|  |  |  |
| --- | --- | --- |
| **UNC Workgroup Report** | | At what stage is this document in the process? |
| UNC 0678/B/D/E/F/I:  Amendments to Gas Transmission Charging Regime  UNC 0678A/C:  Amendments to Gas Transmission Charging Regime (Postage Stamp)  UNC0678E:  Amendments to Gas Transmission Charging Regime – Treatment of Storage  UNC0678F:  Amendments to Gas Transmission Charging Regime – Treatment of Unprotected Entry Capacity Storage  UNC0678G:  Amendments to Gas Transmission Charging Regime including a Cost based Optional Capacity Charge  UNC 0678H:  Amendments to Gas Transmission Charging Regime (Postage Stamp) including a Cost based Optional Capacity Charge  0678J: Amendments to Gas Charging Regime (Postage Stamp) including a Cost based Optional Capacity Charge | |  |
| **Purpose of Modification:**  The purpose of these Modification proposals is to amend the Gas Transmission Charging regime in order to better meet the relevant charging objectives and customer/stakeholder provided objectives for Gas Transmission Transportation charges and to deliver compliance with relevant EU codes (notably the EU Tariff Code). | | |
| Description: Description: YES_GREEN | These Modifications are subject to Authority Direction.  In line with the Urgent timetable agreed with the Authority for Modification 0678, the Workgroup Report will be finalised at the last Workgroup on 10 April 2019.  The Draft Modification Report will be issued for consultation on 15 April 2019, representations can then be made as usual, with consultation close out on 08 May 2019.  The Final Modification Report will be made available to UNC Modification Panel on 15 May 2019 for consideration at the scheduled UNC Modification Panel meeting on 23 May 2019.  The Final Modification Report with the UNC Modification Panel recommendation will then be issued to Ofgem for their ultimate consideration on 29 May 2019. | |
| Description: Description: High_Impact | High Impact:  All parties that pay NTS Transportation Charges and / or have a connection to the NTS, and National Grid NTS. | |
| Description: Description: Low_Impact | Medium Impact:  N/A | |
| Description: Description: Medium_Impact | Low Impact:  N/A | |

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| --- | --- |
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| Contact:  **Joint Office of Gas Transporters** |
| **Description: Description: email_us_go_online** [**enquiries@gasgovernance.co.uk**](mailto:enquiries@gasgovernance.co.uk) |
| **Description: Description: call_us0121 288 2107** |
| Transporter:  **National Grid** |
| Systems Provider:  **Xoserve** |
| Proposer 0678:  **Colin Williams**  **National Grid** |
| **Description: Description: email_us_go_online** [**colin.williams@nationalgrid.com**](mailto:colin.williams@nationalgrid.com) |
| **Description: Description: call_us 01926 655916 or 07785 451776** |
| Proposer 0678A:  **Bill Reed RWE** |
| **Description: Description: email_us_go_online** |
| **Description: Description: call_us** |
| Proposer 0678B:  **Graham Jack Centrica** |
| **Description: Description: email_us_go_online** |
| **Description: Description: call_us** |
| Proposer 0678C:  **Jeff Chandler SSE** |
| **Description: Description: email_us_go_online** |
| **Description: Description: call_us** |

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| Timetable   |  |  | | --- | --- | | **Modification timetable:** | | | Ofgem decision on urgency | 25 January 2019 | | Workgroup 1 - “Approach. Compliance” | 29 January 2019 | | Workgroup 2 - “Integration of RPM, FCC, Revenue Recovery and existing contracts” | 31 January 2019 | | Workgroup 3 - “Multipliers and Discounts. ‘Shorthaul’ approach” (part of NTSCMF) | 05 February 2019 | | Workgroup 4 - “Compliance. FCC” | 11 February 2019 | | Workgroup 5 - “Non-transmission charges. Final overview” | 13 February 2019 | | Workgroup 6 - “Workgroup Report” | 14 February 2019 | | Workgroup 7 - “Workgroup Report” | 18 February 2019 | | Workgroup 7a - “Workgroup Report” | 20 February 2019 | | Workgroup 8 - “Workgroup Report” | 25 February 2019 | | Workgroup 9 - “Workgroup Report” | 27 February 2019 | | Workgroup 9a - “Workgroup Report” | 28 February 2019 | | Workgroup 10 - “Workgroup Report” | 04 March 2019 | | Workgroup 11 - “Workgroup Report” | 06 March 2019 | | (Workgroup Extension granted) | 08 March 2019 | | Workgroup 11 - “Review Final Modifications” | 28 March 2019 | | Workgroup 12 - “Review and finalise analysis” | 02 April 2019 | | Workgroup 13 - “Finalise Relevant Objectives” | 03 April 2019 | | Workgroup 14 - “Finalise Legal Text” | 04 April 2019 | | Workgroup 15 - “Finalise Compliance” | 08 April 2019 | | Workgroup 16 - “Finalise Workgroup Report” | 10 April 2019 | | Draft Modification Report finalised and issued for consultation | 12 April 2019 | | Consultation commences | 15 April 2019 | | Consultation Close-out for representations | 08 May 2019 | | Final Modification Report available for Panel | 15 May 2019 | | Modification Panel decision | 23 May 2019 | | Final Modification Report issued to Ofgem | 29 May 2019 | |  |  | |  |  | | Proposer 0678D: |
| **Description: Description: email_us_go_online** |
| **Description: Description: call_us** |
| Proposer 0678E: |
| **Description: Description: email_us_go_online** |
| **Description: Description: call_us** |
| Proposer 0678F: |
| **Description: Description: email_us_go_online** |
| **Description: Description: call_us** |
| Proposer 0678G: |
| **Description: Description: email_us_go_online** |
| **Description: Description: call_us** |
| Proposer 0678H: |
| **Description: Description: email_us_go_online** |
| **Description: Description: call_us** |
| Proposer 0678I:  **Sinaed Obeng GazProm** |
| **Description: Description: email_us_go_online** |
| **Description: Description: call_us** |
| Proposer 0678J:  **Adam Bates South Hook Gas** |
| **Description: Description: email_us_go_online** |
| **Description: Description: call_us** |

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Figure 4: Reserve Price derivation **Error! Bookmark not defined.**

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1. Report structure and how to use the report

Workgroups have been well attended with wide industry participation. Workgroup has met frequently to develop and discuss these proposals. Managing the number of Alternative Modifications (and amendments to these), combined with the timescales for finalisation of the Workgroup Report to send out for consultation, in line with the Urgent timetable agreed for Modification 0678 has been challenging.

Changes to timetables

It has been necessary to produce this Workgroup Report in a different way to what is normally presented.

The Workgroup Report is divided into two parts. Part I is the overarching Workgroup Report containing all the key material relating to Modification 0678 and the x Alternative Modifications (0678A, 0678B, 0678C, 0678D, 0678E, 0678F, 0678G, 0678H, 0678I, 0678J). The content for this section comprises the following:

* How to use the report, including navigation;
* Comparison Tables – an ‘at a glance’ comparison of the key elements of Modification 0678 and the Alternative Modifications and how they relate to Ofgem’s views on 0621;
* Key Issues – provides Workgroup analysis and views of the key regime changes and differences in the proposed approaches;
* Relevant Objectives – contains the Workgroup assessment on how the Modifications better facilitate the objectives;
* Workgroup Conclusions and Recommendations; and
* Definitions.



Figure 1: Workgroup Report structure

Part II provides an individual Workgroup Report for each Modification containing all the information specific to that Modification. The content of each Part II report comprises the following:

* Modification (including Solution)
* Proposer’s Analysis – Where provided by each Proposer or National Grid to illustrate the impact of the Modification. Workgroup will review the additional information in these Part II reports wherever possible, noting time constraints inherent in the timetable.
* Relevant Objectives – As provided by each Proposer in the final version of their Modification.
* Legal Text – This will be published as a separate document. Workgroup is keen to review the final legal text for all of the Modifications wherever possible.

1. Introduction

National Grid submitted Modification 0678 to the Authority on 17 January 2019 for consideration of Urgency; Ofgem published its decision granting Urgency and agreeing with the proposed timetable on 25 January 2019. The aim of the Modification was to design an amendment to the gas charging regime to better meet the relevant charging objectives and customer/stakeholder provided objectives and deliver compliance with the forthcoming EU Tariff Code (Regulation 2017/460).

Modification 0678 and all of its Alternative Modifications (0678A, 0678B, 0678C, 0678D, 0678E, 0678F, 0678G, 0678H, 0678I and 0678J) aim to replace the current charging methodology, which is based on Long Run Marginal Cost (LRMC).

**Amendment to original Urgency timetable**

**See comment on p.16 – expand here**

**Overview of Modifications**

Modification 0678 and 10 alternative Modifications (0678B, xxx and xxx all propose Capacity Weighted Distance (CWD) as the replacement methodology. Modifications 0678A, 0678C, 0678H and 0678J propose Postage Stamp (PS) instead.

Whilst the underlying methodology of CWD or PS is proposed across the Modifications, these proposals also include additional charges/aspects that make up the overall charging framework for GB Transportation Charges. These include those charges for managing revenue recovery. These changes may be significant. (For further information regarding System Changes see Section 4.20).

#### Definitions

Table 1 gives a definition of terms used in these Modifications.

Table 1: Definitions used in the Modifications

|  |  |
| --- | --- |
| **Term (Abbreviation)** | **Description** |
| **Capacity Weighted Distance (CWD) Model** | The CWD approach fundamentally requires three main inputs:   * A revenue value is required, which will be the target revenue required to be recovered from Transmission Services; * A distance matrix for the average connecting distances on the NTS; and * A capacity value for each Entry and Exit point that will be the Forecasted Contracted Capacity (FCC) (which is mentioned later in this section).   The CWD model produces the Transmission Services Reference Prices and with additional adjustments produces the Transmission Services Reserve Prices. |
| **Effective Date** | The later of:   * the last day of the month in which Ofgem issues its letter directing implementation of this Proposal; and * 31 May 2019 |
| **Existing Contracts (ECs) (for the purposes of this Modification)** | Arrangements relating to Long Term Entry capacity allocated before 06 April 2017 (Entry into Force of EU Tariff Code) |
| **Forecasted Contracted Capacity (FCC)** | The capacity input to the RPM that will be used in the Transmission Services capacity charges calculation that will be determined via a CWD methodology. An FCC value is required for every Entry and Exit point. |
| **Long Run Marginal Costs (LRMC) Model** | The current underlying RPM used in the calculation of the Entry and Exit Capacity Prices. Whilst there are different approaches in Entry and Exit as to how secondary adjustments are applied, the underlying LRMC principles are there in both. The LRMC approach is an investment focused methodology where the intention is to have strong locational signals to facilitate decision making. More information is available in TPD Section Y of the UNC. |
| **Multipliers** | The factor applied to the respective proportion (runtime) of the Base Reference Price in order to calculate the Reference Price for non-yearly standard capacity product |
| **Network Distances (for the purposes of modelling in the RPM)** | A matrix of distances used in the RPM that are the pipeline distances on the NTS. |
| **Non-Transmission Services** | The regulated services other than transmission services and other than services regulated by Regulation (EU) No 312/2014 that are provided by the transmission system operator; |
| **Non-Transmission Services Revenue** | The part of the allowed or target revenue which is recovered by non-transmission tariffs |
| **Reference Price** | Price for a capacity product for firm capacity with a duration of one year, which is applicable at entry and exit points and which is used to set capacity based transmission tariffs. This will be produced in p/kWh/a (pence per kWh per annum). |
| **Reference Price Methodology (RPM)** | The methodology applied to the part of the transmission service revenue to be recovered from capacity based transmission tariffs with the aim of deriving Reference Prices. Applied to all entry and exit points in a system.  The RPM therefore is the framework to spread certain costs / revenues (relevant to the methodology in place) to the Entry and Exit points and thereby on to network users. |
| **Reserve Price** | **Reserve Price for Yearly standard capacity** = the Reference Price  **Reserve Price for Non- yearly standard capacity** is calculated by applying any Multipliers (if applicable).  This will be produced in p/kWh/d (pence per kWh per day). |
| **Target Revenue** | This is the revenue required to be recovered from a particular set of charges. |
| **Transmission Services** | The regulated services that are provided by the transmission system operator within the entry-exit system for the purpose of transmission. |
| **Transmission Services Revenue** | The part of the allowed or target revenue which is recovered by transmission tariffs. |
| **Transportation Statement** | The Transportation Statement containing the Gas Transmission Transportation Charges |



1. Comparison table: Differences between each of the 0678 Modifications

The Comparison Table is reproduced below and is published here:

http://www.gasgovernance.co.uk/0678/Comparison

It has been developed to show the differences between Modification 0678 and the Alternatives 0678A/B/C/D/E/F/G/H/I/J. Blue cells show variation in treatment of that element from UNC Modification 0678. Workgroup thanked National Grid for its work to provide and maintain this useful table.

The comparison table has been used to aid in the formulation of the key issues section and the production of Legal Text, especially where Alternatives differ from the original National Grid UNC0678 proposal.

Note: The table is presented in two halves for legibility.

NEED TO INSERT FINAL TABLE



**

1. Workgroup Impact Assessment

The table below sets out the key issues and differences as highlighted by the comparison table (these are items 4.1 to 4.8). Additional issues have also been identified through Workgroup discussions and these are added to the table (4.9 onwards). The Workgroup have provided an assessment of each of these issues and have provided, where appropriate, commentary on any rationale given by Proposers. Where relevant, the Report also captures Workgroup participants’ views on the issues and any impacts on the Relevant Objectives.

|  |  |  |  |
| --- | --- | --- | --- |
| Issue Reference | **Charging Regime Element** | **Issue Description** | **Commentary/dates** |
| **4.1** | **Approach** | * General * Ofgem input | done |
| **4.2** | **Integration of RPM, FCC, Revenue Recovery and Existing Contracts** | * Use of Capacity Weighted Distance (CWD) and Postage Stamp over the current LRMC methodology * Revenue Recovery * Revenue Recovery and Existing Contracts | Done? |
| **4.3** | **Forecasted Contracted Capacity** | * Assessment of methodologies * Treatment of existing capacity * Methodology location * Methodology governance |  |
| **4.4** | **Existing Contracts** |  |  |
| **4.5** | **Multipliers (Article 13 of EU TAR NC)** | * Multiplier of 1.0 (year 1) and approach to setting it in future years (stay as 1.0 or subject to consultation) |  |
| **4.6** | **Interruptible Discount** |  |  |
| **4.7** | **Specific Capacity Discounts** |  |  |
| **4.8** | **NTS Optional Charge arrangements** | * Assessment of methodology where applicable |  |
| **4.9** | **Compliance** |  |  |
| **4.10** | **Topics raised in Ofgem’s 0621 Rejection Decision Letter** | * Interim contracts (done) * Transition (done) * NTS Optional Charge (done) * Multipliers and zero prices? * Cost reflectivity * Location signals * Regulatory Impact Assessment * ‘Annex’ - TCR |  |
| **4.11** | **Regulatory Impact Assessment** |  |  |
| **4.12** | **Impact Analysis** | * Geographic distribution effects (see also section 4.15 DN Impacts). * User type effects * ‘Outlier’ charges? * Security of Supply and NBP impacts   Other TBC | How to populate this section? |
| **4.13** | **Consumer Impacts** |  |  |
| **4.14** | **DN Impacts** | * Analysis, observations and concerns on potential charge changes. | New FCC expected 15/3/19 will trigger DN analysis |
| **4.15** | **Implementation timings** | * Feasibility * Highlighting how the decision date may impact the charging arrangements for capacity, specifically for QSEC and AMSEC 2019. |  |
| **4.16** | **Independent Assurances on the development of any new Charging Models** | * Commentary on illustrative models is available and recognition of the need for assurances prior to using any charging model in setting actual charges. | Commentary to be supplied by NG and reviewed by WG |
| **4.17** | **General Non-Transmission Services Charges** | General Non-Transmission Services Charges are net of any:   * St Fergus Compression charge * DN Pensions Deficit charges * NTS Meter Maintenance charges * Shared Supply meter point administration charges * Interconnection Point Allocation charges * General Non-Transmission Services Charges - Flow based for non-IPs (except non-own-use at storage) Flow based for non-IPs (except non-own-use at storage) | done |
| **4.18** | **K Principles and adjusting revenues in subsequent years** | * Transmission Services K to be split between Entry and Exit   + Entry K to feed into Entry charges   + Exit K to feed into Exit charges * Non-Transmission K to be aggregate value – no split between Entry and Exit | Nothing yet |
| **4.19** | **Central Systems Impacts** | * Timings * Costs * Updates | complete |



## Approach

0678 Modifications were published as follows in Table 2:

Table 2: 0678 Modifications publication dates

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **v1.0** | **v2.0** | **v3.0** | **v4.0** |
| **Modification 0678** | 17-Jan-2019 | 25-Feb-2019 | 15-Mar-2019 | 21-Mar 2019 |
| **Modification 0678A** | 28-Jan-2019 | 26-Feb-2019 | 21-Mar-2019 |  |
| **Modification 0678B** | 06-Feb-2019 | 04-Mar-2019 | 20-Mar-2019 |  |
| **Modification 0678C** | 15-Feb-2019 | 22-Feb-2019 | 28-Feb-2019 | 21-Mar-2019 |
| **Modification 0678D** | 20-Feb-2019 | 22-Mar-2019 | 27-Mar-2019 |  |
| **Modification 0678E** | 20-Feb-2019 | 21-Mar-2019 |  |  |
| **Modification 0678F** | 22-Feb-2019 | 21-Mar-2019 |  |  |
| **Modification 0678G** | 26-Feb-2019 | 21-Mar-2019 |  |  |
| **Modification 0678H** | 27-Feb-2019 | 22-Mar-2019 |  |  |
| **Modification 0678I** | 27-Feb-2019 | 22-Mar-2019 | 27-Mar-2019 | 28-Mar-2019 |
| **Modification 0678J** | 19-Mar-2019 |  |  |  |

Each Alternative was considered by Panel at various meetings, both scheduled and extraordinary. Panel Members noted Ofgem’s decision letter granting urgency for Modification 0678 (25 January 2019) (insert link). Ofgem noted that potential Alternatives should be well formed, properly considered and brought forward in a timely manner; supporting evidence should be included. Ofgem urged Proposers to act responsibly in this regard in order to ensure GB compliance.

Key timetables relating to Workgroup 0678 were defined in the following documents which can all be found on the Workgroup 0678 webpage[[1]](#footnote-3):

* Ofgem decision letter granting urgency for Modification 0678 (25 January 2019);
* [Ofgem decision by email – Instruction to renumber 0679 to 0678A (31 January 2019)](https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/book/2019-02/Ofgem%20Decision%20by%20email%20-%200679%20to%200678A%20v1.0.pdf);
* Ofgem decision letter granting extension of 0678 Timetable (08 March 2019).

Workgroup meetings took place on the dates shown below. Those in bold indicate that the meetings were added to the timetable originally included in Modification 0678 v1.0, those in italics were added after Ofgem granted an extension of the 0678 timetable on 08 March 2019:

* 29 January
* 31 January
* 05 February (NTSCMF[[2]](#footnote-4))
* 11 February
* 13 February (postponed)
* 14 February
* 18 February
* **20 February**
* 25 February
* **26 February**
* 27 February
* **28 February**
* 04 March
* **05 March (NTSCMF)**
* 06 March
* ***25 March POSTPONED TO 03 APRIL***
* ***28 March***
* ***02 April (NTSCMF)***
* ***03 April***
* ***04 April***
* ***08 April***
* ***10 April***

At various points in the first set of Workgroup meetings, between 29 January and 06 March 2019, Workgroup expressed deep concern at the lack of availability of analysis data and documentation from National Grid. In particular, Workgroup were disappointed that both the FCC Methodology Statement and a final version of Modification 0678 had not been delivered by 06 March 2019. (The date was due to be the last session for finalisation session of the Workgroup Report).

Workgroup stated that Modifications should be properly formulated and should not include blank spaces. These were left in original versions of earlier Alternatives due to the lack of a final sensitivity tool for 0678 and the lack of FCC Methodology. Some Workgroup participants also cited the above as a reason for later submission of Alternative Modifications.

Ofgem allowed an extension to the 0678 timetable on 08 March 2019. This allowed the following to be completed:

* FCC Methodology Statement with the governance framework in Modification 0678 v3.0
* Final Modification 0678 including full accompanying analysis
* Legal text for Modification 0678 and
* Sensitivity Tool for 0678 v3.0.

In turn, this enabled Proposers of Alternative Modifications to amend their own Modifications in response, and gave time to also further update/complete their:

* Final Compliance Assessment
* Supporting Analysis
* Specific commentary for inclusion within the Workgroup Report
* Commentary relating to Ofgem’s Decision Letter on Modification 0621.

Data in Table 2 reflects where the Alternatives were modified as a result of the above. Modification 0678J was also raised during the adjournment .

Ofgem in its decision letter granting extension of 0678 Timetable on 08 March 2019 also requested that National Grid carry out ‘A Review of Existing Contracts’; this was expected on 15 March 2019. It was published on XXX.

Xxx

Move elsewhere? – regarding extension of timetable

A Workgroup Participant highlighted that there may be a need for further Alternatives following review of the FCC Methodology if it was determined that they were in the interests of the consumer

A Workgroup Participant also wished to highlight that in their opinion the list of documents provided by National Grid was not conclusive and that some Proposers may require additional input from National Grid. In particular the Proposer of 0678I highlighted that National Grid assistance may be required in relation to commercially sensitive OCC information

The Proposer of 0678I asked Ofgem whether, as for Modification 0636, there would be a request for commercially sensitive information to be provided to Ofgem.

**Production of Analysis by parties other than National Grid**

Very early on in the process for Modification 0678, National Grid indicated that it would produce a sensitivity model for Modification 0678 only and a summary of data outputs for industry to use from this model. National Grid stated it would be the responsibility of each Proposer to develop a sensitivity model and any analysis to support their individual Proposal. Where this may require information that the Proposer does not have access to, for example commercially sensitive information, such as Optional Commodity information, National Grid confirmed it would work with each Proposer to support in this respect where it was needed. Additionally, National Grid indicated it would be able to support each Proposer, as they developed any tools and produced any analysis, where requested. National Grid confirmed the responsibility for provision of supporting analysis for Alternative Modification Proposals remains with the Proposers.

Workgroup participants noted that if Proposers of Alternatives produce indicative charges generated for their Modification, it removes the objectivity which National Grid would potentially provide.

**Impacts on customers**

Workgroup participants noted that impacts on customers would be covered in the Workgroup Report (Section 4.14 and 4.15)

Workgroup participants stated that they would also expect any impacts on customers to be fully analysed by Ofgem in their Regulatory Impact Assessment.

**Ofgem input, ~~implementation dates and effective dates~~**

Ofgem stated they would prepare for a Regulatory Impact assessment (IA). A decision relating to the need for a Regulatory Impact Assessment would be made following receipt of the Final Modification Report.

In their decision letter on Urgency for 0678, Ofgem stated that:

*Chapters II, III and IV of TAR NC that relate to Reference Price Methodologies (“RPM”), Reserve Prices and Reconciliation of Revenue respectively, shall apply from 31 May 2019.*

Some Workgroup Participants recognised this is likely to be after 31 May 2019, since Ofgem will likely need to come to a minded-to decision possibly involving an RIA, and given TAR NC requirements for 2 months consultation, followed by 2 months for ACER feedback, followed by Ofgem’s final decision.

Workgroup noted that a notice period for advising of prices is required. Ofgem advised it will decide on this at a later point.

Some Workgroup participants asked if the date from which charges take effect could be 01 October 2020, noting that contracts tend to start at the start of a Gas Year.

Move to implementation timings section:

Workgroup participants discussed Implementation date vs Effective date. Some Workgroup participants stated that during March they are heavily engaged in discussions relating to new Gas Year contracts (beginning 01 October for any respective Gas Year). Therefore, some Workgroup participants highlighted, that for the market to have confidence, it would be sensible to have an effective date for new charges on 01 October 2020. Ofgem noted this point.

On 29 January 2019, making reference to UNC Modification Rule 12.8, Workgroup 0678 requested Joint Office seek a formal View from the Authority. The topics where a View was requested were:

* The feasibility of achieving 01 October 2019 implementation date
* The impact of not achieving this date and
* The requirement to be compliant as soon as possible.

Joint Office actioned the request. Check with Ofgem

Move to implementation timings section:

**Mid-Year changes**

When analysing each of the Alternative Modifications, some Workgroup Participants felt there was no clarity as to when charges from the new methodology will take effect. Some Workgroup Participants raised concerns relating to mid-year changes to charges.

Some Workgroup Participants felt that while mid-year changes are allowed, it was important to have charges based on one given charging methodology for the duration of the Gas Year (e.g. 01 October 2019 to 30 September 2020). Those participants believed that this would avoid significant within-year changes in charges producing stability within the contract year and allows for the normal publication timings, which require 150 days’ notice.

Regarding indicative notice, 2 months is the usual notice for final charges and less is required for some auctions. (DH 31 Jan 2019) National Grid stated that mid-year changes to capacity charges would most likely require a derogation form the licence.

Other Workgroup Participants did not agree, noting that in their view GB would not be compliant with TAR NC, if it does not have charges effective from 01 October 2019.

A Workgroup Participant noted that in the Netherlands, TAR NC has been implemented with charges taking effect from 01 January 2020. (In the Netherlands the beginning of the Tariff year is 01 January). Article 38 is quoted below:

Article 38

Entry into force

1. This Regulation shall enter into force on the twentieth day following that of its publication in the Official Journal of the European Union.

2. It shall apply as from entry into force.

3. However, Chapters VI and VIII shall apply as from 1 October 2017. Chapters II, III and IV shall apply as from 31 May 2019.

In response National Grid referred to the words stated in the implementation section of its Modification 0678. The same is also in 0678A.

*Implementation of this Modification (the ‘Effective Date’) is proposed to be:*

* *the first day of the third month following the calendar month in which Ofgem makes its decision; or*
* *another day, being the first Day of a month, not earlier than 1 October 2019 (and subsequent to the date of Ofgem’s decision) which Ofgem specifies in its decision.*

Workgroup participants discussed the potential consequences of non-compliance. Ofgem indicated any potential infringement proceedings would be against GB. Ofgem made the Workgroup aware of the case of Frankovich v Italy[[3]](#footnote-5).

Xoserve also stated that implementation and effective dates are very important from a systems perspective; any Alternatives must take this into account.

**Comparison of Capacity Weighted Distance and Postage Stamp**

Workgroup noted that Ofgem said in its rejection letter for Modification 0621 that:

*“… both Postage Stamp and CWD are better approaches to the recovery of network costs than the status quo. This is because all Users who benefit from access to a safe reliable flexible gas transmission network would more equally share the costs of the network in proportion to their ability to use it.”*

Noting Ofgem’s statement on Postage Stamp and CWD, the Workgroup chose tohighlight below the key elements of the two highlighted approaches alongside what they believed to be the issue with both. The tables below (Tables 3 and 4) are a presentation of those discussions.

Table 3: Capacity Weighted Distance: Key Elements and Issues

|  |
| --- |
| **Capacity Weighted Distance** |
| **Key Elements**   * Capacity Weighted Distanceuses capacity and distance in combination which more closely reflects the TAR NC Article 8 counterfactual. * It allocated revenue on the above basis. * Three fundamentals are combined: Forecasted Contracted Capacity, Allowed Revenue and the average distance between Entry and Exit points. * Article 4.1 of TAR NC recognises that distance is a cost driver for transmission services alongside technical or forecasted contracted capacity. * The assumption is made that gas can from to/from every Entry Point to every Exit Point. * Capacity Weighted Distance retains a locational signal. * Distances are the average shortest network path between all Entry and Exit Points because it is not a flow-based model. |
| **Issues**   * Most points at the extremities of the network have higher charges than those in the relative centre (and those derived in the Long Run Marginal Cost LRMC). This is due to the methodology which does not reflect proximity to the nearest entry point. * Ofgem have identified an issue for consumers in their 0621 rejection letter relating to higher costs for consumers located in more remote locations. * The locational signal may have behavioural consequences which are unlikely to provide any short term cost savings and could distort investment signals * Distances are averaged which does not reflect physical flows on the network. * Forward looking investment signals are not provided in CWD. |

Table 4: Postage Stamp Key Elements and Issues

|  |
| --- |
| **Postage Stamp** |
| **Key Elements**   * Postage Stamp uses Forecasted Contracted Capacity and allocates Allowed Revenue on this basis. * All prices at Entry Points are uniform. * All prices at Exit Points are uniform. * Postage Stamp does not produce a locational signal. * Postage Stamp is not designed to be cost reflective, rather it is aimed at cost recovery. * Postage Stamp is a simpler methodology than LRMC and CWD. * Postage Stamp is broadly consistent with the ongoing Electricity TCR – only for the treatment of residual charges and the recovery of historical sunk costs[[4]](#footnote-6). |
| **Issues**   * Without locational signals, customers have no incentives as to where to locate efficiently, with respect to costs they would impose on the network, specifically power stations (taking into account Electricity Charging is locational and could be inconsistent)[[5]](#footnote-7). * Postage Stamp is not designed to give locational signals. * Forward looking investment signals are not provided in Postage Stamp. |

After consideration of the key elements and issues for Postage Stamp and CWD, Workgroup then chose to highlight below the additional elements to either CWD or PS which are contained with Modifications 0678A-J.

The tables below (Tables xx and yy) are a presentation of those discussions.

|  |
| --- |
| **Additional Elements/key variants** |
| **Key Elements**   1. Optional charge |
| **Issues** |

**Consider Ofgem five principles as stated in 0621 rejection letter:**

In their decision letter dated 20 December 2018 on UNC0621/A/B/C/D/E/F/H/J/K/L: Amendments to Gas Transmission Charging Regime, Ofgem stated[[6]](#footnote-8):

TAR NC does not prescribe what the RPM should be, but requires Ofgem, as the NRA, to assess the compliance of the RPM against five principles:

1. Reproducibility – network users should know the methodology to derive tariffs and should be able to reproduce the tariff calculations;
2. Cost-reflectivity – tariffs should reflect the costs incurred by the TSO;
3. Non-discrimination – to the extent possible, NRAs should avoid cross-subsidies where some network users pay for others;
4. Volume risk management – this is to ensure that significant volume risk is not assigned to final consumers;
5. Non-distortion of cross border trade – the RPM should ensure non-distortive economic signals for cross-border trade.

In consideration of the above Workgroup noted…

## Integration of RPM, FCC, Revenue Recovery and Existing Contracts

When analysing all of the 0678 suite of Modifications, Workgroup discussion focussed on the interactions between the RPM, FCC, Revenue Recovery and Existing Contracts. Within the Workgroup there were a wide variety of views held by Workgroup participants.

Some Workgroup participants questioned the need for such a complex method of calculating prices. In particular, they highlighted the need for a second calculation run to adjust reference prices to cater for anticipated revenue under recovery arising from Storage and interruptible capacity discounts.

Proposers of Modifications were asked to consider providing more clarity as to how they determined the method they have applied.

Some Workgroup participants challenged the implementation of CWD in this way, highlighting concerns relating to distortion grounds, since they felt it was a revenue recovery reference price adjustment being recovered through geographically different charges rather than a flat (‘postalised’) approach, noting that this is currently done at Exit.

Proposers of Modifications 0678/A/B/C/D/E/F/G/H/I/J clarified that their Modifications calculate an adjustment within the RPM for the anticipated shortfall of interruptible and storage discounts (and in the case of Modification 0678B, any anticipated under recovery from the application of the Optional Capacity Charge) which is calculated in the same manner. Workgroup clarified that this is effectively re-scaling (Article 6.4c). However, the impact for CWD and PS methodologies is different.

The Workgroup considered the current arrangements, the principle drivers, tariff year modelling, allowed revenue and netting-off of allowed revenue for existing contracts.

Some Workgroup participants believed there would be some distortion in charges between contract prices and “new” capacity prices as a result of netting-off allowed revenue for existing contracts. It was noted that the TAR NC does not cover how to treat existing contracts within the RPM. Consideration needs to be given to the interaction between under recovery of costs and the revenue recovery approach.

Some Workgroup participants believed there was a need for a mechanism to allow more equitable revenue recovery via the revenue recovery charges.

**Move Revenue Recovery to after FCC:**

**Revenue Recovery**

A Workgroup participant noted that the Distribution Networks (DNs) are currently not exposed to a commodity charge, however they were of the view that under Modification 0678 the DNs would pick up a capacity recovery charge in the future, along with other Users.

The Workgroup considered the K Factor and the process of adjustments.

A Workgroup participant expressed concern about within year recovery and the volatility in tariffs. It was noted that National Grid have an incentive to forecast accurately and limit the use of K. Some Workgroup participants raised the issue of why, in their view, the industry should be subject to the volatility of information created and provided by National Grid. Some Workgroup participants wished to emphasise that National Grid should minimise the exposure for the industry because in their view, any forecasting error is pushed onto Shippers, and Users will see a change in prices for any error.

The Workgroup considered the elements that factor into the forecast and the way in which data is derived. For example, the long-term forecast will be dependent on production.

National Grid drew the attention of the Workgroup to its Licence obligation[[7]](#footnote-9), which is to set charges in a way that does not under or over recovery in any given formula year and it has the ability to set revenue recovery charges to help facilitate this.

**Special Condition 2A. Restriction of NTS Transportation Owner Revenue Part A Licensees obligation and Special Condition 3A. Restriction of NTS System Operation Revenue Part A Licencee’s Obligation cover this.**

**Under 3A Part A:** 3A.2 The Licensee, in setting NTS System Operation Charges, must use its best endeavours to

ensure that, in Formula Year t, NTS System Operation Revenue (SORt) does not exceed

Maximum NTS System Operation Revenue (SOMRt).

Under 2A

2A.2 The Licensee, in setting NTS Transportation Owner Charges, must use its best

endeavours to ensure that, in Formula Year t, NTS Transportation Owner Revenue

(TORt) does not exceed Maximum NTS Transportation Owner Revenue (MRt).

**0678C and Revenue Recovery**

The Proposer of Modification 0678C, explained that the exclusion of revenue recovery charges at Storage points which have not been booked for “own use gas” purposes is consistent with the findings of Ofgem in its Gas Transmission Charging Review (GTCR)[[8]](#footnote-11) on the basis that flows to and from storage (or capacity booked at an entry to deliver gas to, or an exit point to ultimately offtake from) have already made a contribution to historical cost recovery.

The Proposer of 0678C explained further that this exclusion ensures the charging structure accommodates common practice of storage operators in relation to the acquisition and subsequent release of entry capacity to Users of their facilities. In a number of cases, entry capacity at storage facilities will have been acquired by a nominated shipper user, often to trigger National Grid investment to build and release the required volume of capacity. The sale of storage services by operators is often bundled with the transfer of entry capacity from the nominated shipper holder of entry capacity to the entity acquiring storage services. If a Revenue Recovery Charge is applied to Existing Capacity transferred at any time after the 07 April 2017 “cut-off date” then, in the case of Modification 0678, the acquiring User would be subject to a Revenue Recovery, on the basis that it is not the original holder of the Existing Capacity. The Proposer of Modification 0678 stated that this approach will result in the additional costs being incurred by the storage operator and is, quite clearly discriminatory. The charging arrangements should not differentiate between Users, using the same product, but acquiring indirectly via a third party. for example, the storage operator not being a UNC registered User.

Some Workgroup participants noted that 0678C, 0678E and 0678F do not provide protection for all storage facilities. In particular, they don’t provide protection for:

a) Rough (Easington) and existing entry capacity explicitly bought for Rough when it was a Storage facility and

b) Abandoned Storage at Bacton and as such appear to discriminate between one class of Storage and other classes. Workgroup participants noted Modification 0662 has not yet been finished nor implemented and of course is separate to 0678.

Other Workgroup participants noted that Rough has now been defined as a production site.

The Proposer of 0678C went on to state that Storage is exempt from Revenue Recovery charges in line with Ofgem’s GTCR position. Further, all other contracts are exposed to revenue recovery charges including pre-April 2017 contracts, see SSE’s legal (QC) advise on Article 35 in Modification 0678C Appendix 2. This is permitted because the separate revenue recovery charge was not a reserve price fixed at the time of booking and therefore the tariff was not a fixed price in practice. The Proposer of 0678C further highlighted that failure to apply a revenue recovery charge to these existing contracts will result in distortion and discrimination between existing contract holders and new entrants which will have a negative impact on competition, as noted in Ofgem’s 0621 decision letter which identifies a large differential in pricing between them.

## Forecasted Contracted Capacity

Some Workgroup participants stated that the design of the FCC Methodology, in their view, is the most fundamental element of creating charges. This is due to the fact that the FCC is deemed to be the denominator for how Transmission revenue is smeared across those putting gas on and taking it off the Transmission system, particularly under CWD. Therefore, the distribution arising from the use of the FCC needs to be fair and equitable and in the interest of consumers.

Other Workgroup participants noted that fair and equitable must be defined. Further, they wished to have noted that in their view an accurate and predictable FCC delivers predictable charges.

PY suggested justification and assumptions for FCC/RPM here (for Article 26)

**Forecasted Contracted Capacity**

The topic of Forecasted Contracted Capacity was discussed at length by the workgroup on a number of occasions. The discussions held are summarised, by date below.

SHOULD THIS BE ORDERD BY DATE OR SHOULD WE HAVE 1 PARAGRAPH SUMMARY

The Workgroup noted that the initial Forecasted Contracted Capacity (FCC) was provided with the sensitivity tool on Friday 21 February 2019, published on Monday 25 February 2019, with a single set of FCC values for each year along with the methodology to derive it.

Some Workgroup participants wished to have more clarity on the options available in relation to incorporating PARCA Reservations and new sites, further noting that PARCA should be considered as enduring contracts within the proposed FCC methodology.

In relation to the initial urgent timescale agree by Ofgem, and during Workgroup meetings between 29 January and 06 March, the Workgroup expressed their deep concern and disappointment that National Grid had not provided a fully documented FCC Methodology.

National Grid were of the view that what they had provided by way of a presentation on the FCC was sufficient.

Some concern was expressed about the possible variations in relation to the Principles on which the FCC Methodology should be based. Some Workgroups participants stated that the Principles be a fair and equitable distribution of costs for users. Some Workgroups participants stated that there were a number of options that could be considered. For example, quantity is booked, quantity paid for and quantity flowed against. The Workgroup asked National Grid to provide further clarity on the Principles and how these would be applied, within the Methodology.

The Workgroup also wanted to understand the timing for the provision of the Methodology, with some expressing the view that it should be set out in the Uniform Network Code. Some Workgroup participants expressed concern about the timing of the visibility of the FCC values. Workgroup participants were concerned that the late arrival of the FCC values did not allow time for an appropriate impact assessment. National Grid stated that it expected the methodology to accompany the UNC consultation (which according to the timetable should begin on 08 March 2019), along with clarification on the approach.

Some Workgroup participants believed that further clarification was required on forecasting flows, along with actual data to date, which could be utilised to demonstrate the accuracy of previous forecasts. The Workgroup recognised that there is opportunity for error. The Workgroup wanted to understand the size of the potential error/tolerance in historical forecasts of flows.

A Workgroup participant suggested Shipper inputs into flows should be required. Inputs and contributions were invited from any workgroup participant.

National Grid was concerned about the flexibility and change governance with tying wholly into the UNC, as it was anticipated yearly changes may be required to enable periodic reviews. Some Workgroup participants expressed concern with the level of control and visibility for change. It was noted by some that any forecast will have a degree of error and having a methodology statement may be preferable initially over an approach in the UNC.

A participant expressed concern about not having the FCC methodology (as at 31 January 2019) and that this could hinder the development and assessment of potential Alternatives.

In relation to the governance arrangements to support an FCC methodology, Ofgem confirmed that there would need to be suitable justification for any Ofgem involvement.

**Ofgem veto for proposed changes to FCC Methodology 06 March 2019**

Workgroup participants noted that draft Modification 0678 v3 enables Ofgem to veto proposed changes to the FCC Methodology and questions whether such an obligation can be put on Ofgem via the UNC. Workgroup participants suggested this may be better placed in Section 3 of the Modification.

**11 February 2018**

A sensitivity tool (spreadsheet) for analysis of Modification 0678 from National Grid was published on Saturday 09 February 2019.

As at 11 February 2018, National Grid had not written the FCC Methodology. As such Workgroup discussed the information given. This was an initial approach to the FCC methodology.

National Grid noted that the FCC is not defined in TAR NC. The values to be used are a hybrid of historical (preceding year) and forecasted values.

Following a presentation by National Grid Workgroup Participants asked for the following points to be noted:

* PARCAs reserved capacity and substitution consequences need to be added in.
* When assessing ‘maximum of…’, consideration must be given to the Obligated Capacity as adjusted for substitution.
* Clarification required as to how forecasted values relate to those values given in the various FES scenarios[[9]](#footnote-12).
* Clarification of treatment of new entry and exit points (possible use of proxy) and points due for closure.
* Consider five-year historical data (for each day: maximum and minimum values to be discarded then average of the three remaining).
* DN 1 in 20 forecast capacity booking for each offtake point (this data is not currently publicly available; July refinement timing of this data may not be suitable).

Workgroup Participants noted Ofgem’s 0621 letter reflecting that the values being proposed must meet the criteria: actual utilisation and capacity bookings.

Workgroup agreed that the current plan is an improvement on using obligated capacity.

**20 February 2019**

Some Workgroup Participants noted that National Grid had not provided an FCC methodology and as such severely limited the opportunity for others to develop an Alternative FCC solution. Some Workgroup participants requested that an extension be sought. Others did not agree with this view.

Within the meeting, Ofgem confirmed that they had no intention to adjust the timeline as outlined in their 0678 Urgency decision letter.

Some Workgroup participants asked for clarification on what would happen if Ofgem’s final decision is appealed or Judicial Review sought and whether Ofgem’s decision would stand whilst the Appeal took place. Ofgem suggested Workgroup Participants engaged their own Legal Counsels in relation to this question.

**FCC not in UNC: (26 February 2019)**

Some Workgroup participants noted concerns over the potential for the FCC to be changed too frequently and there is a trade-off to be considered between certainty and flexibility**.**

[Some Workgroup participants noted that the lack of reference of the forecasted contracted capacity methodology within the UNC creates a governance void in respect of the statement. (26 February 2019)]

[Reference to consultation and Ofgem veto is missing in Modification 0678 v2]

**FCC values for values for Storage Sites, Interconnector UK and BBL**

**04 March 2019**

Workgroup participants discussed information supplied by Energy UK relating to Storage sites, Interconnector UK and BBL Interconnector. Energy UK highlighted that the forecast FCC values for storage sites, IUK And BBL were absent in the sensitivity tool. Energy UK highlighted that this does not seem to recognise that there are expected to be Exit flows at these points during a year.

As a result of the above National Grid took an action to review the forecast elements of the FCC values for Storage Sites, IUK and BBL.

**05 March 2019**

Workgroup participants noted that a zero value for these sites should not be correct and asked National Grid to review the forecast elements of the FCC values for Storage Sites Interconnector UK and BBL. National Grid clarified on 05 March 2019 that no forecast values exist for these and this will continue. This is because the forecast in the Ten Year Statement is zero for these sites (average daily value is used).

Some Workgroup participants noted that anticipated booking should be reflected in the FCC Methodology. Interconnector UK acknowledged that this is a difficult issue.

**FCC and treatment of closed sites 04 March 2019**

Workgroup participants noted information supplied by Energy UK relating to Closed Sites (Avonmouth, Deeside, Glenmavis, Dynevor, Partington and there may be others). Workgroup noted that these sites have historic flows in 2017/18 so they keep rolling forward for the next 5 years and some workgroup participants questioned whether this is the correct assumption to use. Workgroup sought clarification from National Grid as to how the issue of Closed Sites could be better handled within the FCC Methodology, noting the impact is that an ability to forecast charges for future years is somewhat limited. Energy UK suggested it may be better to only use the Y-2 values, or some kind of average across a number of years but this should be a moving average.

As a result of the above National Grid took an action to review the treatment of Closed Sites and later confirmed that Closed Sites would not be removed from the model.

National Grid also took an action to review the effect on the FCC methodology and the potential for adaption in treatment of these sites in the FCC Methodology. National Grid later confirmed that a sense check will be considered and may be included in the FCC Methodology Statement.

Workgroup participants noted information supplied by Energy UK relating to sites with PARCA stage 2 reservations. These appear where the site is an existing site, if the site is new the values are absent. Reservations exist from 2020 or 2021. (Drax 65 GWh, Eggborough 102 GWh, Tilbury Marshes 21 GWh, Hirwuan 28 GWh, Ferry bridge 80 GWh, Keadby 2 41 GWh, there may be others). Total 337 GWh or around 6% of FCC in those years. Those sites are therefore unable to use the model to produce an estimate of their charges as per Article 7a, other sites’ charges will be higher than they should be. Workgroup participants noted that National Grid had indicated it would be accommodating these sites/PARCAs and expected to see these in the distance matrix from the relevant year.

**05 March 2019**

Examples of Close Sites are Theddlethorpe, Avonmouth, Dynevor Arms.

All Workgroup participants noted that the treatment of these sites should be addressed formally in the FCC Methodology. Some Workgroup participants stated that if these sites are left in at a non-zero FCC value there would be a distortion to the prices, albeit probably small. Workgroup requested that the FCC Methodology reflect the situation in reality as closely as possible.

Workgroup discussed whether National Grid should be given some discretion as to the treatment of closed sites in the FCC Methodology and concluded that clarity in the treatment and consistency going forward was required (noting that the FCC Methodology is expected to be in place indefinitely, with a periodic review).

Workgroup noted that as of 05 March 2019 the FCC Methodology Statement had not yet been put before Workgroup (and not therefore published by National Grid).

National Grid noted for Workgroup that as at 05 March 2019, the sites will be zeroed out in the sensitivity model and the materiality of this will be noted; closed sites will not be removed from the model. A sense check or adaptation will be considered and may be included in the FCC Methodology Statement.

**FCC values for DNs 05 March 2019**

REQUIRES UPDATE – NEED SUMMARY OF THE PRESENTATIOSN THE DNs SENT IN

Workgroup participants noted the concern expressed by DN Workgroup participants over the values coming out of the FCC for DN sites; Cadent noted on 05 March 2019 that the data in the FCC was 9% lower than DN capacity bookings across all Cadent LDZs. National Grid confirmed the forecast is based on Y-2.

Workgroup participants noted that there would be an impact of any change to FCC numbers which may be forthcoming.

**28 March 2019**

National Grid confirmed that discussions with the GDNs had led to a recognition that a separate approach for GDN offtake capacity forecasts was appropriate for the FCC Methodology.

Workgroup Participants discussed ‘discrimination’ and whether this approach could be applied to all points in the future.

**RPMs and Incremental Capacity**

Workgroup participants noted that both the CWD and the PS approaches remove the LRMC approach from the UNC, therefore they do not provide investment signals related to the transmission network. Both are cost allocation models, and neither are cost reflective in regard to incremental capacity and any subsequent NTS investment required.

Workgroup participants noted that Ofgem’s rejection letter for Modification 0621 dated 20 December 2018 stated[[10]](#footnote-13):

*“Our current view is that the three RPMs proposed by the UNC621 Modifications (other than the elements we have compliance concerns about) are better approaches to the recovery of network costs than the status quo. This is because all users who benefit from access to a safe, reliable, flexible gas transmission network would more equally share the costs of the network in proportion to their ability to use it.”*

NEED A SUMMARY TO CLOSE THIS SECTION

**28 March 2019**

Preamble: where the FCC M sits in each mod in code or out…

Workgroup provided a summary of the FCC Methodology as follows in Table 5.

Table 5: Workgroup summary of its FCC Methodology review

|  |
| --- |
| **Positive Aspects** |
| * Workgroup Participants noted that the FCC Methodology v1 has been broadly adopted by all Proposers. (Modification 0678A proposes National Grid produce an FCC Methodology.) * A Workgroup Participant noted that the FCC methodology may lead to reduced under or over recovery. * Workgroup Participants noted that the FCC Methodology will be reviewed via the NTSCMF and if the Methodology is incorporated into the UNC, any Code party can raise a Modification at any point thereafter. |
| **Areas for Improvement** |
| * Some Workgroup Participants noted the different treatment for GDNs based on their Licence obligations as they stand; RIIO-GD2 may change this. * Some Workgroup participants noted that a small change in DN bookings would have a very large effect on other Users. * Some Workgroup participants asked for clarification on how Users can communicate anomalies (what is the right of recourse on the dataset). Modification 0678A specifically provides for this. |
| **Areas of Disagreement** |
| * Some Workgroup Participants suggested that the treatment of closed sites should be clarified rather than dealt with on an exception basis. |

Ofgem asked National Grid to consider the materiality of the changes discussed as being treated as exceptions. National Grid stated that the FCC values produced to date are indicative only.

**Revenue Recovery**

**NEED PREAMBLE FOR REVENUE RECOVERY**

**Revenue recovery and 0678C (from Jeff Chandler)**

The Proposer of Modification 0678C provided the Workgroup with extensive commentary on revenue recovery in relation to Modification 0678C.

The Proposer of Modification 0678C stated that exclusion of revenue recovery charges at Storage points which has not been booked for “own use gas” purposes is consistent with the findings of Ofgem in its Gas Transmission Charging Review on the basis that flows to and from storage (or capacity booked at an entry to deliver gas to, or an exit point to ultimately offtake from) have already made a contribution to historical cost recovery.

Further, this exclusion ensures the charging structure accommodates common practice of storage operators in relation to the acquisition and subsequent release of entry capacity to Users of their facilities. In a number of cases, entry capacity at storage facilities will have been acquired by a nominated shipper user, often to trigger National Grid investment to build and release the required volume of capacity. The sale of storage services by operators is often bundled with the transfer of entry capacity from the nominated shipper holder of entry capacity to the entity acquiring storage services. If a Revenue Recovery Charge is applied to Existing Capacity transferred at any time after the 07 April 2017 “cut-off date” then, in the case of Modification 0678, the acquiring User would be subject to a Revenue Recovery, on the basis that it is not the original holder of the Existing Capacity. This approach will result in the additional costs being incurred by the storage operator and is, quite clearly discriminatory. The charging arrangements should not differentiate between Users, using the same product, but acquiring indirectly via a third party. for example, the storage operator not being a UNC registered User.

The Proposer of Modification 0678C stated that in 0678C Storage is exempt from Revenue Recovery charges in line with Ofgem’s GTCR position. All other contracts are exposed to revenue recovery charges including pre-April 2017 contracts. This is permitted because the separate revenue recovery charge is not a reserve price fixed at the time of booking. (This is similar to the existing charging regime where a fixed capacity price is paid, and a floating commodity price applied to recovery all of the transporter’s allowed revenue.). Failure to apply a revenue recovery charge to these existing contracts will result in distortion and discrimination between existing contract holders and new entrants which will have a negative impact on competition, as noted in Ofgem’s 0621 decision letter which identifies a large differential in pricing between them.

**Revenue Recovery and 0678E/F/G/H**

The Proposers of Modification **0678E and 0678F** stated that the Modification 0678E and 0678F exclude all capacity held at storage points from the application of a Revenue Recovery Charge. The Proposers believe the exclusion of capacity booked at Storage points is consistent with the findings of Ofgem in its Gas Transmission Charging Review[[11]](#footnote-14) on the basis that flows to and from storage (or capacity booked at an entry to deliver gas to, or an exit point to ultimately offtake from) have already made a contribution to historical cost recovery. In addition, the exclusion of Revenue Recovery Charges on adjusted Capacity at storage will ensure that storage owners are able to offer storage services to the third party Users on an equivalent basis to Users who acquired capacity prior to and including 05 April 2017.

The Proposers of Modification 0678G and 0678Hstated that their Modifications 0678G and 0678H exclude all Existing Capacity held at storage points from the application of a Revenue Recovery Charge. The Proposers believe that it is reasonable that non-storage Existing Contract holders would expect to make a contribution to revenue under-recoveries at the time of acquiring capacity, with the exception of Existing Contracts held at storage. The Proposer believes that excluding Existing Contracts from the application of a Revenue Recovery would be discriminatory, exposing any non-Existing Contract capacity bookings to an unfair distribution of costs, resulting in charges which are unreasonably high.

DOES WORKGORUP WISH TO ADD ANYTHING ELSE ABOUT REVENUE RECOVERY?

## Existing Contracts

NEED A PREAMBLE

Some Workgroup participants requested clarification from National Grid as to the treatment of netting-off existing contracts volume and revenue, against Ofgem’s views in their Modification 0621 Decision Letter relating to price differentials (see Annex 2: page 15)[[12]](#footnote-15).

A Workgroup participant noted that other EU TSOs do not net off within the FCC value. It was also noted that these TSOs do not offer fixed prices as is the case within GB. For estimated under recovery, approaches can include or exclude existing contract revenue recovery. A Workgroup participant believed a commodity recovery charge would be consistent with TAR NC and was not explicitly ruled out in the Modification 0621 Decision.

A Workgroup participant believed that the Workgroup needs to consider the impact of including existing contracts in the weighting of cost step in the RPM calculation.

The Workgroup acknowledged there would be a price difference as a result of Article 35. Some Workgroup participants wanted to understand the materiality of this and where the residual charges would reside.

Some Workgroup participants clarified that under the current regime, existing capacity contractspay a commodity based Revenue Recovery Charge only if the capacity is utilised. Under Modification 0678, it is proposed that in the new regime a capacity based Revenue Recovery Charge will apply on existing contracts, with the exception of existing storage contracts, regardless if the existing capacity is utilised or not. There is concern that the proposal may not be compliant to TAR Article 35

Some Workgroup participants believed there was a need to review capacity hand-backs.

In its extension letter for Modification 0678, Ofgem requested that National Grid provide a specific review of Existing Contracts to include analysis on price differentials [[13]](#footnote-16). Ofgem stipulated delivery of this work by 15 March 2019. As of Workgroup re-commencement on Thursday 28 March 2019 this work had not yet been delivered.

**28 March 2019**

Workgroup participants noted that the output of the National Grid/Baringa analysis had not yet been published and National Grid could not yet give a date when this was to be expected.

Workgroup participants expressed concern that the analysis may prompt Proposers to amend their Modifications, with delaying effects on the ability to finalise the Workgroup Report.

Workgroup participants noted that some Modifications have different treatment of Revenue Recovery charge for Existing Contracts.

**0678A**

It was noted by the Workgroup that the intent of Alternative 0678A is for it be aligned with Modification 0678 apart from the weightings and distance.

**Revenue Recovery and Existing Contracts**

**31 January 2019**

One Workgroup participant believed that the Modification 0678 Solution does not cover a revenue recovery charge for the storage solution.

The Workgroup considered abandoned storage capacity, and that Modification 0662 held the liability of capacity, and dependent on the qualification, charges were not attracted.

National Grid was not proposing to change the capacity process. ~~The Workgroup considered if a Capacity Handback concept would be a valid Alternative or not.~~

Ofgem stressed that any Modification needs to be compliant with TAR NC.

National Grid recognised that abandoned capacity needs to be dealt with, however this was out of scope for this Modification and could be addressed after the implementation of changes. There was recognition that it was unfair treatment of capacity for this purpose, however this could be remedied at a later point.

The Workgroup considered the Storage Long Term entry capacity if traded before April 2017 and deduced it will not attract the top-up charge.

NEED TO INCLUDE A STATEMENT ON ABANDONED CAPACITY

**Secondary Trade of Existing Capacity 20 February 2019**

Workgroup considered the effect on capacity which has been traded in a secondary manner. National Grid confirmed that tracing capacity trades will be a challenge for Gemini.

A Workgroup Participant suggested that since National Grid has tracked capacity for storage until 06 April 2017, asking whether the same process be applied to other capacity traded before 06 April 2017.

The Proposers of Modifications 0678/A/B confirmed that these Modifications protect secondary traded capacity up to 06 April 2017 from the application of the revenue recovery charge for storage sites.

The Proposer of Modification 0678B confirmed that this Modification protects secondary traded capacity up to 06 April 2017 from the application of the revenue recovery charge for all existing contracts.

The Proposers of Modifications 0678/A/B confirmed that these Modifications do not protect secondary traded capacity for all existing capacity contracts made after 06 April 2017.

The mechanism for determining who is protected (prior to 06 April 2017) is the same for both Modifications 0678 and 0678B.

The Proposers of Modifications 0678G and 0678H confirmed that these Modifications protect secondary traded capacity up to 06 April 2017 from the application of the revenue recovery charge for storage sites.

Workgroup participants asked for clarification on the effect of transfer of title - traded historical capacity contracts (for capacity bought before April 2017) and whether they would attract revenue recovery charges Workgroup requested clarification of who the liability holder is.

National Grid clarified that for 0678, if contracts were traded before entry into force of TAR NC (06 April 2017) then revenue recovery would continue; if contracts are traded after this date then the revenue recovery charge will apply.

WHAT IS THE ISSUE?

WHAT ARE THE POSITIVES?

WHAT ARE THE AREAS OF DISAGREEMENT?

## Multipliers (Article 13 of EU TAR NC)

Multipliers are a means of adjusting the annual reference price for other capacity product specific auctions and they are a feature of the current regime. At present adjustments to shorter term Capacity are either “no adjustment or they are discounts (up to 100% discount). All Modifications include provision for capacity product specific multipliers (applied to the Reference Price to determine Reserve Prices) which is also provided for under TAR NC Article 13 where certain provisions are required:

*Article 13*

**Level of multipliers and seasonal factors**

1.   The level of multipliers shall fall within the following ranges:

|  |  |
| --- | --- |
| (a) | for quarterly standard capacity products and for monthly standard capacity products, the level of the respective multiplier shall be no less than 1 and no more than 1,5; |

|  |  |
| --- | --- |
| (b) | for daily standard capacity products and for within-day standard capacity products, the level of the respective multiplier shall be no less than 1 and no more than 3. In duly justified cases, the level of the respective multipliers may be less than 1, but higher than 0, or higher than 3. |

2.   Where seasonal factors are applied, the arithmetic mean over the gas year of the product of the multiplier applicable for the respective standard capacity product and the relevant seasonal factors shall be within the same range as for the level of the respective multipliers set out in paragraph 1.

3.   By 1 April 2023, the maximum level of multipliers for daily standard capacity products and for within-day standard capacity products shall be no more than 1,5, if by 1 April 2021 the Agency issues a recommendation in accordance with Regulation (EC) No 713/2009 that the maximum level of multipliers should be reduced to this level. This recommendation shall take into account the following aspects related to the use of multipliers and seasonal factors before and as from 31 May 2019:

|  |  |
| --- | --- |
| (a) | changes in booking behaviour; |

|  |  |
| --- | --- |
| (b) | impact on the transmission services revenue and its recovery; |

|  |  |
| --- | --- |
| (c) | differences between the level of transmission tariffs applicable for two consecutive tariff periods; |

|  |  |
| --- | --- |
| (d) | cross-subsidisation between network users having contracted yearly and non-yearly standard capacity products; |

|  |  |
| --- | --- |
| (e) | impact on cross-border flows. |

The Proposal as outlined in Modification 0678 aims to achieve compliance with Article 13 of Regulation 2017/460 and, whilst this is an Interconnection Point only article under TAR NC, National Grid has proposed to apply one methodology for shorter term multipliers across all Entry and Exit points. The EU Tariff Code permits multipliers within ranges for different capacity products. These ranges have the potential to increase or decrease prices relative to the annual reference price.

National Grid stated that it has proposed to apply multipliers of one (1.0) for all capacity products on the basis that it had not identified a need to incentivise procurement of one capacity product over another (i.e. to incentivise long term over short term or vice versa) and therefore this aspect of the pricing methodology would not influence Users’ capacity procurement strategy if the payable price is ultimately the same.

The Workgroup supported the proposed multipliers and noted that they were within the range permitted by Regulation 2017/460 Article 13(1). Modifications 0678/A/B/C/D/E/F/G/H/I/J all have the same multipliers of one (1.0).

Whilst multipliers (as a definition with associated ranges) are only mandated at Interconnection Points under the EU Tariff Code, the Proposals apply this approach to all Entry and Exit points. National Grid clarified that this was done with the aim of having one methodology for all points.

## Interruptible Discount

The Workgroup explored the impacts on pricing stability of historical zero priced interruptible capacity products. It also considered the requirements contained in TAR NC Article 16 in relation to the extent of the future discount which can be applied to determine Reserve Prices for Interruptible Capacity:

*Article 16*

**Calculation of reserve prices for standard capacity products for interruptible capacity**

1.   The reserve prices for standard capacity products for interruptible capacity shall be calculated by multiplying the reserve prices for the respective standard capacity products for firm capacity calculated as set out in Articles 14 or 15, as relevant, by the difference between 100 % and the level of an *ex-ante* discount calculated as set out in paragraphs 2 and 3.

2.   An *ex-ante* discount shall be calculated in accordance with the following formula:

|  |  |
| --- | --- |
|  | Diex-ante = Pro × A × 100 % |

Where:

|  |  |
| --- | --- |
|  | Diex-ante is the level of an *ex-ante* discount; |

|  |  |
| --- | --- |
|  | Pro factor is the probability of interruption which is set or approved in accordance with Article 41(6)(a) of Directive 2009/73/EC pursuant to Article 28, and which refers to the type of standard capacity product for interruptible capacity; |

|  |  |
| --- | --- |
|  | A is the adjustment factor which is set or approved in accordance with Article 41(6)(a) of Directive 2009/73/EC pursuant to Article 28, applied to reflect the estimated economic value of the type of standard capacity product for interruptible capacity, calculated for each, some or all interconnection points, which shall be no less than 1. |

3.   The Pro factor referred to in paragraph 2 shall be calculated for each, some or all interconnection points per type of standard capacity product for interruptible capacity offered in accordance with the following formula on the basis of forecasted information related to the components of this formula:

|  |  |
| --- | --- |
|  | Formula |

Where:

|  |  |
| --- | --- |
|  | N is the expectation of the number of interruptions over D; |

|  |  |
| --- | --- |
|  | Dint is the average duration of the expected interruptions expressed in hours; |

|  |  |
| --- | --- |
|  | D is the total duration of the respective type of standard capacity product for interruptible capacity expressed in hours; |

|  |  |
| --- | --- |
|  | CAPav. int is the expected average amount of interrupted capacity for each interruption where such amount is related to the respective type of standard capacity product for interruptible capacity; |

|  |  |
| --- | --- |
|  | CAP is the total amount of interruptible capacity for the respective type of standard capacity product for interruptible capacity. |

4.   As an alternative to applying *ex-ante* discounts in accordance with paragraph 1, the national regulatory authority may decide to apply an *ex-post* discount, whereby network users are compensated after the actual interruptions incurred. Such *ex-post* discount may only be used at interconnection points where there was no interruption of capacity due to physical congestion in the preceding gas year.

The *ex-post* compensation paid for each day on which an interruption occurred shall be equal to three times the reserve price for daily standard capacity products for firm capacity.

The discount is a product of the predicted probability of interruption allows the economic value, of the interruptible capacity product, to be taken into consideration.  National Grid referred to previously presented analysis (covering the previous ten years) to support the basis for the proposed discounts.

This can be found here:

<https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/book/2017-12/Gas%20Charging%20Review%20Presentation%20%28amended%29%20v2.0.pdf>

This analysis was reviewed under Modification 0621. ~~No change is proposed to that supported from workgroup’s review of this material under Modification 0621 moving to Modification 0678.~~

Modification 0678 contains the same proposed discounts as those proposed under Modification 0621.

National Grid recognised the views of some Workgroup participants, that attractiveness of the Interruptible capacity product is dependent upon it having a material discount to the equivalent Firm product. Overall the probability of interruption for the vast majority of sites is very low (but not zero). National Grid adopted a banding approach to determine the initial value whereby the resultant discount value was rounded up to the nearest 10%. Consequently, the expectation is a that change to this discount will only be justified where there is a material change to the frequency of interruption on the System.

The interruptible discount derived from the calculation prescribed by TAR NC Article 16 was rounded up to the nearest 10%. This recognises the “economic value” aspect of Article 16. The outcome for Modification 0678 is that the discount will be 10% and provides a stable value going forward, in that it would be unlikely to require a change based on the same approach as in the 10% derivation for some time. Any change would require a UNC Modification to implement and would include the rationale for change.

Income from interruptible capacity, and any capacity, contributes towards Transmission Services Revenue Recovery. This is in line with Workgroup expectations. The price control arrangements do not change, and National Grid will always be required to report in line with its Licence. As far as the UNC goes and tariff setting and revenue recovery alignment there are revenue mapping activities associated to this is and this is catered for in the 0678 Proposal when considering any capacity revenue, including that capacity revenue recognised under the System Operator under the NTS Licence.

A change to the 10% interruptible discount can be achieved through a UNC change. Some Workgroup participants thought this is a simplistic approach to pricing interruptible discounts. If or when this value needs to be revisited, then changes to it will follow the normal UNC change process.

## Specific Capacity Discounts

**Storage**

Modification 0678 proposes a 50% storage capacity discount. The Workgroup recognised that the requirement for application of at least a 50% discount to the Reserve Price at Storage Connection Points was proposed in order to comply with TAR NC Article 9:

Article 9

Adjustments of tariffs at entry points from and exit points to storage facilities and at entry points from LNG facilities and infrastructure ending isolation

1. A discount of at least 50 % shall be applied to capacity-based transmission tariffs at entry points from and exit points to storage facilities, unless and to the extent a storage facility which is connected to more than one transmission or distribution network is used to compete with an interconnection point.

2. At entry points from LNG facilities, and at entry points from and exit points to infrastructure developed with the purpose of ending the isolation of Member States in respect of their gas transmission systems, a discount may be applied to the respective capacity-based transmission tariffs for the purposes of increasing security of supply.

Where the Proposals are at 50% National Grid believed this to be sufficient to cover this obligation under TAR NC even if the “benefit” may be less than 50%. Where it is 50%, whilst it may not be material in influencing the charges as the amount “redistributed” that would not be paid by storage would be paid for by all other parties may not be substantial, it still does mean there are parts of charges not paid by some parties that will and therefore paid by others and all proposals should be mindful of how any redistribution is managed.

Under Modification 0678/A/B/D/G/H/I/J the Proposals are minimising any amounts redistributed across Users where charges are not levied on some parties and resulting revenues are therefore picked up in other charges by applying the minimum 50% level of discount.

Modifications 0678C/E/F propose a Storage discount of 80%. It is stated that this level of discount is proposed based on that prescribed by TAR NC Article 9 (1)[[14]](#footnote-17) in order to avoid double charging and to sufficiently reflect storage’s contribution to system flexibility and security of supply (as given in Article 9(1)) and to deliver compliance with the Regulation.

An additional paper was provided by Storengy to support the 80% discount Proposal:

<https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/page/2017-07/Storage%20Discount%20-%20A%20discussion%20document%20for%20the%20GTCR%20-%20July%202017.pdf>

Further discussions relating to storage highlighted how some Workgroup participants wished to query the implications of any Storage Discount for any new Storage facility, along with how any User Commitment would be derived. Workgroup participants also noted that User Commitment is not proposed to be changed by any of these Modifications and will continue as it is done under the current regime.

**LNG**

Article 9 of TAR NC states a discount for LNG may be applied. Under Modification 0678 National Grid does not propose that any discount be applied to LNG. However, as it is provided for under TAR NC, it is feasible that subject to review over time, this may be applied. In order to do this, National Grid has proposed it would efficient to include the LNG discount as a concept in the UNC and set the value to 0 (zero).

The Workgroup recognised the Proposal to include the potential provision for application of discount to the Reserve Price at LNG Connection Points. All Modifications propose a 0% LNG discount. Workgroup participants noted that this level can be changed in the future through a UNC Modification.

National Grid clarified that it does not recognise any of the GB assets as falling under the definition of “Infrastructure ending Isolation” (Article 9) and therefore provides for no other discounts when considering compliance with Article 9. This is similar for all proposals except UNC0678I that includes an Ireland Security Discount with links to its relevance and compliance referring to Article 9 of TAR NC.

**Ireland Security Discount (Modification 0678I)**

The Proposer of 0678I highlighted that they proposed an Ireland Security Discount of 95% to the Moffat IP Exit point for nominated supply routes from UK Beach Terminals.

The Ireland Security Discount is consistent with Article 9 as it is recognised that Ireland is an isolated market served by supplies from GB. There is no timing factor set out in Article 9 i.e. a discount is not just valid at the time isolation is ended (prior to, enabling the construction of the Moffatt interconnector), nor is there any methodology within TAR NC in how to identify infrastructure that ends isolation. In the Proposer’s view, Article 9 in combination with the guiding principles of TAR NC provide for a discount to be applied when a member state remains at risk of isolation to ensure it Ireland continues to receive gas supplies (at reasonable prices).

The dependency of Ireland is reflected in the N-1 standard which is a test whereby Member States must guarantee they can satisfy total gas demand if the largest piece of infrastructure fails on an exceptionally high gas demand day. This test applies to Moffat in the case for Ireland. To pass the test, the remaining gas infrastructure must be able to meet 100% of peak demand. As Ireland cannot meet the N-1 infrastructure standard on a national level, the UK and Ireland have adopted a joint regional approach to pass the test. This is outlined in Gas Network Ireland’s 2018 Network Development Plan.

Not all workgroup participants agreed that this is compliant with Article 9 of TAR NC specifically on the point of ‘infrastructure ending isolation’ as given in Article 9(2).

Some Workgroup participants noted that there are no plans for equivalent discounts on the Irish side relating to infrastructure ending isolation. This could suggest that the Gas Networks Ireland (GNI) and the Commission for Regulation of Utilities (CRU) do not consider Moffat Interconnector to be ‘infrastructure ending isolation’ relating to Article 9.

Other Workgroup participants noted that in relation to the RPM for Ireland, the CRU process under TAR NC in 2015 and 2018 developed a matrix LRMC RPM with the goal that any new entry should be efficient compared with Moffat. This recognises that Moffat is and continues to be (until further notice) the marginal source of gas and price setter for Irish gas consumers. Both the Irish and Northern Ireland consultations clearly state that Moffat is the marginal source of gas. GNI’s analysis for NC TAR implementation was all based around the impacts on flows from Moffat.

Some Workgroup participants commented that the Corrib field is declining and there is little progress on LNG import facilities in Ireland, therefore the Moffat Interconnector continues to be infrastructure that ends isolation, both historically and in future.

Some Workgroup participants including the Proposer of 0678I noted the Moffat Interconnector should rightly be considered important in that it links to three other jurisdictions (Northern Ireland, Republic of Ireland and the Isle of Man). There are intergovernmental treaties relating to it.

Some Workgroup participants confirmed that the Moffat Interconnector was not included in the Projects of Common Interest (PCI). However, work that was carried out in recent years to twin/double the onshore section of pipeline in Scotland was. The Proposer of 0678I highlighted that PCI projects commenced in 2013 whilst the Moffat interconnector was developed in 1994.

**Storage capacity discount WHERE DOES THIS GO NOW**

As described in reports gas storage provides shippers with access to physical flexibility to manage any physical portfolio imbalances which occur for a variety of reasons. Gas storage is an essential tool for a large number of shippers which contract directly with storage operators, but also provides wider benefits to all shippers as a result of enhanced security of supply and well-understood, significant positive externalities. These wider benefits dampen price volatility and reduce the likelihood of network constraints, gas deficit issues and cost escalation.

Based on the outputs from the draft UNC 0678 model published on 09 February 2019, an 80% discount would result in Revenue Input Adjustments of £31.3m at Entry and £27.3m at Exit, 1.8% of total allowed revenue being recovered from non-storage users.

On this basis, there is no cross-subsidy between storage and non-storage users, beyond perhaps that as a result of the security of supply and broader societal benefits (externalities) non-storage Users are net beneficiaries of the [80%] discount.

In the event that storage is not given a discount, storage assets can be expected to close prematurely as highlighted in the initial Frontier Economics report, commissioned for EUK for 621 and the Baringa report for Ofgem. Hornsea Storage has been loss making in the last 3 years, for gas storage operators it is a question of how long assets can be maintained without the prospect of making economic returns. In the event of closure other non-Storage users will pay for the missing revenue no longer paid by storage users and will have less security of supply, higher wholesale gas costs and higher system operating costs.

Ofgem stated that any discount above 50% would need a clear justification. The derivation of the 80% is based on analysis carried out by WWA as set out in its report to the Gas Storage Operators Group which the Proposer contends provides sufficient evidence to justify the proposed level of discount.

In addition to providing a quantitative basis for establishing a discount of [80%] the report sets out numerous benefits of storage which reinforce the case for a discount, which when considered in aggregate, might reasonably result in a level greater than [80%]. In summary, these benefits include:

* Storage flows are highly correlated to demand, or changes in demand. The main driver for this is that demand is the primary driver of price (again a very high correlation exists between these variables) and Users employing storage to capture the intrinsic value associated with market price spreads over various durations (commonly known as time shifting the value of gas). Both National Grid and customers benefit from this interaction between storage flows and demand/price as it provides assistance in balancing the network while dampening price volatility and delivering positive externalities, or societal benefits, by reducing price spreads across a range of time periods.
* Storage delivers transmission benefits in terms of avoided investment in additional capacity. The fact that it is embedded in the network, close to demand, and operates in harmony with changes in demand means that storage delivers significant cost savings to the NTS and ultimately customers.
* Security of supply is enhanced by gas storage. Gas stored in the facilities provides cost effective and reliable insurance against supply disruptions and demand spikes. The benefits will be twofold: delivering gas to the market in which it is located; and dampening the price of gas by adding volume to the available supply.

Modifications 0678E and 0678F propose a storage discount of 80%. The justification for this level of discount is set out in the WWA supporting paper[[15]](#footnote-18)

## NTS Optional Charging arrangements

Under the current charging arrangements, there is a specific charge entitled NTS Optional Commodity Rate (also known as ‘shorthaul’). The purpose of this charge has been to discourage inefficient bypass of the NTS by offering an optional charge in place of all commodity charges to encourage use of the NTS.

Under 0678 and its Alternatives, there are a range of methods by which managing inefficient bypass of the NTS is incorporated into the overall methodology.

Modifications 0678, 0678A, 0678C, 0678E and 0678F contain no provision for an additional optional charge to manage the avoidance of inefficient bypass of the NTS. National Grid is of the view that it is not necessary to include such a charge in its Proposal in order to have a compliant Modification. National Grid has raised Review 0670R with the aim of achieving a wholesale review of the most efficient mechanism to incorporate a means of discouraging inefficient bypass of the NTS as part of the overall transportation charging framework.

Some Workgroup Participants noted that the existence of 0670R could be construed as tacit acceptance that a ‘shorthaul’ type concept is required, which in turn highlights this Modification 0678 could be seen as being incomplete. This leads to a fragmented approach. Compliance with EU Regulation is essential, and the Workgroup must also consider Proposals as measured against all Relevant Objectives.

National Grid clarified it believed the Modification 0678 was complete and noted that 0670R is not complete and therefore its conclusions are not yet known. RWE clarified that 0678A was also complete.

Other Workgroup participants supported the view that a ‘shorthaul’ type concept is not required to achieve compliance with TAR NC.

Do other Proposers agree?

**NTS Optional Charge included in Modifications 0678B, 0678D, 0678G, 0678H and 0678J** – emphasising NTS Optional Charge – 2 different methods

Method 1 in 0678B

Method 2 in 0678D, 0678G, 0678H and 0678J

**Optional Charge in 0678B**

Workgroup participants sought clarification whether within 0678B, the purpose of the optional capacity charge is to avoid inefficient bypass of the NTS. The Proposer of 0678B confirmed there will be a number of benefits derived from the Optional Capacity Charge, one of which will be the avoidance of inefficient bypass of the NTS whether by alternative onshore or offshore pipelines or indeed non-GB delivery of LNG.

Workgroup participants sought clarification as to whether the optional Capacity Charge in 0678B was a discount to the standard capacity charge. The Proposer of 0678B confirmed that it was an optional charge derived with reference to the reserve prices established for the relevant entry and exit points.

In Modification 0678B the Optional Capacity Charge is regarded as an integral part of the RPM.

**Modification 0678: Impacts of cessation of NTS Optional Commodity Rate**

**Summary of Info from James Gudge to be inserted here**

[**https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/book/2019-03/Optional%20Charge%20Analysis%20%20%28National%20Grid%29%20v1.0.pdf**](https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/book/2019-03/Optional%20Charge%20Analysis%20%20%28National%20Grid%29%20v1.0.pdf)

Some Workgroup participants believed that both the CWD and PS approaches without an optional charge approach face significant challenges with respect to cost reflectivity because of some relatively high exit charges at points close to entry points. 26 February 2019.

Some Workgroup participants expressed concern about deviating from current requirements for notice periods and potentially significant impacts on the market, in particular those customers currently using the NTS Optional Commodity Rate. It was noted that Ofgem has previously requested information about the potential impacts of Modification 0636 - Updating the parameters for the NTS Optional Commodity Charge[[16]](#footnote-19) and the information received was referenced in Ofgem’s decision to reject implementation of Modification 0636[[17]](#footnote-20). Some Workgroup participants therefore had an expectation that a similar exercise would be undertaken by Ofgem noting the commercial confidentiality issues associated with including such information in consultation responses.

Some Workgroup participants expressed concern at the nature of the cessation of the NTS OCR and the potential risks around this aspect.

Modifications 0678G and 0678H propose a cost reflective, capacity-based OCC. The new NTS Optional

Capacity Charge is calculated by applying an equation which relates to the cost of providing pipeline

capability to support a particular load size and distance travelled from a nominated NTS Entry Point to the

particular NTS Exit Point to derive a unit cost in pence per kWh. The resultant cost from the equation is

converted into a capacity cost by application of the site specific FCC and MNEPOR. The charge is then

apportioned 50:50 between entry and exit and the Users opting to accept the charge commit to making

payments equivalent to the cost of booking one year of capacity (at entry and exit) at the FCC level of the

qualifying NTS Exit Point. The NTS Optional Capacity charge arrangements will, in the view of the

Proposer, encourage greater use of the NTS by way of avoiding inefficient bypass (whether via onshore or

offshore gas pipelines) and facilitate the delivery of gas to the GB market. It will also support the efficient

flow of gas across all GB interconnection points.

**Unprotected Entry Capacity (Modification 0678F only)**

Modification 0678F proposes the establishment of a new class of capacity called Unprotected Entry Capacity (for 01 October 2019 or from the Effective Date whichever is later) allocated after 12 February 2018 but before 20 December 2018 (the date on which the Authority published its decision to reject UNC 0621 and all of its Alternatives). Modification 0678F allows for the surrender of Unprotected Entry Capacity where the initial price for Capacity booked for the 2019/20 Gas Year, as calculated for the purpose of the Annual Invitation to Participate in the Auction of Quarterly System Entry Capacity, as stated in the Notice of Revised NTS Entry Capacity QSEC Reserve and Step Prices Notice, increases by more than 5% of the price at which the capacity was allocated, then the User may surrender some, or all of the capacity back to National Grid for all qualifying capacity from the effective date, without further charge. In subsequent years, any remaining Unprotected Entry Capacity can be surrendered where the price increases by more the 5% + RPI.

**‘Wheeling Charge’ approach in 0678I** **06 March 2019**

Input from Sinead Obeng to be put in.

#### Workgroup participants discussed the details of the 0678I Wheeling charge, noting it is stated to be a conditional product based on being in the same location. Discussion included how same location is defined and the potential impact of physical reverse flow for BBL.

Workgroup participants noted that the formula for 0678I wheeling Charge is based on data from GCD11[[18]](#footnote-21), assuming the cost base underneath that is appropriate.

## Compliance

Key points are drawn out in Appendix 2 – **comparison table** and **compliance table**. Proposers of potential Alternatives are asked to ensure that this is updated with each potential new Alternative.

Workgroup agreed that compliance can only be assessed to the best of the ability of the Workgroup.

The Joint Office suggested a compliance table based on going through article by article of TAR NC.

A comparison table format suggested by National Grid places the onus on Proposers to note which parts of TAR NC are applicable for their proposal. National Grid envisages this table will become part their Modification in the Relevant Objectives.

Workgroup Participants discussed the best route to assess compliance: either article by article or articles as applicable to each Modification.

e.g. Article 7a requires some information coming from National Grid.

**Interim Contracts 29 January 2019**

Interim Contracts as a concept proposed under Modification 0621 are not now being used in 0678 and not in 0678A and are therefore not going to be recognised. This means that any long-term entry capacity allocated after entry into force of TAR NC (06 April 2017) will float, in terms of pricing.

Workgroup participants noted Article 35 and explored compliance of top up charges (revenue recovery) on legacy contracts.

**Issue**:

**How is the principle of levying a top-up charge on legacy contracts compatible with Article 35?**

National Grid clarified that the mechanism of Revenue Recovery will be subject to change, as with the current framework. Currently it is commodity based; under 0678 and 0678A it will be capacity based.

**Action 01-2901 update expected on 11th Feb**

National Grid stated that historical storage capacity under 0678 and 0678A would not attract transmission services entry revenue recovery charges.

Q. What is the effect/materiality of this change from commodity to capacity?

Q. Is there an option to sell back unused capacity?

Q. Treatment for Combined ASEPs: the issue remains unclear in terms of discrimination against certain storage facilities.

Some Workgroup participants agreed that principles being developed under Modification 0662 should be incorporated into 0678 and 0678a. Workgroup sought clarification from National Grid on how this works for storage capacity at combined ASEPs. NG to supply some relevant wording here:

If the ASEP is not defined as a storage in the licence…

**18 February 2019**

The Workgroup observed that in terms of compliance the following should be noted for all Modifications:

There was a difference in opinion in relation to the application of transmission services revenue recovery charges to existing contracts. The Workgroup were not able to provide a legal opinion on the merits of legal compliance in relation to the TAR NC Article 35 issue in relation to protecting existing contracts.

Not having a transition period, the methodology required needs to avoid large stepped changes in charges, which may be inconsistent with Article 17.1C.

The proposed reference price methodologies show no consideration of relevant flow scenarios for Article 8.1.

The proposed CWD methodology is a variant of the CWD Proposal in TAR NC.

The Workgroup considered the risk of interruption and the discount to be applied if incremental capacity is more than 20% and that the Modification may not be compliant with Article 12.3.

In relation to Article 16 the Workgroup considered that the probability of interruption under such a scenario would be very low. One Workgroup participant expressed concern for IP connection points and all domestic points and the probability of interruption. The Workgroup recognised that when purchasing interruptible capacity there is a risk.

By exception the Workgroup observed in terms of the Proposer’s provided compliance assessment against TAR NC that: *WG to consider comments for inclusion in the Workgroup Report*

#### 0678

#### 0678A

The Workgroup…. Postage Stamp Methodology distance

#### 0678B, 0678G, 0678H and 0678I

The Workgroup clarified that the Modification 0678B, 0678G and 0678H do not inhibit any Shipper User from accessing the Optional Capacity Charge. The Workgroup clarified that the Modification 0678I, does not inhibit any Shipper User from accessing the Wheeling Charge.

Some Workgroup participants questioned whether the Optional charges proposed in 0678B, 0678G and 0678H are available at all Entry and Exit Points. This is asked in the context of compliance with Article 6.3, 6.4 and Article 9.

Some Workgroup participants noted that the same RPM is applied to all points; the optional charge forms part of the overall methodology, as does the wheeling charge for 0678I. DN points are excluded[[19]](#footnote-22) as they are not single offtakes, they are part of a combination or collection of offtakes where gas is offtaken for final delivery to the end consumer. The gas hasn’t left the NBP when it enters the DN network.

Some Workgroup participants noted that from a Shipper point of view, all exit points do not include DN Points.

DN participants were asked to clarify their understanding of the above Action 02-0403

“DN points are excluded[[20]](#footnote-23)[1] as they are not single offtakes, they are part of a combination or collection of offtakes where gas is offtaken for final delivery to the end consumer. The gas hasn’t left the NBP when it enters the DN network.”

WWU view is that reference should be made to **relevant System and Total System** as defined in TPD A 1.1.1. (see below) rather than to the National Balancing Point.

It is true that Gas entering the DNs does not leave the Total System.   However, since the discussion is about the NTS we should be referring to the National Transmission System.  Note also that DNs are not Systems, the LDZs are the Systems.  It is clear that gas leaving the NTS leaves the NTS System, this is true whether the gas is offtaken by Shipper or DNs.

This refutes the argument in the second sentence of the above statement which seems to be the major point of the argument of the Proposers of B, G, H and I.

DNs like Shippers take their gas from individual NTS Exit Points.

DNs may, like Shippers, take gas from multiple NTS Exit Points.

The reason for the gas being offtaken from the NTS is not relevant to the discussion.  Notwithstanding this it is theoretically possible for a DN to exist that supplied a single customer (it would require a very unlikely set of circumstances to occur) but if it did occur then if would illustrate the fallacy of the argument put forward.  This refutes the first part of the above statement.

Therefore, the argument put forward for excluding DNs from the optional charge and wheeling arrangements in B, G, H and I cannot be supported.   It could if there was one charging methodology covering the Total System, but this is not the case.

***Please note that this is a WWU view and may not reflect the views of the other DN workgroup participants.***

TPD A 1.1.1

In the Code:

(a) "**System**" means:

(i) the National Transmission System; or

(ii) a Local Distribution Zone;

(b) "**Total System**" means all the Systems taken together.

1.1.2 Subject to paragraph 1.7.2, a System does not include any independent system nor any

pipeline to which gas can only be conveyed through a pipeline system operated by a gas

transporter other than a Transporter.

1.1.3 A System does not include any Storage Facility.

(Smitha Coughlan’s input – could this be a footnote?)

Some Workgroup participants strongly disagreed with the notion above. If you are using’ shorthaul’ you are bypassing the NBP and more so, this is a point to point service which is not allowed under 2009/715 (Third energy package).

Some Workgroup participants noted that there are point to point services in Europe (Germany, The Netherlands and Belgium) so they are compliant with 2009/715 (Third energy package). These cover a variety of points and routes.

Some Workgroup participants strongly disagreed with the notion that using’ shorthaul’ is bypassing the NBP – and felt it was factually incorrect.

Some Workgroup participants note that the DNs book exit capacity at various exit points interfacing with the NTS. Shippers are supplying gas to customers within those DNs do not nominate gas flows against individual NTS/DN offtakes. In the case of the OCC, there is a linkage between the booking of capacity and the supply of gas to the customer.

Some Workgroup participants noted that within 0678B, 0678G and 0678H their OCC proposals are is not considered a discount.

Other Workgroup participants questioned whether the OCC is a discount and whether the Wheeling charge is a discount.

Some Workgroup participants noted that the overriding principle for the use of the OCC is there needs to be a linkage between a capacity booking and a nomination for the supply of gas. On this basis DNs are excluded and Interconnectors are included. In relation to Storage, the Tariff Code recognises that they are unique points on the network and worthy of individual treatment as detailed in Article 9.

Some Workgroup participants noted that the issue is a matter of principle – same price for the same service. This is not the same as the practical level.

#### 0678C

Article 35 compliance for 0678C. All non-Storage capacity is liable for revenue recovery charges as per SSE’s Legal (QC) advise. All Storage Capacity is exempt from revenue recovery charges as per Ofgem’s GTCR decision in November 2015.

National Grid noted that it does not have any visibility of who does what in terms of owners of contracts which have been secondarily traded. Workgroup participants noted that trades through Gemini are visible.

Workgroup participants noted that secondary trades (of all contracts, not just storage) are not mentioned under TAR NC and therefore it could be argued to not be a compliance issue.

One Workgroup participant suggested an alternative future solution (a suggestion for another future Modification) which was to have an aggregate over-run for entry which gets around the issue of a shipper buying a certain capacity which is then traded on (similar to aggregate overrun for exit).

**0678I compliance with Article 4.2**

Some Workgroup participants noted that the material given by the Proposer of 0678I included that the Wheeling charge will “*continue to attract gas to the GB market”,* which was debatable since the gas is not being delivered anywhere within the GB market.

The Proposer of 0678I noted that with respect to attracting gas to the GB market, the wheeling charge will impact NBP spreads and will therefore impact the attractiveness of the GB market. In addition,

Other Workgroup participants noted that with the current OCR ceasing, Modification 0678I through its Wheeling charge, is providing the means not to lose some gas currently coming to the GB market and the revenue associated with it, which will contribute to the Allowed Revenue amount.

**Cost Allocation Assessment (TAR NC Art. 5)**

Workgroup participants noted the output of this CAA is required in the Article 26 consultation; this needs to use data supplied by the NRA or TSO.

Workgroup discussed at length who should provide the data to produce the Cost Allocation Assessment. Some Workgroup Participants put forward the view that the NRA or TSO provides independence.

Other Workgroup Participants noted the wording “**the** final consultation referred to in Article 26” implying the CAA is to be assessed when there is only one Proposal left standing. Other Workgroup Participants noted that Article 7 requires the assessment to be done, potentially for each Proposal.

The Proposer of 0678A stated that RWE would not be able to supply the Cost Allocation Assessment.

Other Workgroup Participants agreed that it would not be appropriate for Proposers to perform this assessment.

Under 0621 National Grid carried out the Cost Allocation Assessment.

20 February 2019

Ofgem intends to carry out the final consultation for Article 26 itself, National Grid will be asked to carry out the interim Article 26 consultation beginning shortly after the UNC consultation begins, with the same end date as the UNC consultation (05 April 2019). The CAA will be done by National Grid to be used in the final consultation by Ofgem. A letter from Ofgem is expected within the next week. CAA results will be available during the UNC consultation.

Workgroup participants noted that it would be unable to carry out a full compliance assessment if the results of the CAA are not available whilst the Workgroup is still ‘live’.

Ofgem confirmed it expected the CAA for all proposals would be done by National Grid with assistance from all Proposers.

Workgroup participants expressed concern on the opportunity to examine the accuracy of the CAA results for each Proposal.

Workgroup participants expressed concern about the timelines for the interim Article 26 consultation with the crossover of the two consultations effectively reducing the time for respondents to respond to each consultation.

25 February 2019

Workgroup participants note that a CAA calculation is available for 0678 in the v2 spreadsheet model published 25 February 2019.

Workgroup participants noted that the calculation envisaged under TAR NC is a “vanilla” version of such a calculation and as such probably did not envisage the level of existing contracts in the GB system. Existing contracts would have an undue influence on the results of such a calculation.

Workgroup participants expressed the hope that Ofgem would strongly recommend bring out the above point in their Article 26 consultation documentation.

25 February 2019 Ofgem clarified that the final Article 26 consultation would likely be done on a minded to proposal (as against all of the Modification proposals under consideration).

**0678 compliance with Article 6 25 February 2019**

Some Workgroup Participants noted that the definition of the RPM and how the adjustments are applied can be interpreted in different ways. Either the reference price is created from the first run of the model and then adjusted in a manner different from that specified in Article 6(4). Or the RPM is considered as the entire process with the adjustment process embedded within it. Workgroup participants suggested that this latter case is in fact the process contained within 0678.

**0678F compliance with Article 6 26 February 2019**

Workgroup Participants discussed the potential impact of the Unprotected Entry Capacity from the two QSEC auctions in 2018 (the effect on FCC of surrender followed by re-purchase and the effect on revenue).

Workgroup Participants noted that TAR NC is silent on Unprotected Entry Capacity (it is a construct outside of TAR NC, applicable to GB).

Workgroup Participants noted that 0678F requires an initial run of the model to enable the surrender process as described in 0678F to determine whether the initial prices differ from the 2018 QSEC auction prices by an amount greater than the trigger. For the avoidance of doubt this run of the model is not part of the RPM and therefore is not considered a compliance issue with Article 6.

**All Modifications compliance with Article 7 25 and 26 February 2019**

Workgroup participants thanked National Grid for the model it has created for 0678. This 0678 sensitivity tool allows Users to reproduce prices using the data given.

Workgroup participants highlighted that any Modification implemented would require development and publication of a suitable model for generation of final prices. Some Workgroup participants representing DN Users noted that the accuracy of this final model is critical. See Workgroup’s comments on Quality Assurance and accuracy section ABC.

**0678 and 0678F compliance with Article 7 25 and 26 February 2019**

Some Workgroup Participants noted that current Licence obligation (on cost reflectivity) appear to be a major contributor to the choice of CWD as the RPM; rather than a TAR NC compliance issue.

Other Workgroup participants noted that high exit charges close to entry points are not intuitively cost reflective.

**0678, 0678F and 0678G compliance with Article 8 25 and 26 February 2019**

Some Workgroup participants discussed whether assuming the GB system to be an unconstrained network (without relevant flow scenarios) is appropriate and may raise issues of compliance. Opposing views were held within the Workgroup.

Workgroup noted that 0678G as an approach builds on the CWD methodology to better reflect flows between proximate entry and exit points.

**0678C, 0678E and 0678F compliance with Article 9 26 February 2019**

Workgroup participants noted that a Storage discount between 50 -100% is deemed compliant with TAR NC Article 9.

**0678 and 0678F compliance with Article 12 25 and 26 February 2019**

GB tariff year and Gas Year are the same. Some Workgroup participants expressed strong concerns at the potential for charges to take effect from a non-01 October date and expected charges to apply for the whole Gas Year starting 01 October, as suggested by Article 12(2).

**0678 and 0678F compliance with Article 17 25 and 26 February 2019**

Workgroup participants noted that the sensitivity model has not yet been fully assessed and reviewed by Workgroup as at 25 February 2019, neither has the robustness or otherwise of the FCC. Workgroup participants noted that the intent is to achieve compliance with this Article 17.

**All Modifications compliance with Article 27 25 and 26 February 2019**

Workgroup participants noted that compliance with Article 27 is the responsibility of the NRA (Ofgem).

**All Modifications compliance with Articles 29 and 30 25 and 26 February 2019**

Workgroup participants discussed whether all Modifications should include the publications timetables explicitly.

Workgroup participants noted that compliance with Articles 29 and 30 are expected to be provided for with the UNC process and that there were overlaps with the RIIO process. There was some concern that the information for Article 30 is available in many disparate places and suggested that periodic updates could be given at the monthly NTSCMF UNC Workgroup.

Some Workgroup participants noted that the information to satisfy Article 29 and 30 should be in the RPM introduced as part of the UNC Modification 0678.

**All Modifications compliance with Article 35**

**25, 26 and 27 February 2019**

Some Workgroup participants noted a number of possible interpretations of Article 35, noting the breadth of Alternatives covering this aspect.

Some Workgroup Participants noted that it was impossible to meet compliance with TAR NC **and** all Relevant Objectives simultaneously. Modification 0678D is proposed with a focus on protection for Existing Capacity Contracts with a minimum 50% Storage Discount within a CWD RPM.

Workgroup participants noted 0678D Proposer Eni’s legal view on TAR compliance (and thanked Eni for allowing publication) which outlines how Article 35 is fully complied with by shielding Existing Contracts. This is published at: <http://www.gasgovernance.co.uk/0678>

**06 March 2019**

Workgroup participants noted the documentation from the Proposer of 0678C with a legal view on Article 35 which supported Modification 0678C (and thanked SSE for allowing publication). As Transmission Tariffs were variable at the point of booking pre-April 2017 due to the variable revenue recovery charge, they are deemed not to be protected from variable revenue recovery charges going forward.

Workgroup participants noted that other legal views are likely to be available supporting other Modifications.

Workgroup participants noted that the legal view from the Proposer of 0678D contradicts the view regarding 0678C.

Workgroup participants suggested that compliance assessments and any legal view should ideally form an appendix to the Modification in question.

**All Modifications compliance with Article 38 25 and 26 February 2019**

A Workgroup participant noted that under Article 38 implementation should be from 31 May 2019. A Workgroup participant noted it is expected to be effective for the beginning of the tariff year.

Other Workgroup participants noted that TAR NC is silent on the effective date.

Some Workgroup participants noted some Modifications recommend a later effective date.

## Topics raised in Ofgem’s 0621 Rejection Decision Letter

The Workgroup considered the 3 issues relevant to the Modifications: Interim Contracts (none), Transition Period (none), NTS Optional Charges, and an assessment of relevant elements in the appendix: Postage Stamp, Optional Charge

1. **Interim Contracts**

All Modifications ~~0678, 0678A 0678B & 0678C~~ have no concept of interim contracts. The Workgroup agreed this consideration mitigated the concerns raised by Ofgem in their decision letter.

1. **Transition Period**

All Modifications ~~0678, 0678A & 0678B~~ have no concept of transition periods. The Workgroup agreed this consideration mitigated the concerns raised by Ofgem in their decision letter.

1. **NTS Optional Charge**

Modifications 0678, 0678A & 0678C does not propose an optional charge. National Grid’s view is there is not a need for an optional charge for Modification 0678. Request 0670R is progressing independently through NTSCMF and is envisaged to provide a product to avoid the inefficient bypass of the NTS.

Modifications 0678B, 06768D, 0678G, 0678H, 0678I & 0678J have proposed an optional charge, solely applying to firm capacity entitlements, that is capacity based and does not impose an artificial distance cap. Ofgem’s decision letter in the view of the Proposer was primarily concerned with the use of commodity charges within the some of the 0621 solutions and also stated the distance cap should be fully justified.

Cost Reflectivity in relation to Capacity Weighted Distance (CWD) approach (0678B and 0678G) and the Postage Stamp (PS) approach (0678H) is enhanced by the inclusion of the optional charge solution.

**Transition 29 January 2019**

There is no phased delivery proposed under any of the Modifications. The FCC approach is thus brought forward to day 1; an FCC Methodology Statement has been developed.

**Assessment of Annex 2 of Ofgem rejection letter of 0621**

Workgroup noted that Ofgem provided non-binding views within its Modification 0621 Decision Letter, some of which are addressed by the Proposers in their Modifications.

*Location of Red Text to be considered and potentially moved*

**Assessment of relevant elements in the Appendix relevant to the Modifications:**

**Cost Reflectivity**

Workgroup noted Ofgem’s view in the 0621 Modification decision letter relating to Cost Reflectivity (Pg14).

Workgroup noted that National Grid have a Licence obligation to provide cost reflective prices.

**Locational Signal**

The Workgroup had mixed views on whether locational signals should be a feature of the RPM which reflected a lack of consensus if Ofgem’s 0621 decision letter.

Some members noted thatLocational Signals may provide incentives to connect or increase connections or flows at certain points. The ability for some entry parties to respond to location signals is limited and therefore the non- inclusion of location signals is not necessarily out of line with the Code objectives.

The Workgroup considered Location Signals and in relation to Postage Stamp (need to consider and expand) [without a form of location signals it could lead to high and unnecessary costs on the NTS].

Postage Stamp:

Provide a simple description of Postage Stamp and Locational Signals….

The Workgroup noted Ofgem’s views on both Postage Stamp and CWD (page 13 quote) better approaches……

Locational Signals had a degree of importance however it was unclear…

One Workgroup participant noted that

The Workgroup considered Location Signals and in relation to CWD (need to consider and expand)

The Workgroup considered the unintended consequences (need to consider and expand)

The Workgroup considered Revenue Collection and costs to consumers (need to consider and expand)

Consistency with the Ofgem TCR Principles (this should go in section

TO BE COVERED 08 MARCH

Annex: Regard for the principles used in the TCR

* Reducing harmful distortions
* Fairness to end consumers
* Proportionality and practical considerations

Need workgroup response to the above

**Modifications proposing Postage Stamp (0678A, 0678C and 0678H)**

**Promoting Efficiency and Economic principles associated with network charging**

The Proposer of Modification 0678C explained that there are a number of economic principles which are typically associated with the appropriate determination of network charges. These are largely focused on ensuring efficient market outcomes. First, it is typically argued that network charges should be cost reflective. This means that they should reflect the (forward looking) costs which users impose on the network through a change in their use. This is important to achieve an economically efficient outcome: if charges are cost reflective, users will internalise the network costs which they cause when making a decision about how to use the network. This, in turn, will ensure that overall value chain costs are optimised.

The fact that it is forward looking costs which should be reflected is important. If there is an historic cost which exists but cannot be changed in any way going forward by different use of the network by shippers, there is no value in terms of economic efficiency in sending a signal to shippers about that cost. Cost reflectivity should therefore only relate to new costs which would be created in the future or existing costs which can be avoided in the future as a result of a particular change in use.

This argument points to network prices being set predominantly according to forward looking marginal costs, as these are the costs incurred or avoided by incremental use.

However, it is important that marginal cost as a concept is interpreted correctly. First, when there is an excess of capacity as a result of reduction in network use over time, then the marginal cost of use may be close to or at zero. Second, it is obviously important that network companies can recover their allowed revenue. It is also clear that efficient cost reflective charges, as defined above, may not recover all costs which have been incurred. Therefore, additional charges are required to recover the full range of permissible costs.

It is typically argued that such charges should have as an objective creating minimal changes in behaviour relative to a set of efficient charges. This is because, as previously established, there is no efficiency related reason to target historic costs at a particular set of users. By definition, they cannot be “un-incurred” and so there is no point in targeting them at a certain set of users as to do so will change behaviour in a way which reduces efficiency.

Ofgem state in their 0621 decision letter that the RPM methodology “*has the effect of combining both revenue recovery charges and forward-looking signals into a single capacity-based charge. Given low levels of anticipated new investment in gas network capacity in the near term, we anticipate this type of capacity charge would serve a predominantly revenue recovery function. We also note that in this context, the value of forward-looking signals is likely to be of lesser importance*”.

Ofgem also states in their Targeted Charging Review (TCR) document in electricity[[21]](#footnote-24), that:

“*Cost-reflectivity is less directly relevant for residual charges; however, it is important that residual charges do not unduly distort the signals provided by the forward-looking charges which are intended to be cost-reflective… residual charges do not relate to specific costs that any user imposes*”.

In the TCR debate, Ofgem is similarly clear that cost reflectivity is not a valid objective when considering charges which recover residual revenue. Instead, Ofgem proposes three different principles for assessing approaches to residual charging: “*reducing distortions, fairness and proportionality and practicality considerations”*.

Therefore, in a network where there is spare capacity and low levels of investment, incremental signals are not required, and the network costs can be treated as sunk revenue to be recovered in the least distortive way. Postage stamp capacity charges achieve this.

**Modifications proposing CWD[[22]](#footnote-25) (0678, 0678B, 0678D, 0678E, 0678F, 0678G and 0678I)**

Material from GJ

**CWD and Market Distortion**

The Proposer of Modification 0678C explained the economic theory suggests it is always relevant to set marginal cost related prices unless there is spare capacity. The charges from the 00678 CWD Modifications lack cost reflectivity and subsequently risk distortion to competition and wholesale market price. These are discussed below:

1. 0678 moves cost recovery from commodity to a capacity basis. This may distort flows if some shippers (with supplies at higher cost entry points) no longer purchase entry capacity to supply gas or if very high capacity costs are passed through to the NBP prices.

Postage Stamp capacity charges are less distortive because they are equitable and fair and since they are passed through uniformly to customers, they do not affect competition in gas supply or Cap Mech Auctions. Whereas, CWD Modifications, apply a capacity uplift not on an additive basis as in the current LRMC model but on a “scaling” CWD basis to compound the error of distortion.

1. Charges derived from the CWD methodology will only be stable and predictable if the FCC values are stable. Postage Stamp charges exhibit less variance and more predictable. Stable charges will facilitate competition because, all else being equal, greater cost certainty will lower risk and will result in lower cost of capital for Shippers which will reduce barriers to entry and facilitate competition.
2. There are unintended consequences of the CWD methodology which affect the distribution of charges to NTS customers and to end consumers. For example, regardless of how the FCC is calculated, the methodology does not demonstrate cost reflectivity for Exit points that are physically close to Entry points, i.e. Peterhead and St Fergus, Pembroke and Milford Haven. This lack of cost reflectivity is a concern given the material impact on customers.
3. The CWD methodology also generates high charges for exit and entry capacity in Scotland where there is spare capacity but has relatively lower charges for exit in the South of England where there is relatively less spare capacity.

**Modification Proposal 0678E - Commentary relating to Ofgem’s Decision Letter on Modification 0621**

Ofgem rejected UNC Modification Proposal 0621 and its Alternatives on the basis that it had concluded that they were not compliant with the EU Tariff Code. Ofgem identified three main areas of concern, which are detailed below and considered in respect of Modification Proposal UNC 0678E.

* **The creation of interim contracts**

Modification 0678E does not propose including the concept of interim contracts. The EU TAR Article 35 provisions which provide for the separate treatment of contracts entered into before 6 April 2017 are adhered to in this proposal, but not extended to any contracts struck after this date.

* **Transition Period**

A transition period is not proposed in UNC 0678E.

* **NTS Optional Charge**

An NTS Optional Charge is not proposed in UNC 0678E.

Other areas of concern highlighted in the Ofgem Decision Letter

* **FCC Methodology**

UNC 0678E proposes that the FCC Methodology sits outside of the UNC, consistent with other methodologies relating to the treatment of capacity. An FCC Methodology has been provided on the JO website.

* **Cost reflectivity (Reference Price Methodology)**

UNC 0678E proposes to adopt CWD as the RPM. This approach reflects the counterfactual RPM stated in the EU Tariff Code and incorporates the two primary cost drivers associated with the transportation of gas: capacity and distance. The Proposer believes that the CWD methodology is more cost reflective than the Postage Stamp Methodology, noting that although the NTS is “static”, historical investment costs should be allocated on a cost reflective basis. Transmission Allowed Revenues represent an aggregation and apportionment of historical costs across time and as such allow for the rolling forward or sharing of investment costs to all Users of the network in future years. In order to ensure that the historical investment costs, which for reasons stated are treated as ongoing costs, are fairly distributed across Users of the NTS, then the primary drivers for establishing these costs must be reflected in the RPM. These are capacity and distance.

* **Treatment of Historical Contracts**

UNC 0678E proposed that only Existing Contracts are treated separately, in accordance with Article 35 of the EU Tariff Code. It is proposed that Existing Contracts (with the exception of capacity booked at storage points) are exposed to the Transmission Revenue Recovery Charge which when such a charge is levied will limit the difference in the cost of service between Existing Contracts and capacity booked post 6 April 2017. Capacity at storage points is excluded from the Revenue Recovery Charge (both Existing and new contracts) to avoid double charging and is consistent with Ofgem’s conclusions in its GTCR.

UNC 0678E proposes to net off Existing Contracts to ensure that reserve prices are cost reflective insomuch as they are set to recover allowed revenue (see earlier point regarding allocation of historical costs). Were Existing Contracts to be included in the derivation of reserve prices, revenue under-recoveries would be generated, leading to a non-cost reflective outcome (noting that Existing Contracts would be burdened with a greater proportion of the under-recovered revenue as capacity volumes are fixed).

* **Specific Capacity Discounts**

Ofgem noted that a discount of 50% or above could be applied at storage points. Where a discount of greater than 50% is proposed, sufficient justification must be provided to support the proposal. This is provided in the Modification Proposal.

No other discounts have been proposed, which aligns with Ofgem’s views particularly at bi-directional interconnectors

**Modification Proposal 0678F - Commentary relating to Ofgem’s Decision Letter on Modification 0621**

Ofgem rejected UNC Modification Proposal 0621 and its Alternatives on the basis that it had concluded that they were no compliant with the EU Tariff Code. Ofgem identified three main areas of concern, which are detailed below and considered in respect of Modification Proposal UNC 0678F.

* **The creation of interim contracts**

UNC 678F does not propose including the concept of interim contracts. The EU TAR Article 35 provisions which provide for the separate treatment of contracts entered into before 6 April 2017 are adhered to in this proposal, but not extended to any contracts struck after this date.

UNC 678F proposes establishing the concept of Capacity Surrenders for capacity which qualifies as Unprotected Entry Capacity. In order to qualify for classification as Unprotected Entry Capacity, QSEC must have been acquired in either of the two 2018 QSEC auctions. Subject to the provisions set out in UNC678F this capacity can be surrendered. The process of surrendering is unique to this class of capacity and does not mirror in any way the treatment (protection) of Existing Contracts as permitted under EU TAR Article 35. As such the surrender mechanism should not be regarded as an extension of Article 35, as was the case with Interim Contracts.

The justification for the surrender mechanism is detailed in the Modification Proposal 678F, however, it draws upon the observations made in Ofgem’s rejection letter regarding Interim Contracts, where it states: “*Relevant parties therefore should have been aware of the effect of the changes to be introduced from 31 May 2019, and hence able to make allowance for the impending change in any contracts entered into after 6 April 2017.”*

It is argued that the asymmetry in info provided by National Grid it its QSEC Auction Invitations before and after 2018 resulted in participating Users not being made properly, or consistently aware of the changes which will impact their bidding strategies.

* **Transition Period**

A transition period is not proposed in UNC 0678F.

* **NTS Optional Charge**

An NTS Optional Charge is not proposed in UNC 0678F.

Other areas of concern highlighted in the Ofgem Decision Letter

* **FCC Methodology**

UNC 0678F proposes that the FCC Methodology sits outside of the UNC, consistent with other methodologies relating to the treatment of capacity. An FCC Methodology has been provided on the JO website.

* **Cost reflectivity (Reference Price Methodology)**

UNC 0678F proposes to adopt CWD as the RPM. This approach reflects the counterfactual RPM stated in the EU Tariff Code and incorporates the two primary cost drivers associated with the transportation of gas: capacity and distance. The Proposer believes that the CWD methodology is more cost reflective than the Postage Stamp Methodology, noting that although the NTS is “static”, historical investment costs should be allocated on a cost reflective basis. Transmission Allowed Revenues represent an aggregation and apportionment of historical costs across time and as such allow for the rolling forward or sharing of investment costs to all Users of the network in future years. In order to ensure that the historical investment costs, which for reasons stated are treated as ongoing costs, are fairly distributed across Users of the NTS, then the primary drivers for establishing these costs must be reflected in the RPM. These are capacity and distance.

* **Treatment of Historical Contracts**

UNC 0678F proposed that only Existing Contracts are treated separately, in accordance with Article 35 of the EU Tariff Code. It is proposed that Existing Contracts (with the exception of capacity booked at storage points) are exposed to the Transmission Revenue Recovery Charge which when such a charge is levied will limit the difference in the cost of service between Existing Contracts and capacity booked post 6 April 2017. Capacity at storage points is excluded from the Revenue Recovery Charge (both Existing and new contracts) to avoid double charging and is consistent with Ofgem’s conclusions in its GTCR.

UNC 0678F proposes to net off Existing Contracts to ensure that reserve prices are cost reflective insomuch as they are set to recover allowed revenue (see earlier point regarding allocation of historical costs). Were Existing Contracts to be included in the derivation of reserve prices, revenue under-recoveries would be generated, leading to a non-cost reflective outcome (noting that Existing Contracts would be burdened with a greater proportion of the under-recovered revenue as capacity volumes are fixed).

* **Specific Capacity Discounts**

Ofgem noted that a discount of 50% or above could be applied at storage points. Where a discount of greater than 50% is proposed, sufficient justification must be provided to support the proposal. This is provided in the Modification Proposal.

No other discounts have been proposed, which aligns with Ofgem’s views particularly at bi-directional interconnectors

**Modification Proposal 0678G - Commentary relating to Ofgem’s Decision Letter on Modification 0621**

Ofgem rejected UNC Modification Proposal 0621 and its Alternatives on the basis that it had concluded that they were no compliant with the EU Tariff Code. Ofgem identified three main areas of concern, which are detailed below and considered in respect of Modification Proposal UNC 0678G.

* **The creation of interim contracts**

UNC 678G does not propose including the concept of interim contracts. The EU TAR Article 35 provisions which provide for the separate treatment of contracts entered into before 6 April 2017 are adhered to in this proposal, but not extended to any contracts struck after this date.

* **Transition Period**

A transition period is not proposed in UNC 0678G.

* **NTS Optional Charge**

A capacity based NTS Optional Charge (NOC) is proposed in UNC 0678G.

In its rejection letter, the primary reason for rejection of the NOC proposed in the majority of UNC 0621 proposals was that they were commodity based. UNC 0678G is capacity based and therefore is consistent with Ofgem’s stated position.

The NOC is not available to DN offtakes or storage points, which is a continuation of the current rules. The Proposer believes that only those offtakes where gas is “consumed” and cannot be traded should qualify for NOC, which excludes DN offtakes and storage points.

The use of MNEPOR is used to derive the (proxy) pipeline costs as this ensures that the costs of developing a bypass pipeline are accurately represented, noting that a bypass pipeline would always be constructed to meet peak day requirements (it not higher). This is balanced by the fact that the NOC rate is derived by dividing the pipeline costs by the FCC, ensuring that the full costs of the pipeline are properly represented and met by capacity bookings.

UNC 0678G includes the concept of an annual fee. This ensures that the estimated costs of laying and operating a pipeline are met on an annual basis irrespective of utilisation i.e. the fixed or sunk costs associated with the pipeline are recovered from the relevant User(s).

UNC 0678G does not apply a distance cap as no reasonable rationale can be established for setting such a cap. The NOC is self- limiting, in terms of distance, and on the basis that it is cost-reflective and requires a commitment to pay an annual fee ensures that the NOC routes are appropriately utilised. The analysis indicates that the maximum distance under NOC would be 30km (subject to the limitations noted in the analysis section of UNC 0678G).

The level of “cross subsidisation” between NOC Users and non-NOC Users is indicated in the analysis provided in UNC 0678G. As stated, the level “cross subsidy” set out in the analysis is likely to be lower once implemented, as the analysis fails to take into account the impact of Existing Contracts, which in turn will reduce the number of Users wishing to avail themselves of the NOC. On the basis that the NOC is cost-reflective, combined with the application of an Annual Fee, then it is the case that there is no “cross subsidy” between NOC Users and non-NOC Users. It should be noted that the wider benefits of NOC Users using the NTS are not considered as part of the analysis but should not be overlooked. These benefits are stated in UNC 0678G

Ofgem states that there is insufficient evidence that parties would by-pass the NTS in the absence of the NOC. The Proposer contends that in the event that NTS charges are greater than the costs of bypass, then a rational developer/User would construct a bypass pipeline. On the basis that the NOC is cost reflective and is structured in such a way as to provide a reasonable proxy for the costs of laying and operating a bypass pipeline (through the Annual Fee) then developers/Users will make rational economic decisions as to whether to build a pipeline or use the NTS. Where additional burdens are placed on prospective NOC Users to “prove” an intention to build a bypass pipeline, then the costs associated with them are likely to skew the outcome towards bypassing the NTS.

Other areas of concern highlighted in the Ofgem Decision Letter

* **FCC Methodology**

UNC 0678G proposes that the FCC Methodology sits outside of the UNC, consistent with other methodologies relating to the treatment of capacity. An FCC Methodology has been provided on the JO website.

* **Cost reflectivity (Reference Price Methodology)**

UNC 0678G proposes to adopt CWD as the RPM. This approach reflects the counterfactual RPM stated in the EU Tariff Code and incorporates the two primary cost drivers associated with the transportation of gas: capacity and distance. The Proposer believes that the CWD methodology is more cost reflective than the Postage Stamp Methodology, noting that although the NTS is “static”, historical investment costs should be allocated on a cost reflective basis. Transmission Allowed Revenues represent an aggregation and apportionment of historical costs across time and as such allow for the rolling forward or sharing of investment costs to all Users of the network in future years. In order to ensure that the historical investment costs, which for reasons stated are treated as ongoing costs, are fairly distributed across Users of the NTS, then the primary drivers for establishing these costs must be reflected in the RPM. These are capacity and distance.

* **Treatment of Historical Contracts**

UNC 0678G proposed that only Existing Contracts are treated separately, in accordance with Article 35 of the EU Tariff Code. It is proposed that Existing Contracts (with the exception of capacity booked at storage points) are exposed to the Transmission Revenue Recovery Charge which when such a charge is levied will limit the difference in the cost of service between Existing Contracts and capacity booked post 6 April 2017.

UNC 0678G proposes to net off Existing Contracts to ensure that reserve prices are cost reflective insomuch as they are set to recover allowed revenue (see earlier point regarding allocation of historical costs). Were Existing Contracts to be included in the derivation of reserve prices, revenue under-recoveries would be generated, leading to a non-cost reflective outcome (noting that Existing Contracts would be burdened with a greater proportion of the under-recovered revenue as capacity volumes are fixed).

* **Specific Capacity Discounts**

Ofgem noted that a discount of 50% or above could be applied at storage points. UNC 0678G proposes a 50% discount at storage points.

No other discounts have been proposed, which aligns with Ofgem’s views particularly at bi-directional interconnectors

**Modification Proposal 0678H - Commentary relating to Ofgem’s Decision Letter on Modification 0621**

Ofgem rejected UNC Modification Proposal 0621 and its Alternatives on the basis that it had concluded that they were no compliant with the EU Tariff Code. Ofgem identified three main areas of concern, which are detailed below and considered in respect of Modification Proposal UNC 0678H.

* **The creation of interim contracts**

UNC 678H does not propose including the concept of interim contracts. The EU TAR Article 35 provisions which provide for the separate treatment of contracts entered into before 6 April 2017 are adhered to in this proposal, but not extended to any contracts struck after this date.

* **Transition Period**

A transition period is not proposed in UNC 0678H.

* **NTS Optional Charge**

A capacity based NTS Optional Charge (NOC) is proposed in UNC 0678H.

In its rejection letter, the primary reason for rejection of the NOC proposed in the majority of UNC 0621 proposals was that they were commodity based. UNC 0678H is capacity based and therefore is consistent with Ofgem’s stated position.

The NOC is not available to DN offtakes or storage points, which is a continuation of the current rules. The Proposer believes that only those offtakes where gas is “consumed” and cannot be traded should qualify for NOC, which excludes DN offtakes and storage points.

The use of MNEPOR is used to derive the (proxy) pipeline costs as this ensures that the costs of developing a bypass pipeline are accurately represented, noting that a bypass pipeline would always be constructed to meet peak day requirements (it not higher). This is balanced by the fact that the NOC rate is derived by dividing the pipeline costs by the FCC, ensuring that the full costs of the pipeline are properly represented and met by capacity bookings.

UNC 0678H includes the concept of an annual fee. This ensures that the estimated costs of laying and operating a pipeline are met on an annual basis irrespective of utilisation i.e. the fixed or sunk costs associated with the pipeline are recovered from the relevant User(s).

UNC 0678H does not apply a distance cap as no reasonable rationale can be established for setting such a cap. The NOC is self- limiting, in terms of distance, and on the basis that it is cost-reflective and requires a commitment to pay an annual fee ensures that the NOC routes are appropriately utilised. The analysis indicates that the maximum distance under NOC would be 30km (subject to the limitations noted in the analysis section of UNC 0678H).

The level of “cross subsidisation” between NOC Users and non-NOC Users is indicated in the analysis provided in UNC 0678H. As stated, the level “cross subsidy” set out in the analysis is likely to be lower once implemented, as the analysis fails to take into account the impact of Existing Contracts, which in turn will reduce the number of Users wishing to avail themselves of the NOC. On the basis that the NOC is cost-reflective, combined with the application of an Annual Fee, then it is the case that there is no “cross subsidy” between NOC Users and non-NOC Users. It should be noted that the wider benefits of NOC Users using the NTS are not considered as part of the analysis but should not be overlooked. These benefits are stated in UNC 0678G

Ofgem states that there is insufficient evidence that parties would by-pass the NTS in the absence of the NOC. The Proposer contends that in the event that NTS charges are greater than the costs of bypass, then a rational developer/User would construct a bypass pipeline. On the basis that the NOC is cost reflective and is structured in such a way as to provide a reasonable proxy for the costs of laying and operating a bypass pipeline (through the Annual Fee) then developers/Users will make rational economic decisions as to whether to build a pipeline or use the NTS. Where additional burdens are placed on prospective NOC Users to “prove” an intention to build a bypass pipeline, then the costs associated with them are likely to skew the outcome towards bypassing the NTS.

Other areas of concern highlighted in the Ofgem Decision Letter

* **FCC Methodology**

UNC 0678H proposes that the FCC Methodology sits outside of the UNC, consistent with other methodologies relating to the treatment of capacity. An FCC Methodology has been provided on the JO website.

* **Cost reflectivity (Reference Price Methodology)**

UNC 0678H proposes to adopt Postage Stamp as the RPM. This approach reflects the fact that the NTS is not expected to expand and as such forward looking investment signals are no longer relevant.

The implementation of a Postage Stamp RPM overcomes the numerous limitations and potential distortions associated with CWD, or LRMC.

Postage Stamp is a simplistic methodology which apportions a share of Allowed Revenue equally to all points on the NTS. Such an approach is particularly valid when applied to a meshed network where entry and exit points are reasonably spread i.e. distances between entry and points are not significantly different, on average.

Ofgem notes in its rejection letter and number of limitations with CWD, in particular that the use of “*distance is unlikely to generate prices that are accurately cost-reflective of the physical transportation routes*”

* **Treatment of Historical Contracts**

UNC 0678H proposed that only Existing Contracts are treated separately, in accordance with Article 35 of the EU Tariff Code. It is proposed that Existing Contracts (with the exception of capacity booked at storage points) are exposed to the Transmission Revenue Recovery Charge which when such a charge is levied will limit the difference in the cost of service between Existing Contracts and capacity booked post 6 April 2017.

UNC 0678H proposes to net off Existing Contracts to ensure that reserve prices are cost reflective insomuch as they are set to recover allowed revenue (see earlier point regarding allocation of historical costs). Were Existing Contracts to be included in the derivation of reserve prices, revenue under-recoveries would be generated, leading to a non-cost reflective outcome (noting that Existing Contracts would be burdened with a greater proportion of the under-recovered revenue as capacity volumes are fixed).

* **Specific Capacity Discounts**

Ofgem noted that a discount of 50% or above could be applied at storage points. UNC 0678H proposes a 50% discount at storage points.

No other discounts have been proposed, which aligns with Ofgem’s views particularly at bi-directional interconnectors

## Regulatory Impact Assessment

Some Workgroup Participants noted that it was felt the RIA was a statutory requirement[[23]](#footnote-26) for an issue as important as this and as such if this process step was not carried out it would expose the Authority to Judicial Review. Workgroup sought urgent clarification on whether the RIA would be carried out.

**0678A Compliance Assessment 14 February 2019 (This may be removed – see comment 32 in summary.**

The Workgroup considered the compliance assessment for Modification 0678A.

Article 4 - Transmission and non-transmission services and tariffs. It was viewed that the cost drivers were met, the cost drivers in relation to distance is not relevant. The Workgroup considered if this assessment for dealing the Reference Price Methodology was in the right place. Following consideration of the views provided for Article 4. It was believed that the Postage Stamp method would be compliant with TAR NC for Article 4.

Article 6 - Reference price methodology application. The Workgroup considered the adjustment element of the RPM. There was a challenge that x…….

**Article 7 - Choice of a reference price methodology**

The Workgroup considered historical sunk costs and recovery a residual in a non-distortive manner.

**Article 8 - Capacity weighted distance reference price methodology.**

The Workgroup considered the NRA/ TSO requirements and to provide the relevant obligations for the inputs. It was recognised this would be a requirement when considering the Legal Text. For the relevant elements to be calculated the relevant tariffs would need to be within the methodology. The Proposer believed that the counterfactual needed to be within the UNC. Some Workgroup participants believed that….

**Article 9**

Adjustments of tariffs at entry points from and exit points to storage facilities and at entry points from LNG facilities and infrastructure ending isolation. The Workgroup

**Article 12 - General provisions**

Workgroup considered Article 12.3.a and 12.3.b the recalculation of interruptible products, the probability of interruption and that recalculation will be required if the probability increases beyond 20%. The Proposer believed that the Legal Text would need to capture this probability and that the Modification needs to address this within the solution. National Grid were asked to consider this also for Modification 0678.

**Article 18 – Under and Over Recovery**

The Workgroup considered the K value and that further clarity was required within the Modifications.

**Article 31 - Form of publication**

Workgroup considered whether the platform needed to be referred to in the UNC. National Grid believed that this element would not be required in the UNC in order for it to apply; not every element of the TAR NC needs to be incorporated in the UNC in order for TAR NC to apply, similar to the EU legislation. The Workgroup considered the setting of tariffs and methodology. National Grid clarified that data that applies to each Article in the TAR NC is published on the ENTSOG Transparency Platform[[24]](#footnote-27).

## Impact Analysis

Workgroup needs to agree what is in and what is not in.

How to treat fairly analysis connected with mods and that sent in separately

JO Suggestion:

can workgroup provide a statement for each piece of analysis then the analysis gets attached to Modification, however where a workgroup participant has provided some analysis, workgroup can provide a statement on it and the analysis gets attached as a part 1 appendix.

Consistent presentation of analysis (formatting) is important for comparison purposes. From the start of Workgroups on 29 January 2019 to the end of the first series of Workgroups on 06 March, the Joint Office and Workgroup participants consistently requested analysis for Modification 0678, on which to make assessments of the impact of the Modification 0678 and its Alternatives.

From the outset National Grid made it plain that analysis would be provided for Modification 0678 only. National Grid also made it clear that when parties wishing to have access to data which was not available and was required for other analysis approached National Grid for assistance it would be given.

National Grid published the Sensitivity Tool as follows:

* v1
* v2
* v3

~~National Grid to facilitate the numbers into some consistent output for comparison purposes – update expected with sensitivity tool on Monday 11 February, (tool to come Friday 8~~~~th~~ ~~February) National Grid clarified that for areas of the proposal which are not covered by 0678 this must be discussed with National Grid. National Grid will provide this ONLY where the numbers required are not publicly available.~~

~~11 February 2019: Workgroup Participants expressed concern that National Grid does not have the required resources to satisfy Ofgem’s requirements for adequate workgroup development and analysis required to produce a well thought-through and robust Workgroup Report.~~

~~Workgroup requested that this is noted at the extraordinary UNC Modification Panel on 12 February 2019.~~

~~UNC Panel noted the concern and have asked for an update at the next Modification Panel meeting on 21 February 2019.~~

~~Workgroup requested clarification from National Grid as to what analysis it should expect to see for Modification 0678. National Grid clarified that it was expecting to produce five years’ worth of prices as charts against current prices and revenue distributions as outlined in the two summary tabs within the sensitivity tool. (as at 04 March 2019, this analysis from National Grid had not yet been presented to Workgroup).~~

**Initial Analysis of Modification 0678A**

Workgroup participants thanked the Proposer of 0678A for analysis on 0678A received by Workgroup on 04 March 2019, showing Revenue Recovery, highlighting the differences for Entry and Exit Points (distributional analysis). This material can be found under the Workgroup meeting 04 March 2019[[25]](#footnote-28). This analysis was based on the Sensitivity Tool provided by National Grid and published on 25 February 2019 (v2). Workgroup participants noted the difference from a CWD vs PS stance, relating to the distributional impact for 2019/20. Workgroup participants note that it would be ideal to extend this analysis into subsequent years.

Postage stamp reduces charges at the periphery of the system and increases them towards the centre.

Comparison of baseline with CWD and PS is needed – Workgroup is expecting this to come from National Grid since the data for this is theirs.

Move to appendix:

**Analysis from Vermillion based on Sensitivity Tool v2**

Workgroup participants thanked Vermillion for the analysis received by Workgroup on 04 March 2019 showing Entry and Exit Revenue, FCC (kWh/d) and Average Tariff (p/kWh/d) for 2019/20 and beyond: 2020/21 to 2023/24. Slides four and five have the April 2019 TO exit commodity charge listed for comparison. This material can be found under the Workgroup meeting 04 March 2019[[26]](#footnote-29). This analysis was based on the Sensitivity Tool provided by National Grid and published on 25 February 2019 (v2).

Workgroup noted in the Entry Revenue 2019/20 chart found on the second slide that Existing Contracts represented 17% of revenue with Beach Terminals representing 75%, IPs representing 7% and Storage negligible ~1%. Workgroup noted in the Exit Revenue 19/20 chart, found on the third slide, that most of the Exit revenue (over ~66%) is derived from the DNs; power stations represent the next largest segment.

Some Workgroup participants discussed whether the analysis in Exit Revenue 19/20 chart, found on the third slide, represents what might actually happen. Calculation of prices using the FCC then allows calculation of revenue utilising the FCC again; this assumes the flows equal to capacity indicated in FCC. National Grid further explained that the outputs from the sensitivity tool are provided in good faith and provide an illustration limited by the inputs. Individual shippers should understand and use the model at their own risk.

Some Workgroup participants noted that the revenue distribution charts are useful however they were based on a premise that shippers flow to the same booking under which FCC was calculated. In reality historical flows would be a better indicator of longer-term bookings over the five years. Going forward users will optimise their capacity bookings to more accurately reflect utilisation.

Some Workgroup participants did not agree that historical flows would be a better indicator because of the risk of substitution.

Workgroup participants pointed out that the FCC approach utilises five different numbers, one of which is supply and demand.

Some Workgroup participants noted that DNs will be booking to meet their full 1 in 20 peak day levels and that booking is likely to be flat across the year. DN Workgroup participants confirmed this is required.

Some Workgroup participants noted that use of the ***greatest*** of the five data sets in FCC requires justification which has not yet been seen by Workgroup.

**Summary of Analysis from Modification 0678 v3 Appendix 3 15 March 2019**

**Comparison of Reserve Prices**

This Proposal aims to produce capacity Reference and Reserve Prices that would be more stable and predictable than under the current regime. This analysis has been modelled using an assumption that some of the capacity booked will be interruptible/off peak (apportioning the FCC) based on an average percentage of interruptible capacity from gas year 2017/18 and adopting the FCC as outlined in the FCC Methodology appended to this Proposal, providing the resulting values over six years from 2018/19 to 2023/24.

The Reserve Prices as shown in the charts below are very close for each year, showing that use of the CWD approach provides quite a predictable pattern from year to year. Drivers of change would be the revenue inputs and the FCC Methodology inputs. Using the averaging effect from CWD there is a reduced spread of charges when compared to the current methodology. The following chart compares the current prices (combined QSEC and October 2018 commodity) to the calculated Reserve Prices under this Proposal (that consider the adjustment required to cater for Storage and Interruptible discounts).

A similar picture can be seen when looking at Exit data and comparing prices in a similar fashion. Across multiple years, at each offtake (an average GDN offtake is provided as a summary as there are too many offtakes to see the prices for) the prices are quite similar providing an improved degree of stability linked to a more stable FCC approach and also a predictable revenue pattern that could be followed using revenue forecasts.

**Comparison of anticipated Revenue Collection**

The four charts below (two each for Entry and Exit) show the Collected Revenue from 2017/18 current prices from the LRMC model and current revenue reconciliation treatment for Transmission compared to collected revenue per sector for 2018/19 from the CWD model and overall proposed Transmission Services framework under this Proposal. Using any other year from CWD would yield similar comparisons so only one is shown here.

The revenue collection shows that under the current approach some sectors are paying lower overall than if they paid full price commodity charges (i.e. using shorthaul) and full price (non-discounted capacity). Under this proposal there is a more equitable treatment and all sectors will be paying a more equitable price for the capacity charges. This shows up with some sectors, as a percentage of overall anticipated revenue collection, showing a larger percentage than under the current arrangements. This can be seen for Entry and Exit.

**Anticipated Revenue Collection**

The two tables below show the anticipated revenue profile using default parameters from the Transmission Services CWD Model 3.2. The table for Entry and for Exit shows that moving into 2018/19 and beyond use of the CWD approach provides a stable set of values moving from year to year. This is driven by stable CWD distances and an FCC methodology that should over time provide a solid basis for stability (as any new forecast would improve) and use of revenues which should yield a predictable path of change.

Entry and Exit Revenue collected per sector are as shown in the tables below. This shows that use of the CWD approach provides quite a predictable pattern from year to year. Drivers of change would be the revenue inputs and the FCC Methodology inputs, which is the same as the change in prices mentioned above.

A change can be seen within the Entry Revenue table below, as for 2017/18 this was the revenue collected for that Gas Year at the different sectors, these values include the Existing Contract values but in 2018/19 onwards the Existing Contract value can be seen as a separate row, but this value will be paid by the respective parties who hold those Existing Contracts.

Entry Revenue collected per sector

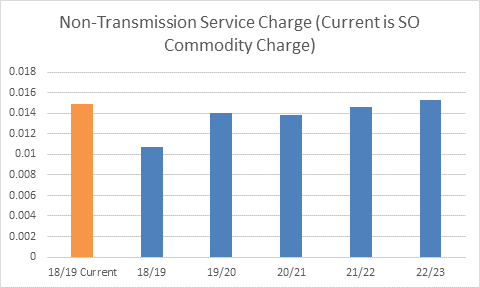


Exit Revenue collected per sector



**Non-Transmission Service Charges**

Calculating the Non-Transmission Services charges, which can be compared to the SO Commodity charge, presents the anticipated results shown in the chart below. There is not a substantial difference in the overall charge for Non-Transmission Services. Key underlying changes are than no NTS Optional Commodity Rate charges (‘Shorthaul’) are present under this Proposal whereas they are present in the current year (2018/19).



**Revenue comparison between this Proposal and Interruptible as Firm, plus between adjusted and pre-adjusted for RRC**

Sum of Calculated Entry Capacity Revenue (Based on Booking Scenario) 01-Oct-2019 to 30-Sep-2020 that show:

* As per this Proposal, adjusted for anticipated shortfall for interruptible and storage discounts.
* As per this Proposal, before the revenue adjustment is applied to recover anticipated shortfall from storage and interruptible
* As per this Proposal, without any assumption for interruptible (i.e. all as firm for the FCC) adjusted for anticipated shortfall for interruptible and storage discounts.
* As per this Proposal, without any assumption for interruptible (i.e. all as firm for the FCC) before the revenue adjustment is applied to recover anticipated shortfall from storage and interruptible



This shows that the use of a more informed FCC yields close to the allowed revenue.

Sum of Calculated Exit Capacity Revenue (Based on Booking Scenario) 01-Oct-2019 to 30-Sep-2020



A similar comparison for Exit is provided above.

Sum of Calculated Exit Capacity Revenue (Based on Booking Scenario) 01-Oct-2019 to 30-Sep-2020 that show:

* As per this Proposal, adjusted for anticipated shortfall for interruptible and storage discounts.
* As per this Proposal, before the revenue adjustment is applied to recover anticipated shortfall from storage and interruptible
* As per this Proposal, without any assumption for interruptible (i.e. all as firm for the FCC) adjusted for anticipated shortfall for interruptible and storage discounts.
* As per this Proposal, without any assumption for interruptible (i.e. all as firm for the FCC) before the revenue adjustment is applied to recover anticipated shortfall from storage and interruptible

This shows that the use of a more informed FCC yields close to the allowed revenue.

## Consumer Impacts

There will be impact on different consumer groups, but the allowed revenue collected by National Grid NTS will not change.

Energy UK: May also want to consider the Baringa analysis page 6

…. A useful message from our modelling results is that levying higher charges on marginal supplies can have a significant impact on wholesale gas prices and therefore on consumer welfare.

|  |  |  |
| --- | --- | --- |
| Consumer Impact Assessment(Workgroup assessment of Proposer initial view or subsequent information) | | |
| Criteria | Extent of Impact | |
| Which Consumer groups are affected? | Please consider each group and delete if not applicable.  * Domestic Consumers * Small non-domestic Consumers * Large non-domestic Consumers * Very Large Consumers | |
| What costs or benefits will pass through to them? | *Please explain what costs will ultimately flow through to each Consumer group. If no costs pass through to Consumers, please explain why. Use the General Market Assumptions approved by Panel to express as ‘cost per consumer’.*  Insert text here | |
| When will these costs/benefits impact upon consumers? | *Unless this is ‘immediately on implementation’, please explain any deferred impact.*  Insert text here | |
| Are there any other Consumer Impacts? | *Prompts:*  *Are there any impacts on switching?*  *Is the provision of information affected?*  *Are Product Classes affected?*  Insert text here | |
| ***General Market Assumptions as at December 2016*** *(to underpin the Costs analysis)* | | |
| *Number of Domestic consumers* | | *21 million* |
| *Number of non-domestic consumers <73,200 kWh/annum* | | *500,000* |
| *Number of consumers between 73,200 and 732,000 kWh/annum* | | *250,000* |
| *Number of very large consumers >732,000 kWh/annum* | | *26,000* |

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

N/A

#### Cross Code Impacts

None

## DN impact

DN Workgroup participants confirmed by email that DN analysis would begin upon receipt of the final FCC Methodology from National Grid on 15 March 2019.

~~This will be provided with the model forthcoming by close of play on 08 February 2019.~~

## Implementation timings

Preamble

A distinction needs to be made between decision and effective dates

**Proposed Effective Date**

National Grid confirmed that the Effective Date is the date from which new charges are first payable.

Workgroup noted that Modification 0678 proposes that the Effective Date would be

* two clear months after the Modification Direction Date or
* any other date stipulated in Ofgem’s Direction.

Modifications 0678A/D/E/F/G/H and 0678J are aligned with Modification 0678.

Workgroup participants observed that this may not provide for a minimum of two months’ notice of the new charges, depending on how quickly actual charges are published after the Modification Direction Date. For the avoidance of doubt this could be a period longer than two months.

Workgroup participants observed and National Grid confirmed that a derogation from licence may be required where the capacity charges would take effect other than 01 October and potentially with regards to the notice period.

A Workgroup participant noted that Proposers could have specified that the two months’ notice could begin after publication of charges, but no Proposers have chosen to do this.

Table 5 provides a summary of what each Modification proposes.

Table 6: Proposed and Recommended Effective Dates by Modification

|  |  |  |
| --- | --- | --- |
| **Modification** | **Proposed Effective Date** | **Recommended Effective Date** |
| 0678 | 01 October 2019 or as soon as possible afterwards | 01 October 2019 or as soon as possible afterwards |
| 0678A | 01 October 2019 or as soon as possible afterwards | 01 October 2019 or as soon as possible afterwards |
| 0678B | As directed by Ofgem | 01 October 2020 |
| 0678C | 01 October\* | 01 October\* |
| 0678D | 01 October 2019 or as soon as possible afterwards | 01 October 2020 |
| 0678E | 01 October 2019 or as soon as possible afterwards | 01 October 2019 or as soon as possible afterwards |
| 0678F | 01 October 2019 or as soon as possible afterwards | 01 October 2019 or as soon as possible afterwards |
| 0678G | 01 October 2019 or as soon as possible afterwards | 01 October 2020 |
| 0678H | 01 October 2019 or as soon as possible afterwards | 01 October 2020 |
| 0678I | 01 October 2019 or 01 October\* as soon as possible | 01 October 2019 or 01 October\* as soon as possible |
| 0678J | 01 October 2019 or as soon as possible afterwards | 01 October 2019 or as soon as possible afterwards |

\*The Proposers of Modifications 0678C and 0678I Transportation charges must be published at least 2 months in advance, as such this would need to be by 01 August.

Workgroup Participants discussed how two months is normal practice.

Workgroup Participants noted that specifying 01 October is designed to tie in with the Gas Year. Each Modification has highlighted this within their implementation section (Section 8 of the Modifications).

A Workgroup Participant further noted that, within Electricity Distribution, where there has been a methodology change agreed by Ofgem, a 15 months minimum notice period is given. (get link to electricity mod from John Costa).

A Workgroup Participant further noted that under TAR NC and CAM[[27]](#footnote-30), notice periods are specified for Interconnection Points.

National Grid stated that from the Effective Date all payable prices change.

A Workgroup Participant suggested that changes to charges at IPs could not be changed within year, once set in advance of the auctions, in line with requirements under CAM[[28]](#footnote-31).

Workgroup Participants noted the critical role that Ofgem has in relation to Compliance and potential within Gas Year implementation and required notice periods.

Some Workgroup Participants further noted the obligations under CAM should fall under the remit of the TSO.

**Ofgem input, Implementation dates and effective dates**

Ofgem will be preparing for an impact assessment (IA) and will then consider at the point at which the FMR is received whether in fact an IA is required.

Ofgem noted on the subject of implementation that in the 0678 decision letter, industry is required to ensure GB compliance with TAR NC and any other relevant legislation as soon as possible. (Implementation by 31 May 2019 or as soon as possible is the target). Some Workgroup Participants recognise this is likely to be after 31 May 2019, since Ofgem will likely need to come to a minded-to decision possibly involving an IA, given TAR NC requirements for 2 months consultation followed by 2 months for ACER feedback, followed by Ofgem’s final decision.

Workgroup noted that a notice period for advising of prices is required. Ofgem advised it will decide on this at a later point.

Some Workgroup participants asked if the date from which charges take effect could be 01 October 2020, noting that contracts tend to start at the start of a Gas Year.

Workgroup participants discussed Implementation date vs Effective date and some Workgroup participants noted the busiest time is March for the following Gas Year beginning 01 October. Some Workgroup participants stated, for the market to have confidence it seems sensible to have an effective date of 01 October 2020. Ofgem noted this observation.

Thus, on 29 January 2019, Workgroup 0678 requested a formal View (reference Modification Rules 12.8) from the Authority. The topics where a View was requested are:

* The feasibility of achieving 01 October 2019 implementation date
* The impact of not achieving this date, and
* The requirement to be compliant as soon as possible.

Some Workgroup Participants felt there is no clarity as to when charges from the new methodology will take effect. Will charges from the new methodology take effect ***within*** the Gas Year 2019/2020?

Some Workgroup Participants felt that while mid-year changes are allowed, it was important to have charges based on one given charging methodology for the duration of the Gas Year e.g. 01 October 2019 to 30 September 2020. This would avoid significant within-year changes in charges producing stability within the contract year and allows for the normal publication timings, giving 150 days’ notice. Note that this is indicative notice, 2 months is the usual notice for final charges and less is required for some auctions. (DH 31 Jan 2019) National Grid stated that mid-year changes to capacity charges would most likely require a derogation form the licence.

Other Workgroup Participants did not agree, noting that GB will not be compliant if GB does not have TAR NC compliant charges effective 01 October 2019.

A Workgroup participant noted that in the Netherlands, TAR NC has been implemented with charges taking effect from 01 January 2020. For the Netherlands this is the beginning of the Tariff year. According to Article 38 a compliant methodology shall apply from 31 May 2019.

National Grid referred to the words stated in the implementation section of its Modification 0678; this is also in 0678A.

Workgroup participants discussed financial implications of any potential infringement proceedings, which Ofgem indicated would be against GB. Ofgem noted the case of Frankovich v Italy for damage claims[[29]](#footnote-32).

From a systems perspective, Xoserve stated that implementation and effective dates are very important; any Alternatives must take this into account.

Implementation of any of these Modifications is proposed to be in line with an Ofgem decision.

Modifications 0678 and 0678A and 0678B xx and yy propose that implementation should be by 31 May 2019 or as soon as possible after this date.

Modification 0678 and its resulting methodology change will take effect for prices from 01 October 2019 or any other date in line with the Ofgem decision, in order to achieve compliance with the EU Tariff Code (or the relevant Statutory Instrument) as soon as possible.

Modifications 0678B x and yy recommend that their changes will take effect for process from 01 October 2020 or any other date in line with the Ofgem decision. The Proposer of 0678B confirmed that this is to enable a properly managed transition to the new charges including adequate notice periods. In addition, there are several processes subsequent to the UNC process. Noting that industry tend to construct commercial deals on a Gas Year basis, having some reasonable foreknowledge as to what the transmission charges and methodologies are likely to be.

Workgroup participants explored the effects on consumers. Without this certainty, suppliers may be forced to include risk premiums to manage the risk of charges changing which may not be in consumers best interests. Mid-year changes would cause significant issues from a retail trading point of view (e.g. break clauses)

Some Workgroup participants strongly supported the charge change dates of October 2020. An October – only implementation is exceptionally important. Charging methodology changes outside of an October timeframe are believed to be unprecedented in the last 15 years.

Some Workgroup participants did not support an October 2020 charge change date because this suite of Modifications is aimed at compliance with TAR NC which says a methodology should be in place by 31 May 2019 in effect for charges for October 2019 (xx Article number from DH).

National Grid stated the information contained in its Modification, confirming Ofgem’s decision will dictate the relevant date.

Many Workgroup participants sought to highlight that it is not feasible to implement this suite of Modifications by October 2019 and therefore questioned why Urgency was sought by National Grid. Issues include opportunity to develop Alternatives, impact assessments by Ofgem, requirement for Article 26 consultation and notice given to industry for potentially significant/unknown changes to prices.

National Grid noted the Modification 0678 aims to deliver compliant implementation “by October 2019 or as soon as possible after implementation”. The aim is to get the FMR to Ofgem as soon as possible and by 23 April 2019 (in line with the Urgency timetable) in order to enable Ofgem to begin work on this as soon as possible, aiming at new prices being effective for October 2019. Modifications coming out of 0670R and Modification 0662 have a dependency on the outcome of Modification 0678 or its Alternatives.

Some Workgroup participants noted the uncertainty around Brexit and its effect on these dates; if there is ‘No Deal’, GB’s obligation to comply with TAR NC ceases. Given how difficult it is acknowledged to be to meet the October 2019 deadline, some Workgroup participants suggested that Ofgem is best able to determine an appropriate date for new charges.

Workgroup participants noted that the processes required subsequent to submission of the FMR to Ofgem on 23 April 2019 will take up time and are highly likely to take the Ofgem decision past 31 May 2019. Workgroup noted that gas storage auctions take place in April, in line with storage licences and this will be too late for customers to bid for storage capacity with certainty. This will have adverse consequences for storage businesses which would be averted if charge changes were to take place from October 2020.

Exit capacity can be purchased or surrendered in the July capacity auction application windows; shippers will need to know charges in advance of this date in order to be able to respond to prices. Similarly, in July interconnector PRISMA auctions also take place with similar response concerns.

**27 February 2019**

Some Workgroup participants noted that an implementation date other than 01 October would create a cross subsidy between IPs and non-IPs and also a difference of methodology between IPs and non-IPs, which is believed to not be compliant with TAR NC Article 6.3 in the view of Workgroup participants. This was noted whilst considering the Legal Text on 27 February 2019 which would be created to enable a mid-year effective date (e.g. Transition Document Paragraph 25.5). If there were to be an effective date other than 01 October there would be a different application of the methodology at IPs and non-IPs which is not believed to be compliant with Article 6.3, which would also create a cross subsidy between those points. Other Workgroup participants wished to review this aspect of TAR NC again before agreeing with the Workgroup.

Some Workgroup participants noted that in 0678B, there is a recommendation for 01 October 2020 effective date, however the Proposer does not feel they can provide a solution for a mid-year change, since such a change is contingent on decisions over which the Proposer does not have control, e.g. licence changes/derogations.

**Profiling factor 06 March 2019**

Workgroup participants expressed concern over the lack of clarity over how the profiling factor will be determined (whilst reviewing a draft of Modification 0678 v3). This is an issue for implementation and some workgroup participants felt it was a transparency issue. Workgroup noted this will give an improvement over the current situation.

Workgroup participants noted that the purpose of the profiling factor is aimed partially at smoothing the level of volatility of prices caused by the difference between the Gas Year and the Regulatory Year.

Workgroup participants noted that Users must be able to understand how this will work in practice, especially for any mid-year implementation for the first year.

Other Workgroup Participants noted that October is mid-year in terms of the Regulatory Year and so this issue is present with any 01 October implementation date.

Only a 01 October implementation date will apply. This is to ensure compliance with TAR Article 6.3 to avoid different charging methodologies for IPs and non-IPs and compliance with CAM Article 9 as would arise in the current solution defined in legal text for 678.

CAM Article 9.2 defines yearly standard capacity product as for a gas year starting on 1st October. UNC GTC 2.2 defines gas year and capacity year as from 01 October.

However, proposed legal text Annex C 25 contradicts this. EU law takes precedent and therefore what is proposed in 678 is not compliant with CAM code.

Further, EU TAR NC Article 12.3 states prices published according to Article 29 are binding for the gas year. Indeed, EU law for chapters VI and VIII of EU TAR are already in force and define the gas year consistent with CAM. The reference is listed below for slides 23 & 24 which state GB is already compliant with publication requirements of chapter VIII Art 29-32.

<https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/page/2017-09/Tx%20WG%20September%202017.pdf>

Article 32 states Article 29 information must be published 30 days before the annual yearly capacity auction, so early June for July auction and Article 30 no later than 30 days before the tariff period.

As stated, Article 29 a (i) includes reserve prices until at least the end of the gas year beginning after the annual capacity auctions, for standard capacity products for firm capacity.

Standard capacity products in CAM article 9 includes yearly, quarterly monthly daily and within day.

Therefore, once these are set for IPs, they cannot be changed within year – which legal text for 678 appears to suggest can be done.

In addition, if IPs and non-IPs were to be treated differently by having different effective dates and therefore different charging RPMs this would not be complaint with Article 6 of EU TAR NC. To be compliant with CAM and TAR only an effective date of 01 October is permissible.

**28 March 2019**

Workgroup Participants discussed the profiling factor and noted that the Legal Text associated with this provides a more detailed solution than the wording set out in the Solution section of Modification 0678. Proposers of all the Modifications (except 0678C and 0678I where it is not relevant) confirmed that the intent is clear in the Solution of their Modifications.

Other Workgroup Participants expressed concern that the Legal Text goes further than the Solution and that this may be of concern to the UNC Panel.

National Grid stated that the non-Transmission Services Revenue refers back to Section 1.6 in TPD Section Y paragraph 4.7.2 wording, which provides for a part year determination of Allowed Revenue. NG to supply wording here

**Effective date and notice periods**

Workgroup participants noted that two months’ notice proposed in the draft Modification 0678 v3 has not had any justification in terms of impact on Users. National Grid confirmed it is suggesting two months in line with best practice.

Some Workgroup participants noted that under Modification 0636, Ofgem requested Shippers give their views on implementation impacts to Ofgem. This could be requested again by Ofgem. Ofgem confirmed consultation respondents can contact Ofgem separately during the forthcoming consultation, though non-confidential responses are by their very nature more transparent.

**Interaction with other (non-0678) Modifications**

Modification 0678B does not rely on any output from the UNC 0670R review group in respect of replacing the Optional Commodity Charge with a new solution. The non-application of the transmission services revenue recovery charge to all Existing Contracts means that the solutions being developed under Modification 0662 are not required.

## Independent Assurances on the development of any new Charging Models

In the development and use of the required Charging tools or applications to calculate the required charges under the approved proposal, National Grid will carry out formal assurance activities, assessments and audit’s (as required) in preparedness of using for the generation of actual charges. This will be to ensure they are robust in the generation of charges in line with the approved charging framework. For any tool that will be made available to industry this will also undergo similar activities and provide a level of transparency to enable reference and reserve prices to be replicated.

Any models prepared by National Grid or other Proposers in the development of 0678 and the alternatives are provided as indicative tools. They are provided as sensitivity models and do not represent the final tools that will be used, nor the final model(s) to be made external once a decision is made. All calculations in line with the methodologies are provided to a level of transparency to facilitate understanding and ability to model sensitivities for indicative charges for the available proposals.

## General Non-Transmission Charges

These charges are not Transmission Services as they are not considered to fall under the definition 4.1 of TAR NC. The charges can be attributed to Transmission or Non-Transmission, subject to approval by the NRA (in this case Ofgem). The proposals are that the charges listed in UNC0678 as Non-Transmission charges are treated as Non-Transmission Services and therefore contribute towards Non Transmission Services Revenue. [This is the same under all the proposals.]

The Calculation and application of all the charges listed under Non Transmission are to be the same as under the current methodology with similar wording applied as currently in the UNC Section Y to the revised text proposed under UNC0678. The General Non-Transmission Services Charges (Entry and Exit) are to be calculated in the same manner as the current SO Commodity Charges in that the other charges are forecasted then deducted from the target Non-Transmission Services Revenue to derive the amount to be recovered through the General Non-Transmission Services Charges (GNTSC). The GNTSC for Entry and Exit are commodity charges levied on eligible flows, which under UNC0678 is all Entry and Exit flows except those for Storage. Where there is an Optional Charge, such as in proposals 678B/G/H/I/J, these have some additional criteria to determine the level of the GNTSC due to the application of any Optional Charging Methodologies. Where used, these change the value of eligible flows to which the GNTSC would be calculated against and applied to.

There is limited change in approach between the current SO charging methodology and the proposed Non-Transmission Services charging methodology.

The treatment in the licence of SO revenue from interruptible capacity release will be considered Transmission Services Revenue. As this is capacity revenue it will be Transmission Services Revenue. It will not be treated as Non-Transmission Services Revenue. Currently some capacity revenue is treated as SO Revenue. This does not change as the TO and SO constructs remain the same as per NTS’s Licence requirements. However, UNC0678 creates Transmission and Non-Transmission Services as two new allowed revenue constructs and revenue associates towards capacity will always be treated as Transmission Services.

## K Principles and adjusting revenues in subsequent years

‘K’ is the under or over recovery from a previous revenue or formula year (i.e. April to March) that is added to or subtracted from the allowed revenue for the year in which charges are being set. Under the RIIO-T1 price control there are two values for this, one for the TO (referred to as “K”) and one for the SO (referred to as “SOK”). The use of “K” is often referred to as the concept of taking an under or over recovery and applying to a subsequent year’s allowed revenues and therefore charges in a subsequent year. Under the RIIO-T1 (and for information RIIO-GD1) there is a two year lag, i.e. if K was an under recovery in the formula year 18/19 it would be added to the allowed revenue for the formula year 2020/21. If K was an over recovery it would reduce the subsequent allowed revenue. It is a means to manage with some knowledge how the under of over recovery in any given year is to impact a future year.

The recovery of any value under ‘K’ will therefore be added or subtracted to the part of the revenue to be recovered in the relevant year. K will continue to be split between Entry and Exit for Transmission Services, like it is in the current Transmission Owner charges. Therefore, an over recovery on Exit will reduce Exit charges in a subsequent year but not impact Entry. Likewise, Entry will not influence Exit in the same manner.

For Non Transmission, the equivalent “K” value is aggregated into a single number as the same rate is applied to both Entry and Exit General Non Transmission Services Charges.

For the purposes of determining and applying “K” values, all proposals have the same approach. Of note, with UNC678C (others?) there is a limit the number of times certain charges can be changed within year (for TSRRC) therefore K could be different should there be more price changes (for TSRRC) required under one of the Modifications that would permit it. Changing charges within year are used to minimise the potential K values that would be required to be added or subtracted to subsequent years revenues. UNC0678 (and most others) propose that TSRRC (if focusing on Transmission) can be updated as many times as needed providing sufficient time is granted. Under current arrangements changes to charges within year (for non-reserve price charges) typically are updated once mid-year after being set, and on occasions as second time. It is not expected for changes to such charges to exceed this.

## Central Systems Impacts

In response to a Workgroup Action request, the following update was received on 06 March 2019:

National Grid in collaboration with Xoserve (via Change Proposal 4376[[30]](#footnote-33)) is planning to deliver the required process and system change to meet the obligations set out in UNC Modification 0678 by October 2019.  For any proposal that is approved, it would be necessary to incorporate delivery of all features of the proposal into a compliant solution. Due to the unique nature of the project considering, timescales and efficient spend it is not possible to deliver a fully systemised solution meeting all the different requirements from every Alternative Modification. Where possible the system solution has been parameterised to provide the greatest possible flexibility, considering the constraints. The current Xoserve delivery costs are in-line with those provided in CP4376.

#### Some Workgroup participants expressed concern regarding the ability to deliver certain aspects of the Alternative Modifications depending on the complexity; an example of this is tagging of secondary trades.

Some Workgroup participants expressed concern about the lack of clarity about the required changes to UNC TPD Section S Invoicing and Payment) and further concern about Users’ ability to accommodate those changes within their own systems. Further, the timescales for change if implementation is in October 2019 are extremely challenging.

1. Relevant Objectives

This section is in a separate document at the moment for ease of editing/updating. The tables are left in as placeholders only.14 March 2019

Table 7: Impact of the Modification on the Relevant Objectives

|  |  |
| --- | --- |
| Impact of the Modification on the Relevant Objectives: | |
| Relevant Objective | Identified impact |
| a) Efficient and economic operation of the pipe-line system. |  |
| 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. |  |
| c) Efficient discharge of the licensee's obligations. |  |
| 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. |  |
| 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. |  |
| f) Promotion of efficiency in the implementation and administration of the Code. |  |
| 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. |  |

Demonstration of how the Relevant Objectives are furthered: (in separate document)

Table 8: Impact of the Modification on the Relevant Charging Methodology Objectives

|  |  |
| --- | --- |
| Impact of the Modification on the Relevant Charging Methodology Objectives: | |
| Relevant Objective | Identified impact |
| a) Save in so far as paragraphs (aa) or (d) apply, that compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its transportation business; |  |
| 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; |  |
| b) That, so far as is consistent with sub-paragraph (a), the charging methodology properly takes account of developments in the transportation business; |  |
| 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 |  |
| 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). |  |
| 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. |  |

1. Legal Text

#### Workgroup Text Commentary

#### On 27 February 2019 Workgroup reviewed the Legal Text prepared for Modification 0678 including:

* Modification 0678 - Annex A Draft Legal Text TPD B (63512674\_1)
* [Modification 0678 - Annex B Draft Legal Text - TPD Y Part I-A (58815157\_3)](https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/book/2019-02/Modification%200678%20-%20Annex%20B%20Draft%20Legal%20Text%20-%20TPD%20Y%20Part%20I-A%2858815157_3%29.pdf" \t "_blank)
* [Modification 0678 - Annex C Draft Legal Text - TDIIC (63512687\_1)](https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/book/2019-02/Modification%200678%20-%20Annex%20C%20Draft%20Legal%20Text%20-%20TDIIC%2863512687_1%29.pdf" \t "_blank)
* [Modification 0678 - Annex C Draft Legal Text - TDIIC (63512687\_1 Marked Up)](https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/book/2019-02/63512687_1.pdf" \t "_blank)
* [Modification 0678 - Draft Legal Text (63537862\_1)](https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/book/2019-02/Modification%200678%20-%20Draft%20Legal%20Text%2863537862_1%29.pdf" \t "_blank)

#### Some changes were noted and were envisaged to be required. A key discussion was on the effect of a mid- year effective date. National Grid agreed to consider this matter further in regard to 0678. Proposers of Alternatives also agreed to consider whether their Modifications should explicitly state whether a mid-year effective date is envisaged.

Workgroup participants expressed deep concern that the timelines do not allow Workgroup to review any further Legal Text; noting that several of the Alternatives include drastically different elements. Industry will therefore have very little if any opportunity to examine such Legal Text. Such legal text will then only have been reviewed by those drafting it, the Transporter responsible for drafting and the Proposer. Workgroup participants were concerned at the lack of opportunity to review the legal text given the significant variations in some of the many Alternatives.

Workgroup participants requested that the UNC Modification Panel consider on 01 March 2019 how the provision of Legal Text is properly reviewed, noting that the full complement of Legal Text will be provided during the consultation period. For example, how much before the end of the consultation period could Legal Text be provided in order to enable consultation responses to be amended once the legal text is available for reviewing. Workgroup participants asked Panel to note that some of the Alternatives contain significant variations from 0678.

The above request to the UNC Modification Panel was somewhat overtaken by the Independent Panel Chair writing to Ofgem on 28 February 2019 outlining concerns relating to the 0678 timetable. Therefore, the matter was not considered at the 01 March 2019 extraordinary Panel.

Ofgem’s decision received at Workgroup verbally on 06 March and published on 08 March 2019 extended the timetable.

#### Text Commentary

Insert text here

#### Text

Insert text here

1. Recommendations

#### Workgroup’s Recommendation

The Workgroup Report has been completed in line with the recommended timetable and will now proceed to consultation.

1. Appendix 1: Impacts of Proposal on NTS Capacity Auctions



1. Appendix 2: Compliance Statements for all Modifications

1. http://www.gasgovernance.co.uk/0678/ [↑](#footnote-ref-3)
2. NTSCMF meetings in February, March and April 2019 took place but were only very short in duration due to very light agenda items. The Joint Office was thus able to schedule Workgroup 0678 meetings immediately after the NTSCMF meetings on those days. [↑](#footnote-ref-4)
3. [↑](#footnote-ref-5)
4. Allowed revenue comprises past and future cost. [↑](#footnote-ref-6)
5. Workgroup noted that consideration of any similarities or otherwise with the Electricity Charging regime is a consideration of Ofgem, though it is not a UNC Relevant Objective. [↑](#footnote-ref-7)
6. <https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/page/2018-12/Ofgem%20Decision%20Letter%200621.pdf> [↑](#footnote-ref-8)
7. In addition. there are adjustments to revenues in the event National Grid is on course to under or over recover within the Revenue restriction with regards to interest payments. Further there are Licence conditions related to the potential for over recovery in two consecutive years. There are restrictions on whether charges can be increased. [↑](#footnote-ref-9)
8. Insert GTCR extract – JEFF Chandler needs to supply this [↑](#footnote-ref-11)
9. The forecast is a consolidated view of the FES forecasted scenarios: <http://fes.nationalgrid.com/fes-document/> ). [↑](#footnote-ref-12)
10. <https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/page/2018-12/Ofgem%20Decision%20Letter%200621.pdf> [↑](#footnote-ref-13)
11. <https://www.ofgem.gov.uk/sites/default/files/docs/2015/11/gtcr_confirmation_of_policy_view_and_next_steps.pdf> [↑](#footnote-ref-14)
12. Link to 0621 decision letter [↑](#footnote-ref-15)
13. Ofgem extension letter [↑](#footnote-ref-16)
14. <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32017R0460> [↑](#footnote-ref-17)
15. <https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/book/2019-02/WWA%20GSOG%20NTS%20CapacityDiscountsReport270219finaldraftv0%205.pdf> [↑](#footnote-ref-18)
16. https://www.ofgem.gov.uk/system/files/docs/2018/06/unc636\_request\_for\_evidence.pdf [↑](#footnote-ref-19)
17. http://www.gasgovernance.co.uk/0636 [↑](#footnote-ref-20)
18. Need to put in link [↑](#footnote-ref-21)
19. Some Workgroup participants noted that the Wheeling Charge in 0678I may need to be examined in the same light, in respect of DN points; this has not yet been completed (04 March 2019). [↑](#footnote-ref-22)
20. [1] Some Workgroup participants noted that the Wheeling Charge in 0678I may need to be examined in the same light, in respect of DN points; this has not yet been completed (04 March 2019). [↑](#footnote-ref-23)
21. <https://www.ofgem.gov.uk/system/files/docs/2017/03/tcr-consultation-final-13-march-2017.pdf> [↑](#footnote-ref-24)
22. Workgroup participants noted that the CWD version proposed here is a GB market version of CWD. [↑](#footnote-ref-25)
23. Small Business, Enterprise and Employment Act 2015. <http://www.legislation.gov.uk/ukpga/2015/26/pdfs/ukpga_20150026_en.pdf> [↑](#footnote-ref-26)
24. ENTSOG Transparency platform: <https://transparency.entsog.eu/> [↑](#footnote-ref-27)
25. http://www.gasgovernance.co.uk/0678/040319 [↑](#footnote-ref-28)
26. http://www.gasgovernance.co.uk/0678/040319 [↑](#footnote-ref-29)
27. Link to CAM [↑](#footnote-ref-30)
28. Link to CAM from Pav prices before IP auctions [↑](#footnote-ref-31)
29. [↑](#footnote-ref-32)
30. Change Proposal XRN4376 can be found here:

    <https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/book/2018-02/CP4376%20-%20GB%20Charging%20BER%20v2.0.pdf> [↑](#footnote-ref-33)