





UNC Modification		At what stage is this document in the process?
<h1>UNC 0653:</h1> <h2>Updating the parameters for the NTS Optional Commodity Charge – Introducing the NTS Optional Capacity Charge</h2>		<div style="display: flex; flex-direction: column; gap: 5px;"> <div style="border: 1px solid green; background-color: #28a745; color: white; padding: 2px; border-radius: 4px;">01 Modification</div> <div style="border: 1px solid #17a2b8; background-color: #d9edf7; padding: 2px; border-radius: 4px;">02 Workgroup Report</div> <div style="border: 1px solid #d4edda; background-color: #fff3cd; padding: 2px; border-radius: 4px;">03 Draft Modification Report</div> <div style="border: 1px solid #ffc107; background-color: #fff3cd; padding: 2px; border-radius: 4px;">04 Final Modification Report</div> </div>
<p>Purpose of Modification:</p> <p>To replace NTS Optional Commodity Charges with NTS Optional Capacity Charges that will provide an enduring solution at all system entry and exit points, being mindful of changes ensuing from the European Tariff Network Code.</p>		
	<p>The Proposer recommends that this modification should be:</p> <ul style="list-style-type: none"> considered a material change and not subject to self-governance assessed by a Workgroup <p>This modification will be presented by the Proposer to the Panel on 15 March 2018. The Panel will consider the Proposer’s recommendation and determine the appropriate route.</p>	
	<p>High Impact:</p> <p>The proposal, if implemented, will result in a major change to the way in which optional transportation tariffs are derived and applied.</p>	
	<p>Medium Impact:</p>	
	<p>Low Impact:</p>	

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Timetable	
The Proposer recommends the following timetable:	
Initial consideration by Workgroup	TBC
Workgroup Report presented to Panel	<u>20 September 2018</u>
Draft Modification Report issued for consultation	<u>21 September 2018</u>
Consultation Close-out for representations	<u>5 October 2018</u>
Final Modification Report available for Panel	<u>15 October 2018</u>
Modification Panel decision	<u>18 October 2018</u>

Any questions?

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1 Summary

What

The objective of the proposal is to replace NTS Optional Commodity Charges with Optional Capacity Charges and for this to take effect on 1 October 2019.

Why

The NTS Optional Commodity Charge formula was introduced in 1998 and has not been changed since that time. If a shipper elects to pay the Optional Commodity Charge for a deemed straight-line transportation route between a qualifying chosen system entry point (ASEP) and qualifying NTS exit point it will not be required to pay either the standard NTS entry or NTS exit commodity charges for the quantity of gas to which the optional charge applies. The original rationale was that the availability of the Optional Commodity Charge would encourage shippers to use the NTS in preference to building and using independent pipelines and that this would lead to a better economic outcome, avoiding inefficient bypass of the NTS. Since then shipper use of the Optional Commodity Charge has grown, partially driven by the rapid rise in TO commodity charge levels in recent years and some UNC parties have expressed some concern as to whether the level of uptake is now appropriate, i.e. that it results in an unfair redistribution of transportation costs. On the other hand, other UNC parties are of the view that the inefficient bypass argument is still valid and that shippers as a whole benefit from lower charges due to gas throughput that otherwise would not contribute to National Grid's revenue recovery. Additionally, it has been argued that in addition to avoiding inefficient bypass, the Optional Commodity Charge actually attracts gas to the NTS, e.g. gas that might be delivered directly to the European continent instead of the NTS.

The NTS Optional Commodity Charge therefore remains a useful instrument for attracting gas to the GB market, for encouraging greater use of the NTS and therefore ultimately benefitting consumers. However, given the differing views of industry parties on the subject it should be reviewed and it is timely to do so because of changes to gas transmission charges that will result from the full implementation of the EU Tariff network code by 31 May 2019, with new charging arrangements taking effect from 1 October 2019.

Although the exact form of the new charging arrangements from October 2019 have yet to be determined, there are some changes that will have a direct impact on the applicability of the Optional Commodity Charge: the EU tariff network code will not permit TO commodity-type charges to be levied at Interconnection Points and the code also places emphasis on transportation charges generally as being largely capacity-based.

If the current Optional Commodity Charge were to remain in place, therefore, then it is highly likely that it will result in different economic treatments at Interconnection Points than at non-Interconnection Points. This would be discriminatory. Given this background, it is the Proposer's view that the current approach to providing optional transportation charges will be unworkable from 1 October 2019 and that a new approach is required.

How

Optional Commodity Charges will be replaced by Optional Capacity Charges. Underpinning the derivation of the charges will be a Capacity Weighted Distance approach to establishing capacity reserve prices at all system entry and exit points. The "short-haul" or optional transportation distance, divided by a relevant entry or exit point's Capacity Weighted Distance and multiplied by the system point's reserve price will determine the Optional Capacity Charge payable. In the event that a Capacity Weighted Distance methodology is implemented in 2019 then the resultant Optional Capacity Charges will apply. If a different charging approach is implemented in 2019 then the method will be used to determine the level of discount to be applied to the reserve prices from that different methodology.

In addition to the Optional Capacity Charges replacing relevant system reserve charges, non-transmission services (SO) commodity charges will not apply to relevant gas flows but transmission services (TO) revenue recovery (or top-up) charges will be applied.

It is generally recognised that the current level of short-haul discounts has become distorted by its structural link to increasing TO Commodity charges. This Proposal is designed to address both issues – i.e. developing a more coherent short-haul pricing structure (aligned to CWD) and at the same time reducing the overall level of available short-haul discounts.

2 Governance

Justification for Authority Direction

The proposal is for a major restructuring of optional transportation charging that is expected to result in a significant redistribution of transportation costs among system users.

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

Requested Next Steps

This modification should:

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

3 Why Change?

The following are the main reasons for change:

- (a) The EU Tariff network code will inevitably result in different transmission charging arrangements from 1 October 2019 and it is therefore timely to consider whether the current approach to providing optional transportation charges is sustainable;
- (b) It is anticipated that the current Optional Commodity Charge will provide discriminatory economic outcomes to the disadvantage of Interconnection Points due to some explicit charging restrictions imposed by the EU Tariff network code, i.e. that transmission revenue (TO) recovery commodity charges cannot be applied at Interconnection Points;

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- (c) The rationale for, and benefits of, providing optional transportation charges should be reviewed to provide confidence that they will result in outcomes that are beneficial to competition in gas shipping and supply, provides a net benefit to consumers and, in a broader context, is conducive to facilitating security of gas supply, NBP market liquidity and effective competition with neighbouring European gas markets; and
- (d) There needs to be greater transparency and governance for how optional transmission charges are derived and applied. Currently, the UNC does not set out a methodology for how the Optional Commodity Charge formula has been derived.

4 Code Specific Matters

Reference Documents

Knowledge/Skills

Understanding of the NTS charging methodology in respect of the Optional Commodity Charge and knowledge of the requirements of the EU Tariff network code,

5 Solution

The new method will provide for reduced entry and exit capacity reserve charges at applicable entry and exit system points, replacing the need to derive an Optional Commodity Charge. Consistent with the current code rules, Non-Transmission Services (SO) commodity charges will not be payable on qualifying gas entry or exit flows. Transmission Services Revenue Recovery (TO) charges will be payable so that all gas flows (or relevant capacity entitlements) make a contribution to Transmission Services Revenue under-recovery. This recognises that cost savings would not be made by profiling the use of capacity on an alternative pipeline, i.e. that the rental for such a pipeline would likely include some form of minimum bill payment.

The NTS Optional Capacity Reserve Charges will apply to an Applicable Quantity (Q) calculated on each gas day:

$$Q = \text{MIN} \{ \text{CAPen}, \text{CAPex}, \text{FLOWen}, \text{FLOWex} \} \text{ where}$$

CAPen = User's entry capacity entitlement on the day at the applicable ASEP,

CAPex = User's exit capacity entitlement on the day at the applicable exit point,

FLOWen = User's gas flow entry allocation on the day at the applicable ASEP, and

FLOWex = User's gas flow exit allocation on the day at the applicable exit point.

For an applicable entry and exit point combination, the NTS Optional Capacity Reserve Charges to be levied on the Applicable Quantity are calculated as follows:

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NTS Optional Entry Capacity Charge = $D / CWD_{en} \times R_{Pen}$ and

NTS Optional Exit Capacity Charge = $D / CWD_{ex} \times R_{Pex}$ where

D is the straight-line distance between the entry and exit point,

CWD_{en} is the capacity weighted distance for the entry point,

CWD_{ex} is the capacity weighted distance for the exit point,

R_{Pen} is the prevailing capacity reserve price for the entry point and

R_{Pex} is the prevailing capacity reserve price for the exit point.

The capacity weighted distances will be derived with reference to the approach set out in the EU Tariff network code. The capacity values to be used in the calculation will be the Obligated Capacities specified in National Grid Gas's Gas Transporter's Licence. The distances will be the actual network distances between entry and exit points and shall be determined by National Grid.

The Optional capacity charges therefore reflect that proportion of the costs, allocated by the capacity weighted distances at the relevant entry and exit points under a Capacity Weighted Distance charging methodology, that would be attributed to a dedicated pipeline bypassing the NTS.

Non-Transmission Services charges will not be levied on the Applicable Quantity (Q) but Transmission Services Revenue Recovery (TO) charges will be levied on the Applicable Quantity.

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Normal Transmission Services charges or Non-Transmission Services charges will apply, as appropriate, to those capacities or gas flows not covered by the Applicable Quantity (Q):

WAP_{en} = weighted average price of relevant entry capacity entitlements held on the day;

WAP_{ex} = weighted average price of relevant exit capacity entitlements held on the day;

Where $CAP_{en} > Q$, WAP_{en} will apply to $(CAP_{en} - Q)$ units of the User's entry capacity entitlement.

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Where $CAP_{ex} > Q$, WAP_{ex} will apply to $(CAP_{ex} - Q)$ units of the User's exit capacity entitlement.

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Where $FLOW_{en} > Q$, the normal entry TO and SO commodity charges will apply to $(FLOW_{en} - Q)$ units of the User's entry allocation.

Where $FLOW_{ex} > Q$, the normal exit TO and SO commodity charges will apply to $(FLOW_{ex} - Q)$ units of the User's exit allocation.

NTS Optional Charges will not apply where either the entry or exit point is a gas storage facility. Also, an exit point can be associated with only one entry point/ASEP for the purpose of attracting NTS Optional Charges.

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If there is more than one exit point associated with an ASEP for the purposes of establishing optional charges then

- (a) the ASEP entry capacity entitlement will be apportioned to each of the optional charge arrangements pro rata, based on the relative size of the exit capacity entitlements and
- (b) the ASEP entry flow will be apportioned to each of the optional charge arrangements pro rata, based on the relative size of the exit flows.

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It is appropriate that all gas using the NTS attracts a charge for doing so. It is therefore reasonable to apply a minimum distance limitation such that D is no less than 0.1km to ensure that the NTS Optional capacity charges are positive numbers.

National Grid NTS will notify relevant shipper Users of the applicable NTS Optional capacity charges, and the date from which they are to apply, as they would for the normal set of transportation charges.

Optional Capacity Charges will be quoted to an accuracy of 6 (six) decimal places and quotations will also include the value of each variable in the relevant Optional Capacity Charge formula described above.

In the determination of invoice amounts, the values of each variable in the relevant Optional Capacity Charge formula will be used, not the quoted Optional Capacity Charge. This will circumvent any restrictions on Optional Capacity Charges that may be imposed by information systems limitations, e.g. limiting charges to 4 decimal places or by imposing a minimum charge of 0.0001 p/kWh/day.

Example - Optional Entry Capacity Charge for 1 day.

D	30 km
CWDen	270 km
RPen	0.0002 p
Actual OCC (=D/CWDen*RPen)	0.000022 p (rounded)
Minimum Charge (systems limitation)	0.000100 p
Applicable Quantity	30,000,000 kWh
Invoice using Actual OCC	£6.67
Invoice using Minimum Charge	£30.00

The invoiced amount will therefore be £6.67

Transition Arrangements

A transition run-in period will be the 150-day period up to and including 30 September 2019.

At the commencement of the run-in period, National Grid will:

- (a) provide a written statement to each shipper, that has optional commodity charge arrangements in place, that details the optional capacity charges to apply to the optional charge arrangements from 1 October 2019. The shipper will be offered a one-off opportunity to terminate the optional charge arrangements from 1 October 2019 for specified optional charge

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arrangements in which case National Grid will cancel the arrangements accordingly on behalf of the shipper. Shippers will have 1 month to respond to the offer to terminate; and

(b) Notify shippers holding optional charge supply point offers of the optional capacity charges that will apply from 1 October 2019 and that the terms of the offers will be deemed to be amended accordingly from 1 October 2019.

Except where a shipper elects to terminate an optional charge arrangement from 1 October 2019 in accordance with sub-paragraph (a) above, shippers will be required to use the usual supply point administration processes to amend or cancel optional charge arrangements.

6 Impacts & Other Considerations

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

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

Consumer Impacts

If implemented, the modification will result in a sustainable and transparent optional charging methodology that will have considered a range of factors likely to impact on consumers, including efficient utilisation of the NTS, competition in gas shipping and supply, security of supply and the effectiveness of the wholesale gas market.

Cross Code Impacts

There is no impact expected.

EU Code Impacts

The proposal will result in a non-discriminatory and enduring outcome that takes into consideration the requirements of the EU tariff network code.

Central Systems Impacts

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

7 Relevant Objectives

Impact of the modification on the Relevant Objectives:

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

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<#> Existing Optional Commodity Contracts will be deemed to have been withdrawn (or cancelled) by relevant shippers with effect from 05:00 hours on 1 October 2019;
<#> Contracts under (a) will be deemed to have been replaced with new Optional Capacity contracts from 05:00 hours on 1 October 2019 (i.e. steps a and b provide for a deemed renomination);
<#> Any Supply Point Offers, in respect of Optional Commodity rates, that have an expiry date after 30 September 2019 will expire on the 30th September 2019;
Nothing in the above will restrict a User from actively renominating a supply point.

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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.	Positive
Impact of the modification on the Relevant Charging Methodology Objectives:	
Relevant Objective	Identified impact
a) Save in so far as paragraphs (aa) or (d) apply, that compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its transportation business;	Positive
aa) That, in so far as prices in respect of transportation arrangements are established by auction, either: (i) no reserve price is applied, or (ii) that reserve price is set at a level - (I) best calculated to promote efficiency and avoid undue preference in the supply of transportation services; and (II) best calculated to promote competition between gas suppliers and between gas shippers;	None
b) That, so far as is consistent with sub-paragraph (a), the charging methodology properly takes account of developments in the transportation business;	Positive
c) That, so far as is consistent with sub-paragraphs (a) and (b), compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers; and	Positive
d) That the charging methodology reflects any alternative arrangements put in place in accordance with a determination made by the Secretary of State under paragraph 2A(a) of Standard Special Condition A27 (Disposal of Assets).	None
e) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of	Positive

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Particular attention to the requirements of the EU Tariff network code will ensure that an enduring solution is provided, one that does not unduly discriminate against Interconnection Points.

At the same time, this Proposal recognises that the current level of short-haul 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 Proposal 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 short-haul charging methodology and thus providing a robust, enduring basis for dis-incentivising inefficient NTS by-pass.

8 Implementation

An implementation date of 1 October 2019 is proposed. This is the date from which charges under a new transmission charging methodology, driven by EU Tariff network code requirements, will take effect.

The solution requires that National Grid provide relevant users with notices of newly derived Optional Capacity Charges on the same basis that other transportation charges are notified. The expectation is that indicative notices will be provided with a lead time of at least 150 days, with final notices provided at least 2 months before the charges are to be applied.

9 Legal Text

Text Commentary

None

10 Recommendations

Proposer's Recommendation to Panel

Panel is asked to:

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