optional Commodity Rate[30]

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

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

Communication of Charge Cessation

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

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

Modification Direction Date This is the date the Modification is approved	
Modification[31] Effective date This is the date from which the OCR rate would not be applicable and standard commodity charges would apply	If Authority decision made by end of July 2019: Proposed to be I October 2019 or If Authority decision made after end of July 2019: Proposed to be the first day of the third month following the calendar month in which Authority makes its decision;

[30] As defined in TPD B1.8.5(d)
[31] This terminology is adopted for consistency with Mod 0678 although a clearer term might be "charging effective date"

6 Impacts & Other Considerations

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

There is no impact on an SCR. The current charging review and Modification 0678 is due for implementation in 2019 for compliance with the EU Tariff Code. This proposal will not prevent any of the proposals from being implemented and this Modification Proposal is complementary to Modification 0678 rather than instead of.

Consumer Impacts

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

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

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

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

	Annual Load MWh	Impact £ per annum
Domestic[32]		
Low	8	-£1.98
Medium	12	-£2.98
High	17	-£4.22
Non-Dom Retail [33]	73.2	-£18.15
Industrial[34]		
I1	< 277.8	-£68.89
I2	277.8 - 2,778	-£689
I3	2,778 - 27,780	-£6,889
I4	27,780 - 277,800	-£68,894
I5	277,800 - 1,111,200	-£275,578

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

The annual impact is calculated as the annual load times the standard rate under this Modification proposal of 0.0744[35] p/kWh minus the existing April 2019 rate of 0.0992 p/kWh

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

[32] Source: https://www.ofgem.gov.uk/gas/retail-market/monitoring-data-and-statistics/typical-domestic-consumptionvalues
[33] Source: https://www.ofgem.gov.uk/publications-and-updates/retail-energy-markets-2016
[34] Source: https://ec.europa.eu/energy/en/data-analysis/market-analysis
[35] This assumes a 25% reduction from the Standard Commodity rate

• Domestic Consumers - £2 to £4

• Small non-domestic Consumers - £18

• Large non-domestic Consumers - £69 to £7K

• Very Large Consumers - 69K to £275K

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

Cross Code Impacts

There is no impact expected

EU Code Impacts

This proposal will further compliance with the EU TAR NC

Central Systems Impacts

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

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

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

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

This Modification proposal does not conflict with:

(i) Paragraphs 8, 9, 10 and 11 of Standard Condition 4B of the Transporter's Licence; or

(ii) Paragraphs 2, 2A and 3 of Standard Special Condition A4 of the Transporter's Licence;

as the charges will be changed at the required times and to the required notice periods.

This Modification if implemented is considered by the Proposer to further Relevant Charging Methodology Objectives a, b, c and g.

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

Relevant objective (b): Increasing take-up of the OCR over longer distances has led to a need to review the parameters within the calculation of the OCR – Modification 0636 considered such a review but the Modification was rejected by the Authority. Modification 0621 which also sought a change to the calculation of the rate was also rejected and the form of a commodity charge was deemed specifically[36] to be non-compliant with the EU NC TAR.

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

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

Relevant Objective (g): This proposal if implemented will further timely compliance with the EU TAR NC and EC 2009/715.

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

8 Implementation

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

This Modification and the resulting methodology change will take effect for prices from 01 October 2019, in order to remove a major market distortion and further compliance with the EU Tariff Code (and the relevant Statutory Instrument) as well as EU 2009/715[37].

9 Legal Text

Text Commentary

To be provided by the Transporters

Text

To be provided by the Transporters

10 Recommendations

Proposer's Recommendation to Panel

Panel is asked to:

- Agree that Authority Direction should apply
- Issue this Modification directly to Consultation

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