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

UNC 0823:

Amendment to the Allocation of Entry Capacity and Flow Quantities to Qualifying CNCCD Routes

01 Modification

02 Workgroup Report

03 Draft Modification Report

04 Final Modification Report

Purpose of Modification:

This Modification seeks to amend the apportionment of Entry Capacity and Entry Flow between multiple Conditional NTS Capacity Charge Discount qualifying routes that share an Entry Point, so that both are based on the minimum of the Exit Capacity and the Exit Flow at the Exit Point of each route.

Next Steps:

Panel consideration is due on 16 February 2023.

Impacted Parties:

High: None

Low: Shippers

Impacted Codes:

None

Contents

Timetable

Modification timetable:

Pre-Modification Discussed	01 September 2022
Date Modification Raised	05 September 2022
New Modification to be considered by Panel	15 September 2022
First Workgroup Meeting	06 October 2022
Workgroup Report to be presented to Panel	15 December 2022
Draft Modification Report issued for consultation	15 December 2022
Consultation Close-out for representations (20 Days)	17 January 2023
Final Modification Report available for Panel	18 January 2023
Modification Panel decision	16 February 2023

Any questions?

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1 Summary

What

In order to be eligible for Conditional NTS Capacity Charge Discount (CNCCD) on qualifying nominated routes, Users must have bought the Entry Capacity and the Exit Capacity and must flow gas along that route. Where a User has two or more nominated CNCCD (shorthaul) discount routes which share an Entry Point, the User's Entry Capacity holding, and Entry Flows are apportioned to each route. The apportionments are then used to calculate the quantities that are eligible for the CNCCD discount on each route separately: the allocation of Entry Capacity is based on the proportions of the User's Exit Capacity at each Exit Point and the Entry Flow is allocated based on the flows at each Exit Point.

This proposal is to amend this apportionment calculation so that both the Entry Capacity holdings and Entry flows are both allocated in the same proportions which should be determined as the minimum of either the Exit Capacity holding or the Exit flow, whichever is lower, for each of the Exit points.

Why

The ratio of Exit Capacity holdings for each route is not a good representation of how the Entry Capacity is actually used because it does not consider where the gas actually flows. This means unused Exit Capacity on one route attracts an apportionment of Entry Capacity which is sometimes not used or needed for gas flows on that route. This reduces the Entry Capacity allocated to other routes where it is actually being used and is needed, artificially restricting the quantities eligible for CNCCD.

The current arrangements do not reflect the operation, costs and benefits of access to and use of a pipeline that is owned and operated by the User, which is the intent of the current CNCCD arrangements: to avoid inefficient bypass of the NTS.

The impact of this defect is that Users with multiple routes sharing an Entry Point cannot access the CNCCD arrangements as intended and it disincentivises them from booking Exit Capacity for these routes until the very last opportunity to reduce the risk of losing eligibility to CNCCD.

How

This proposal is to amend the apportionment calculation in UNC (Uniform Network Code) TPD B9.3.8 so that both Entry Capacity (CapEn) and Entry Flow (DQEn) is allocated based on the minimum of both Exit Capacity and Exit Flow at each of the Exit points of each registered route.

2 Governance

Justification for Authority Direction

On 15 December 2022 UNC Panel determined the Modification is likely to have a material impact relating to the costs for capacity holdings and flows for the current gas year. Please refer to Panel Questions within section 6 for further detail.

This Modification would better facilitate CNCCD discount arrangements to avoid inefficient bypass of the NTS for CNCCD qualifying routes that share Entry Points with other qualifying routes. The proposer believes that the current apportionment calculation does not reflect the way in which Entry Capacity is utilised because it does not consider actual gas flows, and that the implications of the current calculation was an oversight at the time of implementation of UNC Modification 728B - Introduction of Conditional Discount for Avoiding Inefficient Bypass

of the NTS with 28km distance cap. The proposer believes this amendment better delivers the intent of UNC728B.

The Proposer believes the current defect affects a minority of CNCCD qualifying routes. The proposed arrangements would redistribute a relatively small amount of Entry and Exit Capacity charges that become eligible for the CNCCD discount across all Users.

The Modification:

(i) is unlikely to have a material effect on:

(aa) existing or future gas consumers; and

(bb) competition in the shipping, transportation or supply of gas conveyed through pipes or any commercial activities connected with the shipping, transportation or supply of gas conveyed through pipes; and

(cc) the operation of one or more pipe-line system(s); and

(dd) matters relating to sustainable development, safety or security of supply, or the management of market or network emergencies; and

(ee) the uniform network code governance procedures or the network code Modification procedures; and

(ii) is unlikely to discriminate between different classes of parties to the uniform network code/relevant gas transporters, gas shippers or DN operators.

Modification 0823 will therefore follow Authority Direction procedures.

Requested Next Steps

This Modification should:

- be considered a material change and not subject to Self-Governance.
- proceed to consultation.

3 Why Change?

The objective of CNCCD is to ensure that capacity charges for transporting gas over short distances (which is relatively expensive with postage stamp charging arrangements) are lower than the cost to Users of constructing their own NTS bypass pipelines.

A User with a bypass pipeline would be able to determine Entry into and flow across that pipeline, whereas the allocation arrangements for shared Entry Points do this by calculation. The Proposer believes that this calculation should be amended so that the proportions allocated to each route better reflects the Entry Capacity requirements and Flow along each route.

The ratio of Exit Capacity holdings for each route is not a good representation of how the Entry Capacity is actually used because it does not consider where the gas actually flows. Under the current apportionment arrangements, unused Exit Capacity on one route, if not matched by unused Entry Capacity, attracts an apportionment of Entry Capacity which is not used or needed on that route and away from other routes where it is actually being used. This artificially restricts the quantities eligible for CNCCD.

The current allocation calculation is believed to be incorrect because it does not reflect how the Entry Capacity is used in practice i.e., where the gas actually flows. This means that the current arrangements do not reflect the operation, costs and benefits of access to and use of a pipeline that is owned and operated by the User, which is the intent of the current CNCCD arrangements.

The impact of this defect is that Users with multiple routes sharing an Entry Point cannot access the CNCCD arrangements as intended and it disincentivises them from booking Exit Capacity for these routes until the very last opportunity in order to reduce their risk of losing eligibility for CNCCD.

4 Code Specific Matters

Reference Documents

Current CNCCD arrangements were introduced with Modification UNC728
https://www.gasgovernance.co.uk/0728

Transportation Principal Document: Section B
https://www.gasgovernance.co.uk/sites/default/files/ggf/page/2020-10/4%20TPD%20Section%20B%20-%20System%20Use%20%26%20Capacity_0.pdf

5 Solution

The proposal is to modify the Entry apportionment calculation to use the minimum of Exit Capacity and Gas Flow at the Exit point of each registered route. This will mean that each route becomes self-contained in that it cannot be adversely impacted by the existence of unused exit capacity on another route registered against the same Entry point.

Business Rules proposed for UNC Modification 0728B (Urgent) - Introduction of a Conditional Discount for Avoiding Inefficient Bypass of the NTS

37. Where a User specifies a single Entry Point as the relevant Entry Point for more than one route (i.e. in respect of more than one Exit Point):

37.1. the Entry Capacity (CAPEn) for the relevant route will be equal to the User's Entry Capacity at the ASEP pro-rated on the basis of the Exit Capacity quantity as a proportion of the aggregate of the Exit Capacity quantities (for which the Entry Point is the relevant Entry Point for the nominated routes);

37.2. the quantity of Entry Capacity procured via an Existing Contract (ECEn) for the relevant route will be the equal to the User's Entry Capacity procured via an Existing Contract at the ASEP pro-rated on the basis of the Exit Capacity quantity as a proportion of the aggregate of the Exit Capacity quantities (for which the Entry Point is the relevant Entry Point for the nominated routes); and

37.3. the Entry Allocation (AEn) for the relevant route will be the equal to the User's Entry Allocation at the ASEP pro-rated on the basis of the Exit Allocation quantity as a proportion of the aggregate of the Exit Allocation quantities (for which the Entry Point is the relevant Entry Point for the nominated routes).

37.4. the Apportionment Quantity (AQEn) for the relevant route will be the equal to the User's Apportionment Quantity pro-rated on the basis of the Exit Capacity quantity as a proportion of the aggregate of the Exit Capacity quantities (for which the Entry Point is the relevant Entry Point for the nominated routes);

Potential Amended Wording to Business Rules

37. Where a User specifies a single Entry Point as the relevant Entry Point for more than one route (i.e. in respect of more than one Exit Point):

37.1. the Entry Capacity (CAPEn) for the relevant route will be equal to the User's Entry Capacity at the ASEP pro-rated on the basis of the **Minimum** of Exit Capacity quantity **and Exit Allocation Quantity**

as a proportion of the aggregate of the **minimum** of the Exit Capacity quantities **and Exit Allocation Quantity per route** (for which the Entry Point is the relevant Entry Point for the nominated routes);

37.2. the quantity of Entry Capacity procured via an Existing Contract (ECEn) for the relevant route will be the equal to the User's Entry Capacity procured via an Existing Contract at the ASEP pro-rated on the basis of the **Minimum of** Exit Capacity quantity **and Exit Allocation Quantity** as a proportion of the aggregate of the **minimum of the** Exit Capacity quantities **and Exit Allocation Quantity per route** (for which the Entry Point is the relevant Entry Point for the nominated routes); and

37.3. the Entry Allocation (AEn) for the relevant route will be the equal to the User's Entry Allocation at the ASEP pro-rated on the basis of the **Minimum of** Exit Capacity quantity **and Exit Allocation quantity** as a proportion of the aggregate of the **minimum of** the Exit Capacity quantities **and Exit Allocation quantities** (for which the Entry Point is the relevant Entry Point for the nominated routes).

37.4. the Apportionment Quantity (AQEn) for the relevant route will be the equal to the User's Apportionment Quantity pro-rated on the basis of **the Minimum of** Exit Capacity quantity **and Exit Allocation quantity** as a proportion of the aggregate of **the minimum of** the Exit Capacity quantities **and Exit Allocation quantities** (for which the Entry Point is the relevant Entry Point for the nominated routes);

Current UNC Legal Text

Section UNC TPD B9.3.8 would require amendment to reflect proposed business rules. The current legal text, for reference, is as follows:

9.3.8 The "Election Entry Proportion" for a CNCCD Election and a Day is:

(a) subject to paragraph (b), one (1);

(b) where the User has made more than one CNCCD Election in relation to the

same Eligible Entry Point, for the purposes of each such election, the proportion

determined as:

RQEx / Σ RQEx

where

RQEx is

(i) for the purposes of paragraphs 9.3.3(b), 9.3.5 and 9.3.7(a), the User's

Fully Adjusted Available Firm NTS Exit Capacity at the Nominated Exit

Point;

(ii) for the purposes of paragraph 9.3.7(c), the User's UDQO at the

Nominated Exit Point;

Σ is the sum over all of the User's CNCCD Elections for the Nominated Entry

Point.

6 Impacts & Other Considerations

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

No

Workgroup Participants did not disagree.

Consumer Impacts

The CNCCD discount arrangements are intended to avoid Inefficient bypass of the NTS. Inefficient bypass would reduce the capacity charges cost base and result in increased NTS Capacity reserve tariffs which would then be passed through to consumers. This proposal improves eligibility for the CNCCD discount to help avoid inefficient bypass and increased tariffs and prevent higher bills for consumers.

Impact of the change on Consumer Benefit Areas:

Area	Identified impact
Improved safety and reliability N/A	None
Lower bills than would otherwise be the case The CNCCD discount arrangements are intended to avoid Inefficient bypass of the NTS. Inefficient bypass would reduce the capacity charges cost base and result in increased NTS Capacity reserve tariffs which would then be passed through to consumers. This proposal improves eligibility for the CNCCD to help avoid inefficient bypass and increased tariffs.	Positive
Reduced environmental damage Reduce probability of inefficient pipeline construction and bypass of the NTS	Positive
Improved quality of service N/A	None
Benefits for society as a whole N/A	None

Workgroup discussions

Workgroup Participants debated the principles of the CNCCD 'short-haul discount'. A Workgroup Participant acknowledged the appropriateness of short-haul arrangements in so far as they are intended to avoid inefficient bypass of the NTS. All Workgroup Participants agreed that there was no call to review the underlaying principles for short-haul.

A Workgroup Participant argued that the Proposal here seeks to amend the extent of Eligible Amounts to which the discount is applied and the decision about implementation of this proposal would therefore have to assess the merit of the change against the status quo i.e. retaining the current method of determination of the Election Entry Proportion. The Workgroup Participant suggested three necessary conditions that would indicate a consumer benefit.

- Firstly, that without the proposal some load would bypass.
- Secondly that if implemented then at least some of the bypass would be avoided.
- Thirdly that the resulting reserve prices would be more favourable (i.e., lower) than they would be if the proposal was not implemented.

Some Workgroup Participants argued that these criteria are not appropriate in the consideration of this Proposal.

A Workgroup Participant asked which Consumers would receive the benefits; the points here are whether the benefit would flow through to the consumers receiving gas from a Shipper using the short-haul service. The Proposer responded that it would be likely that the short-haul Shipper would pass through the benefit.

A Workgroup Participant added that the current arrangements are not transparent, and it is difficult for any customer to understand. The National Grid representative responded that Shippers are able to determine their use of NTS services and the flow of benefits to Consumers is a commercial matter.

A Workgroup Participant pointed out that many large offtake Consumers are well aware of the UNC arrangements and are aware that the contracts available from NTS Shippers are largely based on UNC principles. The Proposer added however that whilst Consumers may be aware of these headline arrangements they may not know if their Shipper is operating a multi-route.

The issue is then the transparency of the arrangements for a Consumer because the level of eligible quantity subject to discount will depend on whether their Shipper is operating a single or multiple route; under the status quo a Consumer of a multi-route Shipper wouldn't be able to anticipate that their capacity costs would be impacted by the capacity costs and flows of another Consumer that the Shipper serves. The Proposer argued that the lower predictability of the eligible quantity for a multi-route Shipper may make that Shipper's offer less competitive. The Proposer argued that this Modification would change the interaction between the two Consumers' discounts and resolve this situation.

A Workgroup Participant stated that were there to be any additional short-haul eligible volumes as a result of implementing this Modification then there would be an impact on other users through an increase to Transportation capacity charges. The National Grid representative confirmed that where a discount has been provided to some Parties then other User Parties will pick up the difference because the total target revenue must be collected. The Workgroup Participants agreed on a conclusion that purpose of the short-haul arrangements is to avoid inefficient bypass of the NTS and where throughput is retained that would otherwise bypass the System then Consumers in general would avoid disbenefit.

The Ofgem representative at the December meeting asked that the following paragraph from the Authority's decision letter for Modification 0779/A[1] be provided within this Workgroup Report;

> *"Finally, the Alternative Proposer argues that there is currently a risk of Users bypassing the NTS and that their proposed Modification would discourage this. They claim that an 'increased incidence of inefficient bypass' would result in higher Entry Capacity Reserve Prices than the increased accessibility to discounts available through the implementation of UNC779A. We are not convinced by this argument. First, we note that no at-risk routes have been identified by the Alternative Proposer. Secondly, as stated in our UNC678A and UNC728B decisions, the principle of a short-haul discount should be to "reduce the number of routes which continue to present a credible bypass risk, while minimising the amount of discount that is provided to achieve this". When we approved UNC728B, we found that the CNCCD would be effective in disincentivising bypass for the vast majority of routes that we considered to be at risk of bypass without a short-haul discount."*

Cross-Code Impacts

None

[1] UNC779/A Ofgem decision (page 7):

EU Code Impacts

None

Central Systems Impacts

Some Central Systems development is likely to be required.

ROM

Analysis presented by National Grid suggests a cost of approximately £102,000 – £132,000 to implement the change.

No expected ongoing costs.

Delivery time approximately 13-15 weeks including Post Implementation Support. Project stand up time will be dependent on whether this is a stand-alone project or if it is incorporated in to ongoing system enhancements (Gemini Sustain Plus).

Panel Questions

Q1. Given it was the principle that exit and entry were not tied together, this seems to define entry capacity by reference to exit capacity or usage. Can Workgroup comment on this please?

Workgroup response - The consensus view reached by the Workgroup is that historically, at the highest level, the regime was designed with separate entry and exit. However, the concept of a short-haul service was approved by the Authority (as Modification 0728B) as a deviation from this principle and established an opportunity for Users to receive discounted entry and entry capacity charges on eligible quantities associated with eligible and nominated routes. In this way the short-haul service links specific entry and exit points and this Modification does not amend or contradict the special exception endorsed by the Authority.

Q2. Consider appropriate Governance route.

Workgroup response - The Workgroup was made aware that the decision by the Panel to consider the Modification under Self-Governance procedures had not been unanimous. The discussion at the October Workgroup meeting considered whether there was sufficient information available to properly assess the potential materiality of the Proposal. A Workgroup Participant indicated the desirability of analysis to identify potential risks of not implementing the proposal; another Workgroup Participant indicated that it would be helpful that analysis demonstrate an expectation that implementation would lead to lower reserve prices.

At the November and December meetings the Workgroup received further analysis and the discussion is noted below;

The Proposer observed that the analysis provided by National Grid shows that the materiality of implementing this Proposal is approximately £1.6m based on capacity holdings and flows for the current gas year.

The National Grid representative noted that whilst the Modification rules do not have precise criteria for ‘materiality’ for determining whether a Proposal should be assessed as Self Governance, there is also a need to consider whether there is an impact on other Users. The analysis showed a potential outcome, but this could be higher or lower and there might be a greater impact on other Users. With this in mind there is an unknown impact of this proposal.

In addition, the Workgroup Participant argued this Proposal should be considered as changing the nature of the short-haul service and for these reasons should be referred to the Authority. Another Workgroup Participant agreed that this Proposal should be subject to Authority Direction.

Workgroup Participants agreed that there was a split of opinions on this question.

Q3. What analysis is required to assess this Modification?

Workgroup consideration of question whether the Proposal corrects an error

The Workgroup noted that the proposal states *"The current allocation calculation is believed to be incorrect because it does not reflect how the Entry Capacity is used in practice i.e., where the gas actually flows. This means that the current arrangements do not reflect the operation, costs and benefits of access to and use of a pipeline that is owned and operated by the User, which is the intent of the current CNCCD arrangements."*

The October Workgroup discussed whether the current arrangements represent an error in the implementation of the intent of Modification 0728B. The National Grid representative stated National Grid's view that there was no historical error in implementation and that the proposal now was looking at changing the arrangements.

At the December meeting Workgroup Participants reflected that the current arrangements (Modification 0728B) had been implemented following Urgent procedures. The National Grid representative countered that a lengthy review group process has preceded the raising of the urgent Modification proposal (0728). A Workgroup Participant observed that the number of alternatives submitted reflected that the issues had not been settled.

Workgroup consideration of question on the Materiality of implementing the Proposal

National Grid provided analysis to illustrate the effect of implementation of Modification 0785 (Application of UNC processes to an aggregated Bacton (exit) Interconnection Point).

The National Grid analysis (presented in November) showed;

High Level Figures – Post Modification 0785 period if Modification 0823 was in place

- Invoicing data for the period Mar-22 to Jul-22 has been used to calculate the following:
- The 24 multi-routes initially highlighted contributed circa £1.96m in combined Entry & Exit Revenues from Eligible Quantities over this five-month period.
- Approximately £17.55m was socialised due to the discounts applied.
- This contribution is generated from approx. 17.86 TWh of Eligible Quantities.
- This is approximately 37% of the potential Entry Eligible Quantities and 20% of the potential Exit Eligible Quantities observed across those routes.

Provisional Conclusions

- Due to the changes approved and implemented via UNC0785 the number of potential multi routes decreases to single figures with effect from 1st March 2022. **
- By aggregating the two Bacton IP Exit points, the level of Eligible Quantities as a percentage of Entitlement has increased significantly.
    - o Exit Points benefit as much as Entry, suggesting this is not impacted by variations in levels of Existing Contract bookings across the periods pre and post 1st March.
    - o Much of the benefit that UNC0823 could have granted to shorthaul users may have already been realised in existing routes. We will run analysis to the end of the Gas Year and provide details for the final workgroup to ensure we have the most up to date data prior to submission.
- There is potential for new combinations with the framework of Modification 0728B & Modification 0785, but would require assumptions around future Shipper behaviour to predict.
- Without prior knowledge of any potential behavioural changes, a range of impact for this Modification is difficult to estimate.

** During discussions National Grid elaborated on the analysis (first bullet point above) to point out that the effect of implementing Modification 0785 is that the availability would now corresponds to 2 multi-routes, one at Bacton and one at Teesside.

A further refinement of the analysis was considered at the December meeting.

Potential Future Impacts

Making the supposition that Modification UNC0823 was implemented on 1st October 2022, using the known long term bookings for GY 2022/23 and overlaying historical flows from GY 2021/22, a forecast of the potential impacts for the current GY have been calculated,

The aggregated figures across the routes over the current Gas Year suggest an increase in access to the discount for applicable Users, and a corresponding impact to others, of around **£1.62m**.

This is nearly ten times higher for the calculated figure for Gas Year 2021/22, the **£186k** suggested by the historical booking data.

Using the actual flow data available for the current Gas Year to date (1st Oct to 13th Nov at time of production) benefits for affected Users of approximately **£283k** may have been missed.

Over the same period using the forecasted flow data, the expected value was **£151k**, suggesting that the forecasts for GY2022/23 may downplay the benefits and subsequent impacts if the same trends are seen across the year.

National Grid 18

Potential Future Impacts

It's possible that a figure of **£1.62m** across a full year would be enough to impact Transmission Services Rates when calculated for future years.

It is likely however, that this impact will only be around **0.0001 or 0.0002 p/kWh** depending on rounding and other factors at play in the calculation of the Allowed Revenues.

Based on timescales to implementation, it's unlikely that any significant impact would be felt in the current Gas Year, therefore a Revenue Recovery Charge is unlikely to be triggered.

Any impacts in the first year of implementation will instead roll in to the "K" value for the following year.

Impacts for years beyond GY 2022/23 are difficult to calculate at this time as there are no known long term bookings in place for future Gas Years.

National Grid 19

National Grid confirmed that this potential adjustment would apply for future year Capacity Reserve Prices.

Workgroup consideration of question whether there is potential discrimination in the arrangements

The Proposer provided the following powerpoint to illustrate the different effect for single and multi-route Shippers.

Shippers operating one shorthaul route each with a common entry point can currently get a larger discount for their customers than a single Shipper operating two routes

(Capacity in millions kwh/day)

	Shippers operate a route each			1 Shipper operates 2 out of 3 routes		
	Route 1	Route 2	Route 3	Route 1&2		Route 3
Entry Capacity	0	20	20		20	20
Entry Flow	0	20	20		20	20
Entry Capacity Apportionment				10	10	
Entry Flow Apportionment				10	10	
Exit Flow	0	20	20	0	20	20
Exit Capacity	20	20	20	20	20	20
Eligible Quantity (Entry & Exit)	0	20	20	0	10	20
Daily Cost of Capacity @ Reserve Price	£4,360	£21,380	£21,380	£4,360	£21,380	£21,380
Daily Discount (Eligible Quantity @ 90%)	£0	-£19,242	-£19,242	£0	-£9,621	-£19,242
Daily Cost of Capacity After Discount	£4,360	£2,138	£2,138	£4,360	£11,759	£2,138

- Booking exit capacity gives users the right, but not the obligation, to flow gas
- For Users managing capacity for customers with intermittent, variable or uncertain offtake, there is a trade off to be made in the decision to either:
    - buy flat annual capacity to peak requirements (knowing that some will not be needed) to mitigate the risk that NTS capacity is not made available day ahead (e.g. Exit Capacity in pre-emergency stages); or
    - buy capacity at the day ahead stage to more closely match actual flows and minimise the cost of unused capacity
- These alternative decisions have different costs and risks at Entry and Exit.
- We think that at most locations, variable Users are much more likely to buy annual flat NTS Exit Capacity than annual flat Entry Capacity, so UNC823 allocates the proportions of Entry Capacity in the same way as two different shippers operating two routes would because they would typically procure Entry Capacity day ahead to match offtake flows, not Exit Capacity
- Where there is only one customer at an Exit point, otherwise unused capacity cannot be sold

The Proposer added that there is nothing in the previous analysis undertaken for Modification 0728 that indicates that this effect was considered.

National Grid responded to the same request to consider whether the current arrangements are potentially discriminatory between single route and multi-route Shippers and presented the following analysis in December;

Current Process for Proration of Multi routes

0823 Mod Example: Calculated as separate Shippers using the current methodology

Shipper A Entry Point E				Shipper A Entry Point E Exit Point 1	
Date Booked	Source	Type	kWh	Type	kWh
01/04/2017	Existing	Firm	0	CAP_{En1}	50
01/01/2020	Auction	Firm	50	EC_{En1}	0
01/04/2020	Auction	Interruptible	0	A_{En1}	50
01/07/2020	Trade	Firm	0	AQ_{En1}	50
		Entry Flow	50		
				IEQ_{En}	10
Exit Point 1				IEQ_{Ex}	10
Date Booked	Source	Type	kWh		
01/01/2020	Auction	Firm	150	EQ_{En}	10
01/04/2020	Auction	Interruptible	0	EQ_{Ex}	10
01/07/2020	Trade	Firm	0		
		Entry Flow	10		

Shipper B Entry Point E				Shipper B Entry Point E Exit Point 2	
Date Booked	Source	Type	kWh	Type	kWh
01/04/2017	Existing	Firm	0	CAP_{En2}	50
01/01/2020	Auction	Firm	50	EC_{En2}	0
01/04/2020	Auction	Interruptible	0	A_{En2}	50
01/07/2020	Trade	Firm	0	AQ_{En2}	50
		Entry Flow	50		
				IEQ_{En}	40
Exit Point 2				IEQ_{Ex}	40
Date Booked	Source	Type	kWh		
01/01/2020	Auction	Firm	50	EQ_{En}	40
01/04/2020	Auction	Interruptible	0	EQ_{Ex}	40
01/07/2020	Trade	Firm	0		
		Entry Flow	40		

Shipper A has overbooked when compared with their flow (i.e. 150 capacity v 10 flow).

Shipper B is independent and so not impacted by the actions of Shipper A.

Current Process for Proration of Multi routes

0823 Mod Example: Calculated as single Shipper using the current methodology

The Single Shipper in this scenario has matched the combined booking levels of Shipper A and Shipper B.

In this scenario because the single shipper has overbooked at Exit Point 1 (150), the apportionment calculation is skewed towards Route E1 and so the EQ_{Ex} value for Route E2 is impacted.

The EQ_{Ex} for Route E2 (between Entry Point E and Exit Point 2) is decreased from 40 to 25.

Single Shipper Entry Point E				Entry Point E Exit Point 1		Entry Point E Exit Point 2	
Date Booked	Source	Type	kWh	Type	kWh	Type	kWh
01/04/2017	Existing	Firm	0	CAP_{En1}	75	CAP_{En2}	25
01/01/2020	Auction	Firm	100	EC_{En1}	0	EC_{En2}	0
01/04/2020	Auction	Interruptible	0	A_{En1}	20	A_{En2}	80
01/07/2020	Trade	Firm	0	AQ_{En1}	75	AQ_{En2}	25
		Entry Flow	100				
				IEQ_{En}	10	IEQ_{En}	25
Exit Point 1				IEQ_{Ex}	10	IEQ_{Ex}	25
Date Booked	Source	Type	kWh				
01/01/2020	Auction	Firm	150	EQ_{En}	10	EQ_{En}	25
01/04/2020	Auction	Interruptible	0	EQ_{Ex}	10	EQ_{Ex}	25
01/07/2020	Trade	Firm	0				
		Entry Flow	10				
Exit Point 2							
Date Booked	Source	Type	kWh				
01/01/2020	Auction	Firm	50				
01/04/2020	Auction	Interruptible	0				
01/07/2020	Trade	Firm	0				
		Entry Flow	40				

Current Process for Proration of Multi routes

0823 Mod Example: Calculated as single Shipper using the current methodology

Reducing the Capacity booking for Exit Point 1 to any value less than or equal to 76 in this scenario (still more than 7 times higher than flow) gives the Single Shipper exactly the same EQ_{Ex} values as Shipper A and Shipper B had in the initial example.

A Decrease, Trade or Assignment of 74 units or more of Capacity at Exit Point 1 would achieve the same result in this scenario.

The Single Shipper in this scenario has acted to address an imbalance between their bookings and their flows at Exit Point 1 so hasn't missed out on the benefit at Route E2.

Single Shipper Entry Point E				Entry Point E Exit Point 1		Entry Point E Exit Point 2	
Date Booked	Source	Type	kWh	Type	kWh	Type	kWh
01/04/2017	Existing	Firm	0	CAP_{En1}	60	CAP_{En2}	40
01/01/2020	Auction	Firm	100	EC_{En1}	0	EC_{En2}	0
01/04/2020	Auction	Interruptible	0	A_{En1}	20	A_{En2}	80
01/07/2020	Trade	Firm	0	AQ_{En1}	60	AQ_{En2}	40
		Entry Flow	100				
				IEQ_{En}	10	IEQ_{En}	40
Exit Point 1				IEQ_{Ex}	10	IEQ_{Ex}	40
Date Booked	Source	Type	kWh				
01/01/2020	Auction	Firm	76	EQ_{En}	10	EQ_{En}	40
01/04/2020	Auction	Interruptible	0	EQ_{Ex}	10	EQ_{Ex}	40
01/07/2020	Trade	Firm	0				
		Entry Flow	10				
Exit Point 2							
Date Booked	Source	Type	kWh				
01/01/2020	Auction	Firm	50				
01/04/2020	Auction	Interruptible	0				
01/07/2020	Trade	Firm	0				
		Entry Flow	40				

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Side by side view

Overbooking of capacity at an Exit Point, whether intentional or not, can lead to lower Entry and Exit discount Eligibility

This is not a penalty in the way that an under -booking can lead to an Overrun charge, it is a missed opportunity, a consequence of booking to match peak flow rather than expected flow.

The same opportunity was available to all Shippers and so this should **not** be seen as discrimination.

		Separate Shippers		Single Shipper	
		Shipper A	Shipper B	Shipper A	Shipper A
		Entry Point E to Exit Point 1	Entry Point E to Exit Point 2	Scenario 1	Scenario 2
Entry Point E	Firm Capacity	50	50	100	100
	Flow	50	50	100	100
Exit Point 1	Firm Capacity	150		150	76
	Flow	10		10	10
Exit Point 2	Firm Capacity		50	50	50
	Flow		40	40	40
EQ_{En} Route 1		10		10	10
EQ_{Ex} Route 1		10		10	10
EQ_{En} Route 2			40	25	40
EQ_{Ex} Route 2			40	25	40

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National Grid concluded that Shippers have a number of tools with which to manage their capacity position.

The Proposer pointed out that currently the arrangements require a multi-route Shipper to match their capacity holding for a gas day to their flows for that gas day in order to avoid the effect of entry capacity being mismatched to flow requirements. The solution proposed (by National Grid) is that Shippers should not overbook capacity. A mechanism to achieve this is that capacity could be secured close to the time of use to aid such matching. The Proposer argued that this is not viable for a Shipper serving Consumers with a variable offtake as Shippers and Users require more certainty prior to making offtake commitments and the risk that capacity may not be available would mean hedging their gas offtake is more risky and thus less competitive.

7 Relevant Objectives

Impact of the Modification on the Transporters' Relevant Objectives:

Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	Positive
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.	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.	None

The CNCCD discount arrangements are intended to avoid Inefficient bypass of the NTS. Inefficient bypass would reduce the capacity charges cost base and result in increased NTS Capacity reserve tariffs which would then be passed through to consumers. This proposal improves eligibility for the CNCCD discount to help avoid inefficient bypass and improve effective competition.

Workgroup discussions

Relevant Objective a)

A Workgroup Participant argued that this Proposal is neutral unless/until a bypass is built.

Relevant Objective d)

*S*ome Workgroup Participants agreed that inefficient bypass of the NTS would lead to higher charges for Users and that mitigation of this risk is therefore beneficial.

A Workgroup Participant argued that this proposal could be positive for competition because offers to (short-haul) Consumers would not need to reflect the disadvantage of multi-route short-haul to the shipper depending on their exit capacity bookings relative to flows.

A Workgroup Participant argued that unless there was a realistic risk of bypass then the effect of this Proposal would be to enhance the benefit of the short-haul discount to a small number of Users and that would be to the detriment of the generality of Users thereby having a negative effect in respect of competition.

8 Implementation

As Self-Governance procedures are proposed, implementation could be sixteen business days after a Modification Panel decision to implement, subject to no Appeal being raised.

Implementation timescales will be subject to Central Systems development, to be determined.

Workgroup discussions

The Workgroup noted the timescale quoted in the ROM and did not raise any other concerns.

9 Legal Text

Legal text

TPD Section B

8.3.8 The "Election Entry Proportion" for a CNCCD Election and a Day is:

(a) subject to paragraph (b), one (1);

(b) where the User has made more than one CNCCD Election in relation to the same Eligible Entry Point, for the purposes of each such election, the proportion determined as:

RQEx / Σ RQEx

where RQEx is the lesser of

(i) ~~for the purposes of paragraphs 8.3.3(b), 8.3.5 and 8.3.7(a),~~ the User's Fully Adjusted Available Firm NTS Exit Capacity at the Nominated Exit Point;

(ii) ~~for the purposes of paragraph 8.3.7(c),~~ the User's UDQO at the Nominated Exit Point;

Text Commentary

The proposal effectively uses the same value to apportion all terms, minimum of capacity and flow, and so could potentially be written into the legal text as above.

Removing the differentiation between Capacity and flow based calculations and including the minimum of clause.

A Workgroup Participant agreed that the Legal Text meets the intent of the solution.

10 Consultation

Panel invited representations from interested parties on 15 December 2022. All representations are encompassed within the Appended Representations section.

The following table provides a high-level summary of the representations. Of the 2 representations received 1 supported implementation, and 1 was not in support.

Representations were received from the following parties:

Organisation	Response	Relevant Objectives
National Grid Gas	Oppose	a) none d) negative

RWE Supply & Trading GmbH	Support	a) positive d) positive

Please note that late submitted representations will not be included or referred to in this Final Modification Report. However, all representations received in response to this consultation (including late submissions) are published in full alongside this Report and will be taken into account when the UNC Modification Panel makes its assessment and recommendation.

11 Panel Discussions

12 Recommendations

Panel Recommendation

Panel Members recommended that Modification 0823 [should [not] be implemented.

13 Appended Representations

Representation – National Grid Gas

Representation – RWE Supply & Trading GmbH

Representation - Draft Modification Report UNC 0823

Amendment to the Allocation of Entry Capacity and Flow Quantities to Qualifying CNCCD Routes

Responses invited by: 5pm on 17 January 2023

To: enquiries@gasgovernance.co.uk

Please note submission of your representation confirms your consent for publication/circulation.

Representative:	Daniel Hisgett
Organisation:	National Grid Gas
Date of Representation:	17 January 2023
Support or oppose implementation?	Oppose
Relevant Objective:	**a)** None **d)** Negative
Relevant Charging Methodology Objective:	Not Applicable

Reason for support/opposition: Please summarise (in one paragraph) the key reason(s)

The principle of the Conditional NTS Capacity Charge discount (CNCCD or "short-haul") discount is to minimise the risk of a User opting to physically build a bypass pipeline by providing a discount proportionate to the likelihood of bypass.

Based on Distance, pipeline costs were estimated, compared with system usage costs, and a likelihood of bypass was forecast route by route. The resulting relationship between distance and likelihood of bypass is the basis of the Discount levels available.

In a scenario where there are two or more active "short-haul" routes which share a single, Entry location, apportionment of Entry Capacity and Flows between routes is based on the way in which Shippers book their Capacity and Flow at each Exit Point. The efficiency with which they book Capacity in relation to their Flows can impact the proportions each route receives.

UNC0823 introduces a form of flexibility, similar to clustering or aggregation, to the "short-haul" calculation. By using the lesser of Capacity and Flow to apportion, the efficiency with which a User books Capacity at Exit is no longer relevant. In effect, allowing a Shipper who has two active routes, equivalent to laying two bypass pipelines, to flex the size and associated cost of each of the two pipelines according to their on-the-day flow requirements, rather than needing to have constructed both to their individual flow peaks.

National Grid believe that this proposal undermines the current design of the "short-haul" discount. This change would require a review of the existing discount structure, potentially requiring a new discount method to be proposed which includes the concept of clustering into the likelihood of bypass calculation. As discussions during the UNC0670R review group suggested, the concept and likelihood of clustering is difficult to quantify and becomes problematic for a number of reasons:

- an appointed arbiter is required to assess each instance of clustering
- approval or rejection of each clustering request becomes subjective
- there is a lack of transparency and an inability for Users to replicate decisions

This Modification creates a new opportunity for multi-route "short-haul" Shippers which isn't available to single route "short-haul" Shippers, potentially introducing discrimination.

Any additional benefit made available to multi-route "short-haul" Shippers must be paid for elsewhere on the Network by all other Users via an increase in Reserve Prices and so even a small positive to multi-route "short-haul" Shippers would result in a negative impact against Relevant Objective d).

Self-Governance Statement: *Please provide your views on the self-governance statement.*

The change introduces a short-term benefit to some, and a long-term opportunity to any User who can avail themselves of the CNCCD at multiple Exit points when located within the maximum distance of a single, Entry Point. Available data suggests that this is limited to a very small number of Users, with only two active instances of this combination currently noted across the Network.

Any additional benefit made available to parties must be paid for elsewhere on the Network by all other Users (i.e. by having higher Reserve Prices). While the changes proposed by this modification, when calculating impacts using the data available at the time of raising, may not appear to be that material monetarily, it nevertheless would impact Reserve Prices as they would adjust to compensate for any additional discount over the existing CNCCD use. It has the potential to change from the initial assessment made on existing data as it has the potential to be greater or lower depending on Shipper behaviours.

There is no value set in the Self Governance criteria for what constitutes a material impact, and while this change could result in just a low level of additional costs for many, any further discount available to any party above the status quo would mean others would need to pay more via the Reserve Prices. Therefore, with this impact, we believe that due to it impacting reserve prices of all those would pay them, it warrants authority direction over self-governance.

In addition to this, the changes proposed in the modification would also materially change an Authority approved mechanism for providing discounts to Users at risk of Inefficient Bypass (The Conditional NTS Charging Capacity Discount or CNCCD), potentially making the existing structure more generous by altering the way in which quantities are apportioned. Implementation of this change would conflict with the decision made by Ofgem when choosing to implement UNC0728B and the more recent decision to reject 0779/A:

> *"as stated in our UNC678A and UNC728B decisions, the principle of a short-haul discount should be to "reduce the number of routes which continue to present a credible bypass risk, while minimising the amount of discount that is provided to achieve this". When we approved UNC728B, we found that the CNCCD would be effective in disincentivising bypass for the vast majority of routes that we considered to be at risk of bypass without a short-haul discount."*

For these reasons we believe that the Authority should be asked to decide on implementation of this proposed change as the level of change to the product and its calculation, including the impact to other Shippers, should be considered material and therefore subject to Authority Direction rather than Self Governance.

Implementation: *What lead-time do you wish to see prior to implementation and why?*

Time would be required to assess the impacts of the changes on pricing for future years. Assessing long term bookings, historic flows and active CNCCD nominations are all part of the existing Price Setting processes, and these can be amended in line with the proposed modification but would need to be done so on or before the May deadline for setting of Prices for the following October.

A decision on or before the Price Setting deadline for any Gas Year would also give an appropriate length of time for the system changes to be implemented, prior to the prices coming into effect on 01 October, in line with the 13-15 week timescale suggested in the ROM.

Impacts and Costs: *What analysis, development and ongoing costs would you face?*

We do not expect there to be an ongoing cost associated with this change.

The required changes to the system are expected to be in the region of £102,000 - £132,000.

Adjustments will also need to be made to the Price Setting process in the first year, but these will become embedded in the process for future years with no additional costs.

Legal Text: *Are you satisfied that the legal text will deliver the intent of the Solution?*

Yes, the legal text delivers the intent of the Modification.

Modification Panel Members have requested that the following questions are addressed:

Q1: Does this Modification meet the Self Governance criteria?

No, as highlighted under the Self-Governance statement above, we believe there would be a material impact to the CNCCD product in the way in which the quantities available for the CNCCD discount are determined. We also consider that, whilst potentially relatively small based on current calculations, there is an impact to other Shippers which needs to be reviewed by the Authority. This Modification would, based on current assessments, increase costs for many and potentially conflict with previous Authority decisions, and so National Grid believe it should be passed to the Authority for Direction.

Q2: Do you have any views regarding risk of bypass?

We note that in previous Ofgem decisions relating to "short-haul" they highlight the need to demonstrate a credible risk of bypass. There is an opportunity as part of this consultation, should any party wish to, to provide this directly and confidentially to Ofgem for their consideration. However, at this time, we do not believe that any credible evidence of an increased risk of bypass has been provided.

The proposer suggests that a bypass pipeline could be built for one specific route, and the cost recovered in approximately 3 to 4 years based on the potential impact figure of £1.6m calculated for the current Gas Year, 2022/23.

However, National Grid has demonstrated that in the previous Gas Year the impact would have been limited to a maximum of around £186k, with an actual calculated figure for the five months analysed (i.e. all the data available at the time which already accounted for the impacts of UNC0785) of only £10k.

It would suggest that implementing a booking strategy more closely aligned with GY 2021/22 than with GY 2022/23 would, at face value, appear to be a much more cost effective and efficient way of managing the impacts when compared against the time, costs and environmental impacts associated with constructing a new pipeline to bypass the NTS.

Q3: Do you have views regarding the analysis provided in the DMR?

We believe some key points which were raised and discussed in the workgroups haven't been fully expressed in the workgroup report. Whilst these updates do not add anything "new" to the discussion, we believe it helpful to include when reviewing the analysis and responses. Below are some suggested comments, taken from Workgroup discussion material previously provided, which we believe would more accurately reflect the discussions held and give Panel a more complete picture than is currently presented in the Draft Modification Report (DMR).

The DMR response to Panel Question 2 states:

> *"The Proposer observed that the analysis provided by National Grid shows that the materiality of implementing this Proposal is approximately £1.6m based on capacity holdings and flows for the current gas year."*

While we do not disagree with that statement, we wish to ensure that our counterpoint is included in response to this question and so would ask that a version of the following text, which is paraphrased from the analysis previously presented in WG2 on 01/11/2022 and at WG3 on 06/12/2022, is included in the Final Modification Report:

> *Due to the changes implemented via UNC0785 the number of potential multi routes decreases to single figures with effect from 1st March 2022.*
>
> *By aggregating the two Bacton IP Exit points much of the benefit that UNC0823 could have granted to beneficiaries of the CNCCD may have already been realised in existing routes for that period.*
>
> *In addition to the figure produced for Gas Year 2022/23, National Grid analysis also demonstrated that in GY 2021/22, the impact of UNC0823 would have been approximately*

£10k across the five months calculated post-UNC0785 implementation with a worst-case scenario value of £186k forecast across the whole of Gas Year 2021/22.

Impacts for years beyond GY 2022/23 are difficult to calculate at this time as there are no known long-term bookings in place for future Gas Years.

We believe some supporting analysis, which was discussed in the work group and provides context to the analysis which has been included, has been missed out of the DMR. On page 10 of the report a slide which National Grid produced has been recreated. The slide details the impacts of both UNC0785 and UNC0823 in combination. In the pack initially presented, the slide prior to this one detailed the impacts of UNC0785 alone.

The intent of these two slides in combination was to highlight the marginal difference that UNC0823 would have if overlaid onto UNC0785, which has already been approved and implemented. Without the context of the previous slide, it could be assumed that UNC0823 has more of an effect than the analysis which has been included would suggest.

Are there any errors or omissions in this Modification Report that you think should be taken into account? *Include details of any impacts/costs to your organisation that are directly related to this.*

There are no errors, but we believe there are some omissions which we have highlighted above.

Please provide below any additional analysis or information to support your representation

National Grid believe that all required analysis has been provided in the Workgroup material, and in addition to the points mentioned in this note, nothing additional should be required.

Representation - Draft Modification Report UNC 0823

Amendment to the Allocation of Entry Capacity and Flow Quantities to Qualifying CNCCD Routes

Responses invited by: 5pm on 17 January 2023

To: enquiries@gasgovernance.co.uk

Please note submission of your representation confirms your consent for publication/circulation.

Representative:	Lauren Jauss
Organisation:	RWE Supply & Trading GmbH
Date of Representation:	17 January 2023
Support or oppose implementation?	Support
Relevant Objective:	**a)** Positive **d)** Positive
Relevant Charging Methodology Objective:	**Not applicable**

Reason for support/opposition: Please summarise (in one paragraph) the key reason(s)

RWE is the proposer of this modification. The current arrangements mean that customers and Shippers who operate CNCCD (or “short haul”) routes that share an Entry Point (“multi routes”) do not receive the same level of discount on each route as Shippers who operate identical single routes. This is because even where a Shipper has bought sufficient Entry Capacity to accommodate their Entry Allocation at the shared Entry Point (and does not Overrun) the current apportionment calculation, which is only undertaken for multi-routes, apportions capacity and flow differently to each route for the purposes of calculating the short haul discount eligibility. This means that one route can appear to have insufficient Entry Capacity procured to accommodate the gas flow and is not eligible for a full discount.

We believe that this is discriminatory and unnecessarily reduces the competitiveness of customers, Suppliers and Shippers who operate multi-routes.

The proposed change to the calculation of Entry Capacity and Entry Allocation apportionment would resolve this issue.

Customers are primarily impacted by the defect that this proposal addresses

It is the customer that has the option to build a pipeline to bypass the NTS and contract directly with producers or importers without needing to engage with a Shipper. UNC728

was the urgent modification that was implemented in 2021 and granted the short haul discount on qualifying capacity holdings to avoid inefficient bypass. Large customers are usually fully aware of the short haul arrangements and any Shipper aiming to win their business can expect to fully pass through the short haul discount. Hence, it is the customer that is at a disadvantage if they cannot access those arrangements.

The current arrangements mean the operations of one customer can reduce the discount of another customer. This means that if a customer is associated with a single short haul route, but their Shipper and Supplier take on an additional customer, the first customer could be unexpectedly impacted with capacity costs much higher than they anticipated or planned for. The customer's competitiveness is reduced in this scenario.

When a customer's supply contract is due for renewal, if they are aware that a Supplier and Shipper are already associated with another short haul route with which they would share an Entry point, the customer is more likely to choose an alternative Supplier and Shipper. This scenario would put Suppliers and Shippers already operating a nearby short haul route at a competitive disadvantage.

Annual capacity charges are higher for customers that are part of a multi-route than those with identical single routes

Of the five different proposals in UNC728, there were four different discount levels. Ofgem selected the one that they believed was an appropriate discount level to avoid inefficient bypass. We do not think that this level is particularly generous. We give reasons for this view further below.

However, the overarching objective of this proposal is to achieve equal and non-discriminatory conditions so that multi-route customers can receive the same discount as other single route customers. It is not to re-open the debate as to whether the level of the discount that Ofgem selected is appropriate. We do not believe that the current multi-route arrangements are consistent with the principles of non-discrimination in the Gas Act and Transmission Licence.

This effect was overlooked at the time of UNC728

UNC728 was an urgent modification that was preceded by a several pre-modification discussion meetings, but the proposal itself was developed along an urgent timeline. We do not think there was sufficient time to fully consider the detail regarding this change and believe that most if not all of the proposers and those that responded to the consultation were unaware of this multi-route effect. None of the examples presented in connection with UNC728 and in the Final Modification Report illustrate this issue. For this reason, we believe this multi-route problem which results in a potential mismatch of Entry Capacity and flows was overlooked and the impact was unintended. This proposal seeks to amend this oversight.

The short haul arrangements are not competitive with a bypass pipeline in the current environment, so the multi-route mismatch of capacity and flow makes bypass risk higher

The conditions to qualify for the short haul discount are designed to closely match the scenario and compete with the cost of Users alternatively building their own pipeline to bypass the NTS. However, the requirement to flow gas along the route to qualify for a

discount on capacity holdings means that short haul arrangements are currently not particularly effective in mirroring the ownership of a pipeline. Ownership provides a cost effective option (but not obligation) to flow gas. However, short haul route Users must pay full price on unused capacity.

To date, we think the short haul arrangements have worked relatively well because intermittent Users have historically been able to purchase capacity gas day ahead, to closely match their customers' daily flow requirements. However, Users now have concerns about access to Exit Capacity day ahead, and many have made purchases in annual auctions to cover their customers maximum daily requirements and mitigate this risk. Hence, the short haul arrangements are not competitive with a bypass pipeline, particularly in the current environment.

In order to better represent the cost benefit of owning a pipeline, RWE proposed the alternative UNC728C. This differed from the Original only in that it did not require a User flow gas to be eligible for the discount. However, it was rejected by Ofgem, and as we understand it, this was primarily because the level of the proposed discount was too large in both the Original UNC728 and our alternative. UNC728B was approved instead.

We think that even with the discount, some customers may still be considering bypass now that they have tried the short haul arrangements for several years. We think it is likely that Ofgem did not make any allowance for a proportion of unused and therefore undiscounted capacity. If that's the case, where some capacity is unused, charges are likely to be more expensive than anticipated, and the short haul discount is likely to be less effective than Ofgem intended. Consumers are now investing in assets for the energy transition, and may be considering pipeline investments that could provide future options and benefits. This may provide more practical opportunities to consider bypass pipelines. Investors may also use the current short haul arrangements as an indication of the cost and terms of future shared used of other networks in their cost benefit analyses, to decide whether to invest in a dedicated customer-owned pipeline.

The cost impact of unused Exit Capacity on customers that are part of a short haul multi-route is particularly material, because it reduces the discount on Entry capacity which is much more expensive that Exit and it reduces their competitiveness. The resulting discount level is therefore lower still and much lower than for other customers with a single route.

Self-Governance Statement: *Please provide your views on the self-governance statement.*

We believe this proposal meets the self-governance criteria.

We believe that National Grid's approach of using known long term bookings and historical flows is a good way of estimating the materiality of this modification. We agree with their calculations that this modification would have an £1.62m impact on capacity charges for Gas Year 2022/23(assuming the probability of bypass is unaffected). This strongly indicates that this modification is below the materiality threshold of £5m.

Implementation: *What lead-time do you wish to see prior to implementation and why?*

We note that National Grid has confirmed that the low materiality of this modification would not affect the result of the calculation of capacity reserve prices. Given the lead

time required for system changes, we believe an appropriate and achievable implementation date is October 2023.

Impacts and Costs: *What analysis, development and ongoing costs would you face?*

None

Legal Text: *Are you satisfied that the legal text will deliver the intent of the Solution?*

Yes

Modification Panel Members have requested that the following questions are addressed:

Q1: Does this Modification meet the Self Governance criteria?

Yes, we believe this modification clearly meets the self-governance criteria because we do not believe that £1.62m is material enough to require Authority direction.

We note that the Self-Governance Criteria specifies that Proposers are required to demonstrate the materiality of their modification if they believe Authority direction is required. However, in practice we have observed that Proposers are required to demonstrate that modifications are not material in order to follow a Self-Governance route.

Q2: Do you have any views regarding risk of bypass?

Should this proposal be referred to Ofgem for a decision, RWE will be submitting evidence of the risk of bypass for consideration in their decision.

RWE have used specific knowledge and data to estimate the payback period for a bypass pipeline. The speed of the return depends on NTS capacity charges, pipeline build cost and capacity, degree of utilisation and how closely NTS capacity procurement matches flows amongst other things. We estimate that the discount level selected by Ofgem in UNC728B increases the payback period for a typical pipeline from a minimum of around 3 months, but still could be as little as only 3 years.

However, if we assume that half of the exit capacity that is procured is unused and ineligible for a discount (but Entry Capacity is bought closer to delivery and matches requirements), then the payback period could be reduced from a minimum of 3 years to about as little as only 1 year. We think this discount level is inefficient and is likely to lead to an increase in the frequency of NTS bypass pipelines in the medium term. Customers need to consider the lead time to build their pipeline and whether they can better match their capacity procurement to flows in the coming years.

Now consider the scenario of a Shipper operating two short haul routes with equal offtake capacity having a shared Entry Point to form a multi-route, and half of the Exit Capacity that is procured is unused (i.e., one site always flows gas to the maximum capacity whilst the other has no flow). In this scenario, the payback period for a bypass pipeline falls

from the minimum of about 1 year and in some scenarios could become less than 6 months.

We therefore think that the risk of bypass under current arrangements is much higher for multi-routes compared with single routes, because capacity costs for multi-routes can be double that of identical routes operated by a single Shipper, and the payback is half as long. A pipeline payback period of 6 months would mean that the annual capacity charges the multi-route User is contributing for only one route is currently much greater than the £1.62m estimated cost of all routes becoming eligible for a discount to which other Users are already entitled. We think the risk of the loss of this contribution is greater than the impact of implementation of these arrangements.

Q3: Do you have views regarding the analysis provided in the DMR?

As described above, we agree with National Grid's forecast of£1.62m being the impact this modification proposal would have had on this Gas Year 2022/23.

(Confidential responses to be sent directly to Ofgem)

Are there any errors or omissions in this Modification Report that you think should be taken into account? *Include details of any impacts/costs to your organisation that are directly related to this.*

No

Please provide below any additional analysis or information to support your representation

Additional evidence and analysis will be provided to Ofgem if this modification is referred to them for approval.