Relevant Objectives

Approach for Workgroup Assessment of the Relevant Objectives

For every Relevant Objective an assessment has been made by the relevant proposer stating whether the impact of the Modification Solution is negative, neutral (“none”) or positive. The text provided by the proposer should explain the Impacts of their Modification. It is not enough for the Proposer to simply state that, for instance, a Modification has a positive impact on competition between shippers (Objective d); a full rationale of specifically how competition is furthered must be demonstrated.

The Workgroup must also provide an assessment against all the Relevant Objectives. Modification 0621 and each Alternative Modification will be assessed against each Relevant Objective in turn to determine if the Workgroup agrees or disagrees that the Modification demonstrates that the Relevant Objectives are furthered as set out in the Modification Proposal(s).

Where this is the case, the Workgroup Report has changed the status to indicate that the Relevant Objective is ‘impacted’. Where the Workgroup has differing views to that proposed in the Modification, the Workgroup Report captures a statement of the summary of the reasons why the Workgroup consider the impact to be different (positive or none or negative).

Where supporting evidence is provided, this has been cross-referenced to the analysis of the impacts against the Relevant Objectives. This approach does not preclude Workgroup 0621 participants from providing additional views and evidence as part of the consultation process.

**Table One - A summary of each Modification and the Proposer’s assessment against each Relevant Objective.**

The table below provides a summary of the Proposer’s assessment against each Relevant Objective. It also includes details of the version of the Modification (and the Relevant Objectives contained within it) which has been considered as part of the Workgroup’s assessment of the Relevant Objectives. Where the Modifications were amended subsequent to Workgroup assessment.

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| **Relevant Objective** | **0678** | **0678A** | **0678B** | **0678C** | **0678DD** | **0678EE** | **0678F** | **0678G** | **0678H** | **0678** | **0678** |
| **National Grid** | **RWE** | **Centrica** | **SSE** | **ENI** | **Gateway Energy** | **Storengy** | **Vitol** |  |  |  |
| a) Efficient and economic operation of the pipe-line system. | None | None | Positive | None | None | Positive | Positive | Positive |  |  |  |
| b) Co-ordinated, efficient, and economic operation of | None | None | None | None | None | Positive | Positive | None |  |  |  |
| (i) the combined pipe-line system, and/ or |
| (ii) the pipe-line system of one or more other relevant gas transporters. |
| c) Efficient discharge of the licensee's obligations. | Positive | Positive | Positive | Positive | Positive | Positive | Positive | Positive |  |  |  |
| d) Securing of effective competition: | Positive | Positive | Positive | Positive | Positive | Positive | Positive | Positive |  |  |  |
| (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. |
| 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 | None | None | None | None | None | None | None | None |  |  |
| f) Promotion of efficiency in the implementation and administration of the Code. | None | None | None | None | None | None | None | None | 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 | Positive | Positive | Positive | Positive | Positive | Positive | Positive | Positive |  |  |

Workgroup Assessment of Impacts of the modification on the Relevant Objectives.

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| Impact of the modification on the Relevant Objectives: | |
| **Relevant Objective** | **Identified impact** |
| a) Efficient and economic operation of the pipe-line system. | None – 0678A/C/D  Positive – 0678B/E/F/G |
| 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 - 0678A/B/C/D/G  Positive – 0678E/F |
| c) Efficient discharge of the licensee's obligations. | Positive – 0678/A/B/C/D/E/F/G |
| 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 – 0678A/B/C/D/E/F/G |
| 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 - 0678A/B/C/D/E/F/G |
| f) Promotion of efficiency in the implementation and administration of the Code. | None - 0678A/B/C/D/E/F/G |
| 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 – 0678A/B/C/D/E/F/G |

**E**

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| 1. **Efficient and economic operation of the pipe-line system** | | |
|  | **Proposers comments** | **Workgroup comments** |
| **0678** | The proposed changes to TPD B and EID B (where applicable) support the implementation of the new charging methodology and arrangements. Standard Special Condition A5(5) of the NTS Licence sets outs the relevant methodology objectives and National Grid believes that these objectives are better facilitated for the reasons detailed below in Table 5 (‘Impact of the Modification on the Relevant Charging Methodology Objectives’). | National Grid clarified that it did not expect to see any operational benefits or detriments as a result of the proposals in 0678. |
| **0678A and All PS Modifications** |  | Workgroup participants noted that Postage Stamp Modifications do not propose their Modifications positively impact this Relevant Objective because the aim is recovery of historical sunk costs and the aim is not to provide signals to Users in relation to operation of the network. |
| **0678B** | The whole charging package contained in this Modification has been designed to encourage fair and efficient access to the pipe-line system. The expected more stable and predictable charges compared with what is generated from the current methodology should encourage more stable and predictable use of the system by shippers -something that should in turn help National Grid generate accurate capacity usage forecasts for setting charges in future. The removal of free capacity products is an important aspect of the proposal as is the inclusion of an Optional Capacity charge (to replace the Optional Commodity Charge). Without an Optional Capacity Charge there will likely be an increased incentive for the use of some system bypass pipelines because some of the charges being generated by CWD produce counter-intuitive outcomes – high exit charges for large sites located close to entry points (the same argument could be made had the reference price methodology been Postage Stamp.) By improving the predictability of the use of the system National Grid should be better placed and better prepared to operate it in a more efficient manner. By encouraging efficient use of the system by shippers (e.g. by avoiding inefficient bypass) National Grid will ensure that its operations can be economically optimised so that costs are kept as low as possible on a pence/ kWh flowed basis.  At the same time, this Modification recognises that the current level of Optional Commodity Charge discounts applied to Transmission Owner (TO) charging has become distorted in recent years by their structural link to the rising level of TO Commodity charges. The Modification is therefore designed to promote efficiency and economy in the use of the NTS pipeline system by reducing the level of discounts to a more appropriate level, whilst addressing the underlying structural design of the Optional charging methodology and thus providing a robust, enduring basis for dis-incentivising inefficient NTS by-pass. | Some Workgroup participants noted that Modifications that include an Optional Charge potentially facilitate this better than those that do not because of the incentive of where to locate and flow on the network. An example is that if, at St Fergus, gas transported to Peterhead power station (approx. 400m) on a private pipeline would result in change of compressor use on the NTS and therefore impact system operation.  A Workgroup Participant noted that this Relevant Objective is unlikely to be positively impacted because it is referring to system operation which is unlikely to be affected by a ‘shorthaul’ type charge. |
| **0678C** |  | Workgroup participants noted that the Storage Discount proposed enables the NTS as System Operator to benefit from the counter injection and withdrawal in relation to storage. Without the Storage Discount these facilities would be detrimentally impacted which in turn would have a negative impact the operation of the NTS and this Relevant Objective a).  Other Workgroup participants noted that the minimum 50% Storage Discount should be sufficient to ensure efficient operation of the NTS in relation to Storage.  Workgroup participants noted that Ofgem (in its 0621 rejection letter) had observed that :  *“Therefore, under a number of the UNC621 modifications (ie those which propose a storage discount less than 86%), some storage facilities may encounter challenges in continuing operations in the medium to longer-run.“*  Workgroup participants noted that if this transpired, it could have a potentially detrimental impact on the operation of the system. |
| **0678D** |  |  |
| **E** |  | Workgroup participants noted that the Proposer was not present to assist with assessment against this Relevant Objective. |
| **F** |  | Workgroup participants noted that the Proposer was not present to assist with assessment against this Relevant Objective. |
| **G** |  | Not yet under consideration |
| **H** |  | Not yet under consideration |
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**0678E**

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| 1. **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.** | | |
|  | **Proposers comments** | **Workgroup comments** |
| **All PS Modifications** |  | Workgroup participants noted that Postage Stamp Modifications do not propose their Modifications positively impact this Relevant Objective because the aim is recovery of historical sunk costs and the aim is not to provide signals to Users in relation to operation of the network.  Some Workgroup participants noted PS delivers no locational signals in that the charges do not reflect any investment or operation of the network. This approach results in all Users will be paying the same price, this could be argued to be undue cross subsidy and undue discrimination wherein Users flowing gas for short distances are subsidising those who flow across long distances. Compressors are used to transport gas across long distances and therefore this is more accurately reflected in the CWD methodology.  Some Workgroup participants noted that under a PS methodology there could be no added incentive to bring gas onto the network at a particular Entry Point. For example bringing gas onto the network at a distance far from where it is intended to be consumed is not conducive to operational efficiency, since it would be require significant Capex and Opex investment in NTS compression to move the gas around the network. (This would also have a negative environmental impact).  Some Workgroup participants noted that lack of materiality of compression costs must be taken into account.  Some Workgroup participants noted that PS delivers a higher price at some points than CWD does. |
| **All CWD Modifications** |  | Some Workgroup Participants noted CWD is detrimental in relation to Relevant Objective b) in relation to operation of the network because the locational signals given are essentially given by the distance matrix rather than investment or operation of the network. Any behavioural responses to these signals will potentially be unhelpful and detrimental to the network.  Some Workgroup participants noted that under CWD higher prices at the extremes of the network may have a negative effect on security of supply which is an operational efficiency issue (Ofgem’s rejection letter on 0621 p 13 and 14). |
|  |  |  |
| **0678** |  |  |
| **0678A** |  |  |
| **0678B** |  |  |
| **0678C** |  | Some Workgroup participants noted that storage provides support to the entire network. Proximity to demand and flow response to changes in aggregate demand ensures that overall system pressures are supported. The 80% Storage Discount (compared with a 50% discount) is designed to ensure that storage facilities should continue to provide services to the NTS. |
| **D** |  |  |
| **0678E** |  | Some Workgroup participants noted that storage provides support to the entire network. Proximity to demand and flow response to changes in aggregate demand ensures that overall system pressures are supported. The 80% Storage Discount (compared with a 50% discount) is designed to ensure that storage facilities should continue to provide services to the NTS. |
| **0678F** |  | Some Workgroup participants noted that storage provides support to the entire network. Proximity to demand and flow response to changes in aggregate demand ensures that overall system pressures are supported. The 80% Storage Discount (compared with a 50% discount) is designed to ensure that storage facilities should continue to provide services to the NTS. |

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| 1. **Efficient discharge of the licensee's obligations** | | |
|  | **Proposers comments** | **Workgroup comments** |
|  |  | **All modifications**  Some Workgroup participants noted that the removal of existing contract volume and revenue before calculating the reference prices leads to a greater distortion between the prices paid by existing contract holders and those making new capacity purchases. Whilst this has been a feature of the regime for some time due to entry capacity purchases made on a fixed price basis not being indexed in any way, the situation becomes extreme which is inconsistent with the licencee’s obligations to avoid undue preference in the supply of transportation services. It is acknowledged that existing contracts have been purchased in monthly or quarterly blocks which cannot be changed whilst new purchases can be profiled more closely to meet expected flows. This may not be sufficient to offset the price disparity. Some Workgroup participants expect Ofgem to consider this in its Impact Assessment, along with whether this creates a barrier to entry. |
| **0678** |  | Workgroup participants were satisfied with National Grid‘s explanation. |
| **0678A** | The proposed changes to TPD B and EID B (where applicable) support the implementation of the new charging methodology and arrangements. Standard Special Condition A5(5) of the NTS Licence sets outs the relevant methodology objectives and that these objectives are better facilitated for the reasons detailed below in Table 5 (‘Impact of the Modification on the Relevant Charging Methodology Objectives’). | Workgroup participants were satisfied with RWE‘s explanation which was based entirely on National Grid’s. |
| **0678B** | The Modification will ensure that necessary enhancements and changes are made to the charging methodology holistically, enabling Users to comprehend the implications for the whole suite of gas transmission charging. This is much more preferred and efficient than had the changes been made in a fragmented or incomplete manner. | Some Workgroup participants agree, believing that 0678B is a complete charging solution which has a ‘shorthaul’ type charge delivered at the same time as the other changes and therefore it better facilitates achievement of this relevant objective c)  Other Workgroup participants noted that having a ‘shorthaul’ type charge was not a requirement of TAR NC; a method of managing inefficient bypass can be made via a separate Modification (e.g. UNC0670R noting though that this is only a Review).  Some Workgroup participants noted that licensees’ obligations include cost reflectivity, clearing allocation and undue preference.  Some Workgroup participants suggested that 0678B with CWD **and** the optional charge goes some way to compensate for the CWD effect of higher charges at exit points close to entry points and thus improves its cost reflectivity better than if the optional charge were not included.  Some Workgroup participants noted that the removal of existing contract volume and revenue before calculating the reference prices leads to a greater distortion between the prices paid by existing contract holders and those making new capacity purchases. Whilst this has been a feature of the regime for some time due to entry capacity purchases made on a fixed price basis not being indexed in any way, the situation becomes extreme which is inconsistent with the licencee’s obligations to avoid undue preference in the supply of transportation services. It is acknowledged that existing contracts have been purchased in monthly or quarterly blocks which cannot be changed whilst new purchases can be profiled more closely to meet expected flows. This may not be sufficient to offset the price disparity. Some Workgroup participants expect Ofgem to consider this in its Impact Assessment, along with whether this creates a barrier to entry. |
| **0678C** |  | Workgroup participants were satisfied with SSE‘s explanation which was based entirely on National Grid’s. |
| **D** |  |  |
| **E** |  |  |
| **F** |  |  |

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| 1. **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**. | | |
|  | **Proposers comments** | **Workgroup comments** |
|  |  | **All Modifications**  Some Workgroup participants noted that all CWD based modifications are broadly cost reflective because they use the TAR NC drivers of capacity and distance.  Other Workgroup participants noted that for a network that is no longer expanding and has excess capacity, then locational signals are not relevant in which case, the recovery of sunk costs is best achieved using a uniform non-discriminatory charge which is achieved using Postage Stamp Model.  One Workgroup participant noted that the use of the system is changing and indeed in respect of Milford Haven there is an expectation that incremental capacity will be provided.  Some Workgroup participants suggested gas destined for Milford Haven is unlikely to go to a different terminal. |
| **0678** | The proposed changes to TPD B and EID B (where applicable) support the implementation of the new charging methodology and arrangements. To the extent that the application of a new Reference Price Methodology is expected to provide a more stable and predictable price setting regime, Shippers will have a greater level of confidence in their forecasts of prospective use of network costs and therefore set their own service costs more accurately (potentially with a lower risk margin) thereby enhancing effective competition. |  |
| **0678A** | The proposed changes to TPD B and EID B (where applicable) support the implementation of the new charging methodology and arrangements. To the extent that the application of a new Reference Price Methodology is expected to provide a more stable and predictable price setting regime, Shippers will have a greater level of confidence in their forecasts of prospective use of network costs and therefore set their own service costs more accurately (potentially with a lower risk margin) thereby enhancing effective competition. |  |
| **0678B** | The Modification is expected to result in more stable and predictable capacity charges which will be conducive to enhancing competition in gas shipping and gas supply. This is further helped by not applying capacity-based Transmission Services revenue recovery charges to Existing capacity, providing shippers with confidence that once a contract for capacity has been struck it will, as far as legal requirements permit, be honoured. | Some Workgroup Participants noted that effective competition relates to cost reflective charges.  Some Workgroup Participants noted that CWD and an optional charge is an improvement over CWD and no optional charge. |
| **0678C** |  |  |

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| 1. **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.** | | |
|  | **Proposers comments** | **Workgroup comments** |
| **0678** |  |  |
| **0678A** |  |  |
| **0678B** |  |  |
| **0678C** |  |  |

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| 1. **Promotion of efficiency in the implementation and administration of the Code.** | | |
|  | **Proposers comments** | **Workgroup comments** |
| **All Modifications** |  | Workgroup participants agreed this was not relevant. |

**E/**

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| 1. **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.** | | |
|  | **Proposers comments** | **Workgroup comments** |
| **All Modifications** |  | Workgroup participants noted that all 0678 Modifications under consideration as at 04 March 2019 are an improvement over the current charging methodology, i.e. they positively impact this Relevant Objective g).  Workgroup participants noted the compliance commentary captured in sections 4.7 of the report above.  (signposting of problematic areas?)  Some Workgroup participants noted there are some areas of concern identified with the section 4.7 referred to.  Workgroup participants noted that it could be argued that 0678 and 0678A provide two foundational Modifications with what could be argued as a minimum approach implementation of TAR NC. Other Modifications add in additional areas felt to be of importance to their Proposers which can be justified separately under TAR NC whilst it should be noted that UNC 0670R could be argued to be doing this too. |
| **0678** | The proposed changes to TPD B and EID B (where applicable) support the implementation of the new charging methodology and arrangements including those elements required to comply with the EU Tariff Code. The decision to reject UNC0621 and its Alternatives highlighted three areas of compliance that needed to be addressed (Interim Contracts, Transition Period and Shorthaul). This Modification proposes changes that will address these. Appendix 2 gives a comparison between Modification 0621 and this new Modification 0678, highlighting steps taken to address compliance in line with Ofgem’s 0621 Rejection Letter. In order to provide a compliant proposal to address these areas, National Grid is proposing:   * Not to propose the creation of Interim Contracts; * Not to use a transition period for the introduction of the methodology changes; and * The removal of the charge to manage avoidance of inefficient bypass (as highlighted in this proposal, National Grid has raised a separate review group (UNC0670R) to address this aspect of charging in the longer term). |  |
| **0678A** | The proposed changes to TPD B and EID B (where applicable) support the implementation of the new charging methodology and arrangements including those elements required to comply with the EU Tariff Code. The decision to reject UNC0621 and its Alternatives highlighted three areas of compliance that needed to be addressed (Interim Contracts, Transition Period and Shorthaul). This Modification proposes changes that will address these. In order to provide a compliant proposal to address these areas, the Modification proposes:   * Not to propose the creation of Interim Contracts; * Not to use a transition period for the introduction of the methodology changes; and * The removal of the charge to manage avoidance of inefficient bypass (as highlighted in this proposal, National Grid has raised a separate review group (UNC0670R) to address this aspect of charging in the longer term). |  |
| **0678B** | The proposed changes to TPD B and EID B (where applicable) support the implementation of the new charging methodology and arrangements including those elements required to comply with the EU Tariff Code. This Modification has taken into consideration the views expressed by Ofgem in their Modification 0621 Decision Letter and the 3 features of the 0621 Modification and its Alternatives that Ofgem consider to be non-compliant. The Modification is therefore based wholly on capacity charges for the recovery of Transmission Services Revenue and there is no special treatment for entry capacity purchased after 6th April 2017 in respect of Transmission Services Revenue Recovery Charges. The Optional Capacity Charge solution is consistent with Ofgem’s Decision Letter in respect of EU Tariff code compliance in that charges are wholly capacity-based. | Action 01-1802 and Action 02-1802 |
| **0678C** |  |  |

**Table two - A summary of each Modification and the Proposer’s assessment against each Charging Methodology Relevant Objectives.**

The table below which provides a summary of the Proposer’s assessment against each Charging Methodology Relevant Objective. It also includes details of the version of the Modification (and the Relevant Objectives contained within it) have been considered as part of the Workgroup’s assessment of the Charging Methodology Relevant Objectives.

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| **Relevant Objective** | **0678** | **0678A** | **0678B** | **0678C** | **0678DD** | **0678EE** | **0678F** | **0678G** | **0678H** | **0678** | **0678** |
| **National Grid** | **RWE** | **Centrica** | **SSE** | **ENI** | **Gateway Energy** | **Storengy** | **Vitol** |  |  |  |
| 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 | None | Positive | None | Positive | Positive | Positive | Positive |  |  |  |
| aa) That, in so far as prices in respect of transportation arrangements are established by auction, either:  no reserve price is applied, or  that reserve price is set at a level -  (I) best calculated to promote efficiency and avoid undue preference in the supply of transportation services; and  (II) best calculated to promote competition between gas suppliers and between gas shippers; | Positive | None | Positive | None | Positive | Positive | Positive | Positive |  |  |  |
| b) That, so far as is consistent with sub-paragraph (a), the charging methodology properly takes account of developments in the transportation business; | Positive | Positive | Positive | Positive | Positive | Positive | Positive | 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 | None | Positive | None | Positive | Positive | Positive | 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 | None | None | None | None | None | None | 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 | Positive | Positive | Positive | Positive | Positive | Positive | Positive |  |  |  |

Workgroup Assessment of Impacts of the modification on the Relevant Charging Methodology Objectives.

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| 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 – 0678/B/D/E/F/G  None – 0678A/C |
| aa) That, in so far as prices in respect of transportation arrangements are established by auction, either:   1. no reserve price is applied, or 2. that reserve price is set at a level -   (I) best calculated to promote efficiency and avoid undue preference in the supply of transportation services; and  (II) best calculated to promote competition between gas suppliers and between gas shippers; | Positive – 0678/B/D/E/F/G  None – 0678A/C |
| b) That, so far as is consistent with sub-paragraph (a), the charging methodology properly takes account of developments in the transportation business; | Positive – 0678/A/B/C/D/E/F/G |
| c) That, so far as is consistent with sub-paragraphs (a) and (b), complianc  e with the charging methodology facilitates effective competition between gas shippers and between gas suppliers; and | Positive – 0678/B/D/E/F/G  None – 0678A/C |
| 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 - 0678/A/B/C/D/E/F/G |
| 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 – 0678/A/B/C/D/E/F/G |

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| 1. **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;** | | |
|  | **Proposers comments** | **Workgroup comments** |
|  |  | **All Modifications**  Some Workgroup participants noted that there may be a difference between ‘costs incurred’ as defined in TAR NC and the allowed revenue as defined by National Grid’s license.  Some workgroup participants noted that any of the methodologies propose a method of distribution of revenue across the network (operation under revenue control).  Some Workgroup participants noted that use of CWD cost drivers (a combination of capacity and distance) better reflect the cost drivers of investment in the network compared with PS. PS is not designed to reflect any drivers of cost. |
| **0678** |  |  |
| **0678A** |  |  |
| **0678B** | The Capacity Weighted Distance (CWD) basis for allocating costs and setting reference prices is expected to provide a platform for more stable and predictable capacity reserve prices compared with the current Long Run Marginal Cost methodology. Some shortcomings with the CWD approach have been identified, in particular the production of some relatively high exit capacity prices close to some entry points. However, the inclusion of Optional Capacity arrangements in this Modification provide a means of correcting such anomalies and provide a more intuitively correct outcome when considering the cost-reflectivity of the charges.  The current Long Run Marginal Cost (LRMC) reference price methodology was designed to provide economic signals indicating where it would be economic for customers to acquire capacity on the NTS, i.e. it provided locational price signals. This approach was relevant during the period when the network was expected to expand so that informed and efficient network usage would be encouraged. Today, however, expansion of the network is likely to be limited and gas demand has been following a generally downward trend in most recent years. Therefore, an LRMC approach is not best suited to the current usage and requirements of the NTS and will not provide such a relevant, cost-reflective approach to charging as it has in the past.  A new approach to paying for these costs, reflecting how the NTS is now used, is therefore required; a methodology that more fairly distributes costs among the Users of the system and that recognises that historical decisions on how the network was developed over many years should not in future unduly dictate how charges are set in future.  A Postage Stamp methodology has its appeal – it’s simple and generally equalises entry and exit charges for users. However, a Postage Stamp method is not in any way cost-reflective: capital costs employed to support the current NTS infrastructure (e.g. for maintenance and replacement) or for maintaining gas pressures and delivering gas throughout the gas network (e.g. compressors) intuitively have a distance-related component to them. In light of this, a Capacity Weighted Distance (CWD) method is much more sensible.  A CWD reference price methodology has therefore been adopted in this proposal to provide a balanced cost-allocation approach, one which recognises the changing use of the NTS yet one that retains some locational price signals. It is the view of the Proposer that CWD provides a more reasonable basis for setting cost-reflective reference prices during this phase of the NTS’ life but it requires and relies on the addition of an Optional Capacity charge solution to make it even more reasonable.  The inclusion of a workable Optional Capacity charge solution is critical to enhancing the cost-reflectivity of the methodology. CWD would produce counter-intuitive capacity charges for some combinations of entry and exit points, e.g. high entry and exit charges when the exit point is in close proximity to the entry point, such as St Fergus and Peterhead power station or Bacton UKCS and the Interconnector UK exit point. It is therefore essential to incorporate a meaningful and enduring Optional Capacity charge solution to resolve such anomalies in order to provide a holistic solution that results in better charging outcomes | Some Workgroup participants suggested that 0678B with CWD **and** the optional charge goes some way to compensate for the CWD effect of higher charges at exit points close to entry points and thus improves its cost reflectivity better than if the optional charge were not included. |
| **0678C** |  |  |

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| **aa) That, in so far as prices in respect of transportation arrangements are established by auction, either:**   1. **no reserve price is applied, or** 2. **that reserve price is set at a level -** 3. **best calculated to promote efficiency and avoid undue preference in the supply of transportation services; and** 4. **best calculated to promote competition between gas suppliers and between gas shippers;** | | |
|  | **Proposers comments** | **Workgroup comments** |
|  |  | **All Modifications**  Some Workgroup participants noted that multipliers set to 1 mean that short and long term purchases are on the same footing.  Some Workgroup participants noted that competition is best facilitated when supported by cost reflective charges. Economic principles say that cost reflective charges should reflect the forward-looking marginal costs with residuals recovered uniformly (in a flat non-distortive manner). [link to frontier economics report]  One of the main principles in the electricity TCR is reduction of harmful distortions by separating charges into forward looking and residual charges. It can be argued that for the gas network the focus could be on the residual charges |
| **0678** |  |  |
| **0678A** |  |  |
| **0678B** | **(iii) best calculated to promote competition between gas suppliers and between gas shippers**  The proposed changes to the balance of reserve prices among capacity products of different durations will ensure that a much fairer price is paid by shippers generally compared with the current situation where short-term entry and exit capacity can be readily purchased free of charge. This will help to significantly reduce the situation where parties that choose, or for business reasons are required, to purchase capacity on a long-term basis are disadvantaged and who, because of revenue under-recovery provisions such as has been witnessed with TO commodity charges, end up paying well in excess of their fair share of transmission costs. This rebalancing of charges and fairer allocation of costs is conducive to better promoting competition between gas suppliers and between gas shippers. | Some Workgroup participants agreed that 0678B helped to level the playing field in terms of short term and long term contracts compared with the current arrangements. |
| **0678C** |  |  |

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| 1. **That, so far as is consistent with sub-paragraph (a), the charging methodology properly takes account of developments in the transportation business;** | | |
|  | **Proposers comments** | **Workgroup comments** |
|  |  | **All Modifications**  Some Workgroup participants noted compliance with TAR NC can be considered a development in the transportation business. |
| **0678** | The update to the Transmission Services methodology proposal takes into account developments which have taken place in the transportation business, in particular that the network is no longer expanding. |  |
| **0678A** | The update to the Transmission Services methodology proposal takes into account developments which have taken place in the transportation business, in particular that the network is no longer expanding. |  |
| **0678B** | From a legal and regulatory perspective, the new methodology will ensure that the requirements of EU network codes can be fully adhered to, thus ensuring that the required transportation developments, especially, at Interconnection Points, are realised. From an operational perspective, the transportation business will need to change to meet changing demand patterns and changing sources of gas supply, presenting it with a challenge for the long-term transportation of gas to consumers and with a need to provide more flexibility to meet more unpredictable within-day changes to supply and demand patterns. The new charging approach under this Modification provides a significantly more balanced suite of capacity purchase options that will lead to more predictable costs for shippers and more appropriate payments in respect of the use of the day to day and within-day use of the system. |  |
| **0678C** |  |  |

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| 1. **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** | | |
|  | **Proposers comments** | **Workgroup comments** |
|  |  | **All Modifications**  Some Workgroup participants noted that all CWD based modifications are broadly cost reflective because they use the TAR NC drivers of capacity and distance.  Other Workgroup participants noted that for a network that is no longer expanding and has excess capacity, then locational signals are not relevant in which case, the recovery of sunk costs is best achieved using a uniform non-discriminatory charge which is achieved using Postage Stamp Model.  One Workgroup participant noted that the use of the system is changing and indeed in respect of Milford Haven there is an expectation that incremental capacity will be provided.  Some Workgroup participants suggested gas destined for Milford Haven is unlikely to go to a different terminal. |
| **0678** | National Grid believes that the proposed utilisation of a new Reference Price Methodology which re-distributes National Grid’s costs on a geographical basis, weighted by capacity will enhance cost reflectivity and competition between gas suppliers and between gas shippers when compared to the current application of a Long Run Marginal Cost Methodology (LRMC). The proposed model is better suited to the current and expected future usage of the NTS and the current model is more suitable for an expanding network requiring an investment-based RPM.  A sub-group of the NTS Charging Methodology Forum identified that as the inputs into the LRMC model are varied the resulting price changes are not intuitive and the changes can cause unpredictable results, and the changes to prices can be volatile. As a result, similar offtake points (in terms of offtake volumes and distances from points of entry) may incur materially different charges. Use of a methodology which delivers more comparable costs would better facilitate these objectives. |  |
| **0678A** | The proposer believes that the proposed utilisation of a new Reference Price Methodology which re-distributes National Grid’s costs on a capacity basis will enhance cost recovery. The proposed model is better suited to the recovery of the historic sunk costs of the NTS and better relates to the expected future contracting usage of the existing NTS. The current Long Run Marginal Cost Methodology (LRMC model) is more suitable for an expanding network requiring an investment-based RPM.  A sub-group of the NTS Charging Methodology Forum identified that as the inputs into the LRMC model are varied the resulting price changes are not intuitive and the changes can cause unpredictable results, and the changes to prices can be volatile. As a result, similar offtake points (in terms of offtake volumes and distances from points of entry) may incur materially different charges. Use of a methodology which delivers postage stamp costs would better facilitate these objectives. |  |
| **0678B** | The expected greater predictability and stability of charges will help gas shippers to better plan their future deliveries of gas to the market, will lead to less uncertainty for new entrants and generally provide a better basis for promoting competition in gas shipping and gas supply. | Some Workgroup Participants noted that effective competition relates to cost reflective charges.  Some Workgroup Participants noted that CWD and an optional charge is an improvement over CWD and no optional charge. |
| **0678C** |  |  |

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| 1. **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).** | | |
|  | **Proposers comments** | **Workgroup comments** |
| **All Modifications** |  | Workgroup participants agreed this was not relevant. |

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| 1. **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.** | | |
|  | **Proposers comments** | **Workgroup comments** |
| **All Modifications** |  | Workgroup participants noted that all 0678 Modifications under consideration as at 04 March 2019 are an improvement over the current charging methodology, i.e. they positively impact this Relevant Objective e).  Workgroup participants noted the compliance commentary captured in sections 4.7 of the report above.  (signposting of problematic areas?)  Some Workgroup participants noted there are some areas of concern identified with the section 4.7 referred to.  Workgroup participants noted that it could be argued that 0678 and 0678A provide two foundational Modifications with what could be argued as a minimum approach implementation of TAR NC. Other Modifications add in additional areas felt to be of importance to their Proposers which can be justified separately under TAR NC whilst it should be noted that UNC 0670R could be argued to be doing this too. |
| **0678** | The EU Tariff Code compliance is taken into account in this Modification proposal. Accordingly, implementation of this Proposal would ensure that the GB arrangements are compliant with the EU Tariff Code. The decision to reject UNC0621 and its Alternatives highlighted three areas of compliance that needed to be addressed (Interim Contracts, Transition Period and ‘Shorthaul’). This Modification proposes changes that will address these. In order to provide a compliant proposal to address these areas, National Grid is proposing:   * Not to propose the creation of Interim Contracts; * Not to use a transition period for the introduction of the methodology changes; and * The removal of the charge to manage avoidance of inefficient bypass (as highlighted in this proposal, National Grid has raised a separate review group (UNC0670R) to address this aspect of charging in the longer term.   Please see also Appendix 2 for a comparison table between Modification Proposal 0621 (which was rejected by Ofgem) and this Modification Proposal (0678). |  |
| **0678A** | The EU Tariff Code compliance is taken into account in this Modification proposal. Accordingly, implementation of this Proposal would ensure that the GB arrangements are compliant with the EU Tariff Code. The decision to reject UNC0621 and its Alternatives highlighted three areas of compliance that needed to be addressed (Interim Contracts, Transition Period and ‘Shorthaul’). This Modification proposes changes that will address these. In order to provide a compliant proposal to address these areas, the Modification is proposing:   * Not to propose the creation of Interim Contracts; * Not to use a transition period for the introduction of the methodology changes; and * The removal of the charge to manage avoidance of inefficient bypass (as highlighted in this proposal, National Grid has raised a separate review group (UNC0670R) to address this aspect of charging in the longer term). |  |
| **0678B** | EU Tariff Code compliance is taken into account in this Modification proposal. Accordingly, implementation of this Proposal would ensure that the GB arrangements are compliant with the EU Tariff Code. The decision to reject UNC0621 and its Alternatives highlighted three areas of compliance that needed to be addressed (Interim Contracts, Transition Period and commodity-based ‘Short-haul’). This proposal addresses these by:   * Not proposing the creation of Interim Contracts as defined in the 0621 proposals; * Not having a transition period for the introduction of the methodology changes; and   Creating a capacity-based charge to manage avoidance of inefficient bypass and to promote further market benefits. | Action 01-1802 and Action 02-1802 |
| **0678C** |  |  |