











UNC Draft Modification Report	At what stage is this document in the process?
<h1>UNC 0678A:</h1> <h2>Amendments to Gas Charging Regime (Postage Stamp)</h2>	<div>01 Modification</div> <div>02 Workgroup Report</div> <div>03 Draft Modification Report</div> <div>04 Final Modification Report</div>
<p><b>Purpose of Modification:</b></p> <p>The purpose of this Modification proposal 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). The Modification proposes the implementation of Postage Stamp charging methodology.</p>	
	<p>This Draft Modification Report is issued for consultation.</p> <p>All parties are invited to consider whether they wish to submit views regarding this modification.</p> <p>This Modification is subject to Authority Direction.</p> <p>The close-out date for responses is <b>08 May 2019</b>, which should be sent to <a href="mailto:enquiries@gasgovernance.co.uk">enquiries@gasgovernance.co.uk</a>. A response template, which you may wish to use, is at <a href="http://www.gasgovernance.co.uk/0678">www.gasgovernance.co.uk/0678</a>.</p> <p>The Panel will consider the responses and agree whether or not this modification should be made.</p>
	<p><b>High Impact:</b></p> <p>All parties that pay NTS Transportation Charges and/or have a connection to the NTS, and National Grid NTS</p>
	<p><b>Medium Impact:</b></p> <p>N/A</p>
	<p><b>Low Impact:</b></p> <p>N/A</p>

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Timetable		 0121 288 2107
<b>Modification timetable:</b>		Proposer: <b>Bill Reed</b> <b>RWE Supply &amp; Trading GmbH</b>
Ofgem decision on urgency	25 January 2019	 <a href="mailto:enquiries@gasgovernance.co.uk">enquiries@gasgovernance.co.uk</a>
Initial consideration by Workgroup	29 January 2019	 <a href="mailto:Bill.Reed@rwe.com">Bill.Reed@rwe.com</a>
Final consideration by Workgroup	10 April 2019	 07795 355310
Workgroup Report Finalised	10 April 2019	Transporter: <b>National Grid</b>
Publication of Draft Modification Report	12 April 2019	Systems Provider: <b>Xoserve</b>
Draft Modification Report issued for consultation	15 April 2019	 <a href="mailto:commercial.enquiries@xoserve.com">commercial.enquiries@xoserve.com</a>
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	

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## 1 Summary

### What

This Modification proposes to introduce a new Gas Transmission Charging regime that produces stable and predictable transportation charging and is compliant with EU Tariff Code (Regulation 2017/460). This Modification also takes into account the decision to reject MODIFICATION 0621<sup>1</sup> and its Alternatives citing areas of non-compliance. This Proposal addresses the areas of compliance identified in this decision. The Modification proposes the implementation of Postage Stamp charging methodology, rather than Capacity Weighted Distance as proposed in Modification 0678.

### Why

The Transportation Charging Methodology currently in place for the calculation of Gas Transmission charges, and the methodology to recover Transmission Owner (TO) and System Operator (SO) revenue through Entry and Exit charges, have been in place for a number of years. Whilst there have been some changes in the last ten years, the basic approach to calculating Entry and Exit Capacity charges and the approach to revenue recovery has not substantially changed.

A critique of the current Long Run Marginal Cost (LRMC) methodology (undertaken by the NTSCMF – concluding in January 2017<sup>2</sup> – with updated analysis presented during development of UNC Modification Proposal 0621 in April 2018<sup>3</sup>) identified that it is too volatile, unpredictable and does not provide stability of charges for Users.

### How

This Modification proposes to introduce changes to the charging framework by way of making changes to UNC TPD Section Y. It will also be necessary to make changes to other sections of the UNC TPD (Sections B, E and G) and EID Section B).

At its core, this Modification proposes to move from a Reference Price Methodology (RPM) that calculates the capacity prices using the Long Run Marginal Cost (LRMC) method to one that is based on a Postage Stamp approach. It also proposes an updated approach with changes to capacity pricing multipliers, capacity discounts and interruptible pricing review to better meet the required objectives.

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<sup>1</sup> See <https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/page/2018-12/Ofgem%20Decision%20Letter%200621.pdf>

<sup>2</sup> Material at <https://www.gasgovernance.co.uk/ntscmf/subg1page>

<sup>3</sup> Material at <https://www.gasgovernance.co.uk/0621/200418>

It introduces some terminology from the EU Tariff Code, specifically 'Transmission Services Revenue' and 'Non-Transmission Services Revenue'. The revenues will map across to TO and SO revenues thereby not changing the total revenue to be collected through Transportation charges. The more material change will be the amendments to the charging methodologies in calculating the charges that will be applied to recover the allowed revenues from NTS network Users through the Transportation charges.

This proposal also introduces, for some aspects of this methodology change, mechanisms to review and refine components of the charging framework, notably the Forecasted Contracted Capacity (FCC), capacity pricing multipliers and interruptible pricing, over time so they continue to better facilitate the relevant methodology objectives<sup>4</sup> and support the evolution of the GB charging regime.

## 2 Governance

### Justification for Urgency

This Modification should be treated as urgent and considered alongside Modification 0678. The Modification should proceed under a timetable approved by the Authority. The proposed timeline for Modification 0678 is presented under the timetable of this Modification.

Urgent status is sought on the basis that need for material elements of this Proposal are driven by an imminent date related issue, this being the requirement in Article 38(3) of Regulation 2017/460 ('the Regulation') for the relevant Chapters of the Regulation (II, III and IV) to take effect from 31 May 2019. In terms of Transportation charge rates, the consequential changes are therefore required to take effect for the following Gas Year commencing 01 October 2019.

In broad terms, the relevant Chapters of the Regulation include the need to apply a different RPM (Chapter II), rules regarding the derivation of Reserve Prices (Chapter III) and rules regarding the reconciliation of revenue (Chapter IV).

If this not urgently addressed, this may cause UNC parties to be in breach of relevant legal requirements detailed within the Regulation as the prevailing NTS Charging Methodology (contained in UNC TPD Section Y Part A) will not be compliant with the Regulation.

Whilst EU regulations are likely to be no longer directly applicable in GB with effect from 29 March 2019, the principle approach specified in the European Union (Withdrawal) Act 2018 is to incorporate EU law (existing immediately prior to UK exit from the EU in March 2019) into UK law (effective from March 2019). Accordingly, the principles enshrined in the Regulation will, as far as possible, be alternatively mandated by a UK Statutory Instrument (specifically Schedule 5 of The Gas (Security of Supply and Network Codes) (Amendment) (EU Exit) Regulations 2019).

On this basis, the legal requirement will be specified in either the Regulation or within the reflective Statutory Instrument.

This Modification will change the charging framework and methodology to recover National Grid's regulated revenues via Transportation Charges. This Modification, to meet compliance with the Regulation and to deliver the changes outlined to the charging arrangements, will impact all parties that pay Transportation Charges and / or have a connection to the NTS, and National Grid NTS. As a result, this poses a significant commercial impact

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<sup>4</sup> As described in Standard Special Condition A5: 'Obligations as Regard Charging Methodology' of the NTS Licence, paragraph 5.

on all parties mentioned and will, in turn, have impacts for the reciprocal charges levied to customers and for interested stakeholders of NTS customers and how they in turn recover costs and charge for their recovery.

This Modification also takes into account the decision on MODIFICATION 0621 and its Alternatives<sup>5</sup>. This Proposal addresses the areas of compliance identified in this decision. The requirement for this Modification and the Ofgem decision on MODIFICATION 0621 and its Alternatives was discussed at NTSCMF on 10 January 2019.

## Justification for Authority Decision

This Modification proposal is recommended to be sent to the Authority for direction as it is likely to have a material effect on commercial activities relating to the shipping, transportation and supply of gas because, if implemented, it is likely to have a material impact on the allocation of charges across NTS networks Users.

## Requested Next Steps

This Modification should:

- be treated as urgent and should proceed as such under a timetable agreed with the Authority alongside Modification 0678.

## 3 Why Change?

### Drivers

3.1. The methodology which is currently in place for the calculation of Gas Transmission Transportation charges, and the methodology to recover TO and SO revenue through Entry and Exit charges, has been in place for a number of years. Whilst there have been some changes in the last ten years, the basic approach to calculating NTS Entry and Exit Capacity charges and the approach to revenue recovery arrangements have not substantially changed. What has been seen is change in the patterns of capacity booking behaviours, and the impact on the charges as a result due to the interactivity inherent within the methodology, which were not anticipated. Additional regulatory drivers for changes to the charging framework are:

3.1.1. **The EU Tariff Code**<sup>6</sup>;

3.1.2. Ofgem's Gas Transmission Charging Review<sup>7</sup> and decision on MODIFICATION 0621 and its Alternatives<sup>8</sup>. In addressing the decision letter to reject MODIFICATION 0621 and its Alternatives the Modification proposes changes that ensures compliance with the TAR Network

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<sup>5</sup> See <https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/page/2018-12/Ofgem%20Decision%20Letter%200621.pdf>

<sup>6</sup> [http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L\\_.2017.072.01.0029.01.ENG&toc=OJ:L:2017:072:FULL](http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2017.072.01.0029.01.ENG&toc=OJ:L:2017:072:FULL)

<sup>7</sup> <https://www.ofgem.gov.uk/gas/transmission-networks/gas-transmission-charging-review>

<sup>8</sup> <https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/page/2018-12/Ofgem%20Decision%20Letter%200621.pdf>

Code (TAR NC) and through the postage stamp approach ensures that the historic sunk costs of the NTS are recovered from Users in manner that is fair, proportionate and non-distortive.

- 3.1.2A An assessment of compliance with the EU Tariff Code (COMMISSION REGULATION (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas is included in Annex 1 to this proposal.3.2. As a result of changing behaviours, such as increased uptake in short term zero-priced capacity, there is an increase in reliance on commodity charges to recover TO revenue. Zero priced capacity has arguably resulted in overbooking of capacity, surplus to User's requirements. The high TO commodity charges, driven largely by the zero priced capacity can also result in unstable and unpredictable charges. Other charges, such as the NTS Optional Commodity charge (also referred to as "Shorthaul"), have also seen a significant increase in its use which has impacted on other charges in a way that was not originally envisaged.

### **Mapping Revenues**

- 3.3. Within the collection of revenue there are some changes to the terminology used to assign the revenue for the purposes of ultimately calculating charges. These changes are required by the EU Tariff Code. This relates to mapping TO Revenue and SO Revenue to Transmission Services Revenue and Non-Transmission Services Revenue. This does not affect the actual allowed revenue National Grid will be required to recover through the charges.
- 3.4. There are a number of targeted charges in the current methodology and it is necessary to consider which revenue they will contribute towards:
- 3.4.1. The Distribution Network (DN) Pensions Deficit Charge and NTS Meter Maintenance Charge, under the EU Tariff Code (Article 4), do not fall into the specific criteria for Transmission Services. This Modification proposes that these will be classified as Non-Transmission Services charges thereby contributing towards Non-Transmission Services Revenue.
- 3.4.2. The St. Fergus Compression charge will be a Non-Transmission Services charge.
- 3.4.3. The methodologies to calculate these charges (DN Pensions Deficit, NTS Meter Maintenance and St. Fergus Compression) are not proposed to be reviewed at this time. Whilst these could be considered as either Transmission Services or Non-Transmission Services, providing it is approved by the National Regulatory Authority (NRA), it is proposed this is a pragmatic way to charge for these items.
- 3.4.3A Certain charges in respect of NTS Capacity (but not including Overrun Charges) or the surrender of NTS Capacity are classified as components of SO allowed revenue but as they are levied for in respect of a Transmission Service, need to be included within Transmission Services Charge revenue.

### **Reference Price Methodology (RPM)**

- 3.5. The current RPM (including the adjustments applied in order to calculate capacity charges) produces charges that are volatile and unpredictable. This causes challenges for investment decisions and in predicting operational costs for connected parties year on year and as such, is a key area to be addressed.

- 3.6. Through an assessment of RPMs<sup>9</sup>, the main Alternative considered from the current method was the CWD model. By design this approach is generally more predictable, less volatile and more stable in nature and is more suited to a system that is about use and revenue recovery associated to use rather than linked to investment (marginal pricing). However, the CWD model uses both distance and capacity to allocate the historic sunk costs of the NTS.
- 3.7. The proposed use of a postage stamp methodology (with the CWD model as a counterfactual<sup>10</sup>) in the RPM resolves this issue by narrowing the range of prices and as such making them more predictable. This makes the RPM more relevant to how the NTS allowed revenue is recovered from Users of the network. It is also a fair, proportionate and non-discriminatory approach to the recovery of the allowed revenue, and it is consistent with the approach adopted for the recovery of historic sunk network costs adopted in the Ofgem minded to decision in the Targeted Charging Review for the electricity market<sup>11</sup>. The postage stamp approach is not designed to reflect current and future expectations related to the “use” of the NTS and does not seek to influence its use (driven through market behaviour). In developing a postage stamp approach the following Ofgem views are relevant<sup>12</sup>
- *“cost-reflectivity is more relevant to forward-looking charges than revenue recovery charges”;*
  - *“the following principles are relevant for assessing revenue recovery charges: i) reducing harmful distortions, ii) fairness to end consumers and iii) proportionality and practical considerations”*
  - *“In making a decision on gas network charges, we will keep these principles in mind, taking account of differences in gas and electricity charging and systems”;*
  - *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”.*
  - *“Only a limited proportion of the costs of a meshed network are directly attributable to particular points, and therefore a substantial proportion of NGGT’s revenue requirement cannot be unambiguously attributed to individual entry and exit points.”*

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<sup>9</sup> See <https://www.gasgovernance.co.uk/ntscmf/subg1model>

<sup>10</sup> The CWD model results in market distortions driven by entirely fictitious “use” of the system derived from the distance element of the CWD model. The CWD approach results in locational diversity in charges which distort market signals and could result in inefficient market entry and exit.

<sup>11</sup> See <https://www.ofgem.gov.uk/publications-and-updates/targeted-charging-review-minded-decision-and-draft-impact-assessment>

<sup>12</sup> See <https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/page/2018-12/Ofgem%20Decision%20Letter%200621.pdf>



- *“distance-based allocation of revenue recovery charges (i.e. CWD methodology and variants on CWD) would attribute a greater proportion of network costs to points on the network associated with longer average distances to other points on the network. Our current view is that there are several potential weaknesses with using distance as a factor for setting the reference price:*
  - *Setting higher charges to those bringing gas onto and taking gas off the system at points which are located further away would increase incentives on those users to reduce their usage of the network, for which there are unlikely to be any short to medium term associated cost savings.*
  - *The distances used in the CWD methodologies are typically averaged across all points for the purposes of setting prices, and the actual costs of a particular entry point to a particular exit point might not be “real” (i.e. such physical flows may never occur). Shippers book entry and exit capacity independently and nominate flows without specifying specific routes and therefore it is very difficult to allocate flows to specific assets. This type of treatment of distance is therefore unlikely to generate prices that are accurately cost-reflective of the physical transportation routes actually used. Although as we consider the charges resulting from the RPMs to be largely functioning as revenue recovery charges, cost-reflectivity is less relevant in any case.*
  - *Using distance in setting transmission entry and exit charges would mean those consumers who are located in more remote locations would pay higher transmission charges for entry and exit (other things being equal). This may not be considered a fair outcome as those consumers are not driving significant additional costs from their use of a shared network that is already built and that has spare capacity available.”*
- *“Incentives for a party to choose a particular location to benefit from lower transmission charges are likely to be lower under all proposals compared to the status quo, but higher under the CWD options compared to the PS option, which has no locational incentives”*

- 3.7A A comparison of revenue recovery between this modification proposal and the CWD RPM proposed under modification proposal Modification 0678 is included in Annex 2.
- 3.8. As a result of changing the RPM, any adjustments, discounts and other charges must be reviewed in order to avoid unintended consequences and to ensure that a clear impact assessment (including any Ofgem Impact Assessment) can be carried out on the total impact of these adjustments, discounts and other charges to NTS customers and to the end consumer.
- 3.9. This Proposal considers EU compliance with the EU Tariff Code which has a deadline to implement the changes of 31 May 2019. Price changes would apply from 01 October 2019 or as soon as possible after this date in line with a decision to implement.
- 3.10. This Proposal also seeks to establish a framework for review and update of key inputs to the newly established RPM which will further the objectives of the RPM.
- 3.11. This Proposal simplifies the charging methodology, limiting aspects of the methodology whereby some charges can materially impact other charges and also eliminating the influence between Transmission and Non-Transmission Services.
- 3.11A In conclusion, the Postage Stamp RPM meets the criteria under the TAR NC including Recital (3) (see also the views on the proposer on compliance with the TAR NC). In this context we note that distance is not a “cost driver” in relation to historical sunk costs. In addition, we are concerned that the use of distance in relation to the RPM may distort locational signals and does not reflect actual use of the NTS.



The CWD RPM cannot deliver a regime that is cost reflective since the distance is not an appropriate way to allocate underlying historical costs.

### **Forecasted Contracted Capacity (FCC)**

- 3.12. The proposed changes to the charging regime may result in changes to commercial behaviours in the procurement of capacity rights. The proposal for a forecast of contractual capacity (FCC) will be a key input into the reference price calculation.
- 3.13. The FCC will be a forecast of capacity bookings at each Entry and Exit Point. The values will be determined in accordance with a methodology (the “FCC Methodology”) under the UNC. The FCC Methodology will set out the way in which the FCC is calculated for the relevant charging year and the applicable FCC for each entry and exit point.
- 3.31A The FCC Methodology will be linked to a forecast of GB demand on the NTS for the tariff year for which reference prices are being produced. It will also review the historical capacity bookings where capacity has been allocated at a price greater than zero at each Entry and Exit Point, and forecast flow levels, to determine a value that will inform the proportion of capacity bookings for each specific Entry and Exit Point.
- 3.14. In consultation with Users (including DNO Users), the FCC Methodology will be subject to an annual review, and updated alongside the appropriate transportation charging statement and charging models. The review of the FCC Methodology will include consideration of any behavioural changes in capacity procurement observed under the revised charging regime with the aim of aligning the FCC values derived to actual bookings.
- 3.15. The FCC Methodology will be published ahead of each tariff year and communicated to industry as part of the publication of charges as required under the UNC and the TAR NC. The Methodology will be kept under review and any changes to the Methodology will be subject to the annual review process.
- 3.15A The FCC Methodology will take account of a range of inputs to inform a forecast for the gas year for which tariffs are to be generated (the relevant gas year). These inputs will take account of both historical and forecast data such as, and not limited to, be linked to a forecast of GB demand, historical sold capacity, historical flows on the NTS applicable to each Entry and Exit point. The resulting forecasted contracted capacity will be applicable for the tariff (gas) year for which Reference Prices are being produced.
- 3.15B In preparing FCC for each entry and exit point FCC Methodology will take into account the historical capacity bookings (where capacity has been allocated at a price greater than zero at each Entry and Exit Point), and forecast flow levels, to determine a value that will inform the proportion of capacity bookings for each specific Entry and Exit Point.
- 3.165C The initial FCC methodology will be determined by National Grid and take effect at implementation. This will use sold levels (only where a price greater than zero is the allocated price) will take account of the change in interruptible pricing. As there is a move away from 100% discounts to a 10% discount, the approach will reflect the booking levels where those procuring capacity have been paying a price greater than zero. The assumption on this particular item in the initial FCC Methodology is that, as they will have

incurred a liability, this capacity is more sought after than that for which a 100% discounted (zero) price was the outcome.

## **Multipliers**

- 3.16. Adjustments or separate charges can be applied in the calculation of the Entry and Exit Capacity Reserve Prices. These can serve a number of functions such as to acknowledge any potential risk associated with the type of Entry or Exit Capacity, to facilitate the recovery of revenues where relevant or beneficial to do so, and to encourage behaviours along with ensuring that the TSO fulfils any relevant obligations.
- 3.17. Multipliers are applied to the Reference Price to produce the Reserve Price. Under the EU Tariff code (Article 13), the Multipliers for Interconnection Point (IP) quarterly standard capacity products and for IP monthly standard capacity products should be no less than 1 and no more than 1.5. For IP daily standard capacity products and IP within-day standard capacity products, the Multipliers should be no less than 1 and no more than 3. For the IP daily standard capacity products and IP within-day standard capacity products, the multipliers may be less than 1 but higher than 0 or higher than 3, where duly justified.
- 3.17A A Multiplier of 1 is proposed for all capacity products in order avoid incentives for procurement of one capacity product in preference to another product. Users of the system should make their own commercial decisions when procuring capacity taking account of the duration required, the timing of the commitment & payment and the risk of scarcity (demand exceeding supply).
- 3.17b Given the proposal for the Multiplier to be explicit in the UNC, any subsequent change to the Multiplier would be subject to the UNC change process. This aspect is neutral on cost reflectivity grounds as the other aspects of the RPM apportion the charges, this makes no distinction between long or short term capacity.
- 3.18. Beyond 30 September 2020, or in line with the implementation of this Modification, Multipliers for IPs need to be consulted on each year (as per Article 28 of the EU Tariff code). Multipliers applicable to all Entry and Exit Points from implementation of this Modification are provided in the relevant part of section 5 (Reserve Prices produced from Reference Prices).

## **Discounts**

- 3.19. The pricing of Interruptible (Entry) / Off-peak (Exit) capacity will change from the current pricing approach. It will be consistent with the EU Tariff Code Article 16 and applied to all points. The changes proposed permit an adjustment to the relevant firm entry or exit Reserve Price in the calculation of a non-zero Reserve Price and the calculation of that Reserve Price for interruptible products.
- 3.20. The adjustment applied will be proportional to the probability of interruption and will be forward looking based upon an expectation of interruption over the coming year. An adjustment factor ('A' factor) may also be applied to reflect the estimated economic value of the product which will be factored into the assessment. Together, the probability of interruption and the 'A' factor make up the adjustment to be applied to the Reserve Price of the equivalent standard firm capacity product. The interruptible adjustment applicable to all Entry and Exit Points from implementation of this Modification are provided in the relevant part of section 5 (Interruptible (Entry) and Off-peak (Exit) Capacity).

- 3.20A National Grid has reviewed instances of interruption of the previous ten years, and applied the trends observed to a range of probability calculations, a discount above 10% is not supported. This remains the case even where an adjustment factor is applied and interruption levels at the most 'problematic' sites are taken in isolation. Overall, the probability of interruption for the vast majority of sites is very low (but not zero). Given this, and in order to maintain a degree of consistency in respect of the value of the discount, we have proposed a banding approach such that the discount will only change where there is a material change to the frequency of interruption on the System.
- 3.21. Within the EU Tariff Code there are requirements to apply further discounts for storage capacity, where that discount must be at least 50%. This minimum discount is specific to storage in order to avoid double charging and in recognition of the general contribution to system flexibility and security of supply of such infrastructure. An enduring storage discount value is proposed but it is recognised that EU Tariff Code requirements for the charging regime will be reviewed, as a whole, at least every 5 years.
- 3.22. Any specific 'site type' discounts contemplated by the EU Tariff Code (Article 9) are applied to the Reserve Price to produce a final Reserve Price for the particular Firm Entry or Exit Capacity product at that particular point. The adjustment for Entry Points and Exit Points will be based on the values specified in the Transportation Statement. The specific capacity discount applicable to all Entry and Exit Storage Points from implementation of this Modification are provided in the relevant part of section 5 (Specific Capacity Discounts).

### **Revenue Recovery**

- 3.23. The Modification incorporates a mechanism to manage the consequence of under or over recovery of revenues from Transmission Services Capacity Charges. The approach advocated is a capacity based charge (which for the avoidance of doubt may be positive or negative) on an enduring basis. is levied applied to the Fully Adjusted all capacity (at any points) apart from that classified as 'Existing Contracts' in order to give full effect to the provisions detailed in Article 35 of the EU Tariff Code. The Fully Adjusted capacity will be net of trades and buy-backs.
- 3.24. From implementation the charging framework would be expected to move towards dependency on a capacity forecast and a significantly reduced revenue recovery charge that would be capacity based achieving 100% capacity basis for recovery of Transmission Services revenue.
- 3.24.1. The calculation of the capacity prices will, at the time of calculation, take into account the revenue shortfall from any discounts referred to in paragraphs 3.17 to 3.20 of Section 3) in order to adjust the reserve prices such that the amount forecast to be under collected as a result of these discounts is reduced.
- 3.24.2. The approach in 3.22 means that less revenue will be required to be collected from the Transmission Services Revenue Recovery charges than if it were not carried out.

### **Managing inefficient bypass of the NTS (known as "Shorthaul")**

- 3.25. The Modification does not propose to retain a charge that discourages inefficient bypass of the NTS. National Grid has initiated a review under UNC governance (Request Group 0670R 'Review of the charging methodology to avoid the inefficient bypass of the NTS'10). It is therefore inappropriate at this point to include provision for such under this Proposal and thereby pre-empt the outcome of this work.

## **Existing Contracts**

- 3.26. It is proposed that the provisions will apply for Entry Capacity (for 01 October 2019 or from the effective date of this Modification, whichever is later) allocated up to 06 April 2017.
- 3.26.1. These are “Existing Contracts”, as outlined in Article 35 in EU Tariff Code where the “contract or capacity booking concluded before the entry into force of the EU Tariff Code – 06 April 2017, such contracts or capacity bookings foresee no change in the levels of capacity and/or commodity based transmission tariffs except for indexation, if any”.
- 3.26.2. The capacity procured and revenue expected to be recovered under these “Existing Contracts” impact the application of the CWD charging model (specifically when determining Reference Prices at Entry Points) and calculation of Transmission Services Revenue Recovery Charges.
- 3.26A EU Tariff Code Article 17 requires that “...the level of transmission tariffs shall ensure that the transmission services revenue is recovered by the transmission system operator in a timely manner...” and that “...the under- or over-recovery of the transmission services revenue shall be minimised...”.
- 3.26B Accordingly, to ensure that the Reference Prices determined by the proposed Postage Stamp RPM provide a level of revenue recovery as close to target as possible (thereby minimising amounts needing to be collected via revenue recovery mechanisms), the capacity already booked and revenue levels already ‘set’ in respect of Existing Contracts are netted off the aggregate capacity and aggregate revenue figures entered into the Postage Stamp RPM. Consistent with this aspiration, an additional scaling factor (as described in para 3.17) is applied to Reference Prices to account for the anticipated under collection driven by the application of any discounts (e.g. interruptible and specific capacity discounts).
- 3.26C The alternative approach of inclusion of capacity already booked and revenue levels already ‘set’ via Existing Contracts in the Postage Stamp RPM effectively ‘double counts’ any capacity and revenue for the relevant Entry Points and would have the consequence of setting Reference Prices at Entry Points too low to recover the target revenue. Inclusion of these elements in the Postage Stamp RPM would therefore be inconsistent, and arguably non-compliant, with Article 17.
- 3.26D Recognising that Article 6(3) of the EU Tariff Code requires that “...the same RPM shall be applied to all entry and exit points...” it is nevertheless the case in GB that Existing Contracts only occur at Entry Points. Should Existing Contracts have additionally existed at Exit Points it would have been necessary for the equivalent netting off to take place in respect of Exit Point to ensure compliance. Given the GB position, application of this at Entry Points only is not in conflict with Article 6(3).

## **Effective Date for the charges driven by this proposal**

- 3.26E The Effective Date of this proposal can be any date as determined by Ofgem. The Effective Date is required to provide at least two clear months’ notice from the date of the Ofgem decision, thereafter, taking effect from the 1<sup>st</sup> day of the of the following month, or any specific date stipulated by Ofgem in its decision. For example, unless a different date was provided by Ofgem, if a decision is made during

July, the charges would take effect from 1<sup>st</sup> October. If a decision is made in October then, unless otherwise specified by Ofgem, the Effective Date would be from 1<sup>st</sup> January.

3.26F To facilitate the changes as outlined in 0 it will be necessary to take into consideration actual and anticipated revenues to be collected up to this point to determine the target revenue to be applied for the remainder of the regulatory year.

## Aspects of the GB Charging Regime where there are no proposals for change

The following is a list of items for which changes are not being proposed at this time but could be the next steps in the evolution of the GB charging regime.

- Auction Structure – All timings for auctions will be as per prevailing terms (including any changes implemented to comply with CAM).
- Entry/Exit Split – No change is proposed to the current 50:50 split.
- Gas Year/Formula Year – the Formula Year (April to March) and Gas Year (October to September) will be retained.
- DN Pensions Deficit Charge – No change to the calculation or the application of the charge.
- St. Fergus Compression Charge – No change is proposed to the calculation or the application of the charge.
- NTS Metering Charge - No change is proposed to the calculation or the application of the charge
- Shared Supply Meter Point Administration Charges - No change is proposed to the calculation or the application of the charge
- Allocation Charges at Interconnectors - No change is proposed to the calculation or the application of the charge
- Categorisation of Entry and Exit Points – Maintain the link to the Licence for categorisation.
- Seasonal Factors – Not used in current methodology and propose not to introduce.
- Fixed Pricing – As per Modification 0611, Amendments to the firm capacity payable price at IPs.
- Allowed Revenue – No change as per the Licence.
- Principles and application of Interruptible – As per prevailing terms. In respect of IPs, the terms implemented pursuant to Modification 0500, EU Capacity Regulations - Capacity Allocation Mechanisms with Congestion Management Procedures.

## 4 Code Specific Matters

### Reference Documents

There are summary documents available on each of the topics (mentioned in the solution section of the Modification proposal) which have been discussed at NTSCMF and sub-groups related to the gas charging review, which are available at: <http://www.gasgovernance.co.uk/ntscmf/subg1page> and

<http://www.gasgovernance.co.uk/ntscmf/subg1model>.

Uniform Network Code (UNC) Section Y:

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

UNC European Interconnection Document (EID):

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

EU Tariff Code:

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

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

[https://www.entsog.eu/public/uploads/files/publications/Tariffs/2017/TAR1000\\_170928\\_2nd%20Implementation%20Document\\_Low-Res.pdf](https://www.entsog.eu/public/uploads/files/publications/Tariffs/2017/TAR1000_170928_2nd%20Implementation%20Document_Low-Res.pdf)

Uniform Network Code (UNC) Section B:

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

NTS Transportation Statements:

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

Customer and Stakeholder Objectives:

<http://www.gasgovernance.co.uk/ntscmf/060916>

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

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

Ofgem 0621 decision letter:

<https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/page/2018-12/Ofgem%20Decision%20Letter%200621.pdf>

## Knowledge/Skills

An understanding of the Section Y Part A within the UNC, NTS Transportation Statements, the EID within the UNC, Section B within the UNC, the EU Tariff code, GTCR documentation and the customer / stakeholder objectives developed within NTSCMF would be beneficial.

## 5 Solution

### High Level overview of the MODIFICATION 0678A Solution and Compliance with the TAR NC

The RPM under Modification 0678A must be compliant with the TAR NC. The provisions of the TAR NC with respect to the RPM are the relevant provisions in the UNC. Therefore, the provisions that form the RPM as required by TAR NC with respect to the RPM will reside in the UNC.

National Grid as the designated TSO for GB shall ensure that all and only the necessary provisions with respect to the RPM are set out in the UNC in compliance with the TAR NC. In this context the RPM under Modification 0678A comprises the following:

- A postage stamp RPM;
- A requirement that the capacity weighted distance RPM should serve as a counterfactual for comparison with the proposed Postage Stamp RPM as required under Recital (3) of the TAR NC;
- A definition of GB charges that relate to the criteria for Transmission Services revenue and GB charges that relate to the criteria for Non Transmission Services Revenue as set out in Article 4 of the TAR NC
- The choice of a Postage Stamp RPM as set out in Article 6 of the TAR NC;
- The calculation of reference prices under the postage stamp RPM as set out in Article 8;

- The calculation of reserve prices and the application of discounts (Chapter III of the TAR NC)
- The treatment of revenue under and over recovery (Chapter IV of the TAR NC);
- The publication of information on the postage stamp RPM (Chapter VIII of the TAR NC)

For the avoidance of doubt the Forecasted Contracted Capacity Methodology forms part of the RPM as set out in the UNC.

## Specific Changes to the UNC

This Modification proposal will amend

- TPD Section Y, Part A (The Gas Transmission Transportation Charging Methodology) of the UNC, by changing the methodology for the calculation of gas transmission transportation charges;
- Changes to TPD Sections B (System Use and Capacity),
- E (Daily Quantities, Imbalances and Reconciliation),
- G (Supply Points),
- the Transition Document
- European Interconnection Document (EID); and
- Section B (Capacity).

## Mapping of the revenue to Transmission Services revenue and Non-Transmission Services revenue (Article 4 of the TAR NC)

### Transmission Services Charges

It is proposed that the following charges are attributed to transmission services since they relate to investment in and operation of the infrastructure which is part of the regulated asset base for the provision of transmission services:

- Transmission Services Capacity charges made up of;
  - Transmission Entry Capacity charges (including NTS Transmission Services Entry Capacity Retention Charge);
  - Transmission Exit Capacity charges;
- Transmission Services Entry Revenue Recovery charges;
- Transmission Services Exit Revenue Recovery charges; and
- NTS Transmission Services Entry Charge Rebate.

Note that the under Modification 0678A forecasted contracted capacity is the cost driver for GB transmission services since these costs are historical sunk costs related to investment in and maintenance of the regulated transmission assets. Since this network that is already built and that has spare capacity under Modification 0678A distance is not a “cost driver”. for GB transmission services.

### Non-Transmission Services Charges

It is proposed that the following charges are attributed to Non-Transmission Services charges:

- General Non-Transmission Services Entry and Exit Charges;
- St Fergus Compression Charges;



- NTS Metering Charges;
- DN Pensions Deficit charges;
- Shared Supply Meter Point Administration charges; and
- Allocation Charges at Interconnectors

### Choice of RPM (Article 6 of the TAR NC)

Article 7 of the TAR NC enables a “choice of the Reference Price Methodology”. Under Modification 0678A a Postage Stamp approach is used in the RPM. The changes to the UNC in relation to the implementation of the postage stamp RPM will ensure compliance with Article 7.

The postage stamp RPM will be used for the calculation of Reference Prices for all Entry Points and Exit Points on the system. The postage stamp RPM produces Entry and Exit Capacity Reference Prices for the applicable gas year which in turn through the relevant adjustments and calculation steps will determine the Entry and Exit Capacity Reserve Prices.

### Capacity Weighted distance RPM (Article 8)

The GB CWD RPM will be retained as a counterfactual as set out in Recital 3 of the TAR NC. The GB CWD RPM will be calculated in accordance with Article 8 using the inputs set out under Modification 0678A. This will include the Modification 0678A forecasted contracted capacity, treatment of existing contracts and multipliers. A Distance matrix will be provided based on the capacity weighted distance to all entry and exit points on the GB NTS.

### Postage Stamp RPM (Article 8)

The GB Postage Stamp RPM shall be calculated in accordance with Article 8 of the TAR NC using the inputs set out under Modification 0678A. This will include the Modification 0678A forecasted contracted capacity, treatment of existing contracts and multipliers. Under the Modification 0678A RPM Distance will be set to zero.

The following elements will also be included in the RPM:

**Final Reference Prices:** It is proposed that the calculation of the final Reference Price for a given Entry Point or Exit point cannot be less than zero.

### Calculations within the Postage Stamp Model

The Postage Stamp Model for calculating Entry and Exit Capacity Base Reference Prices: requires two main inputs:

- Target Entry or Exit Transmission Services Revenue - Revenue which is Allowed Revenue net of known Existing Contracts (EC) revenue. Where Allowed Revenue is required to be determined in respect of a period of less than 12 months and that period is not 01 April to 31 March (National Grid's Formula Year), it is proposed that profiling factors will be applied separately to Entry and Exit annual Allowed Revenue to determine appropriate values (respectively for Entry and Exit) for the relevant period. The target Entry and Exit revenue profiling factors will operate in such a way that within any Formula Year the tariffs will be set to minimise any under or over recovery in respect of Transmission Services.; and
- Capacity (FCC) - FCC (by point) net of Existing Contracts (EC) capacity booked to recover the target Entry or Exit Transmission Services revenue. It should be noted that whilst TAR NC permits Existing Contracts at both Entry and Exit, there are no eligible Exit Existing Contracts in GB.

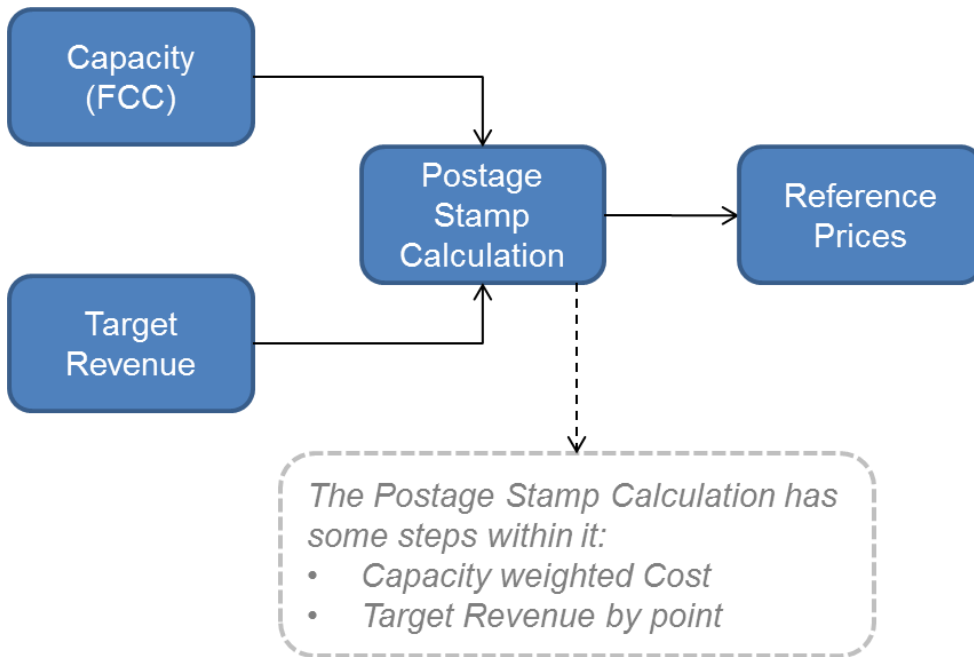


Figure 1: Proposed Postage Stamp Model for calculation of Entry and Exit Capacity Base Reference Prices

Key steps in the CWD calculations see Table 2.

Table 1: Key steps in the CWD calculations

	Entry Capacity Calculation	Exist Capacity Calculation
Capacity Weightings (CW)	Entry Point FCC / Gross FCC	Exit Point FCC /Gross FCC
Target Revenue by Point (TRP)	Entry Target Revenue * CW	Exit Point Revenue * CW
Reference Price (RefP)	Entry TRP / Entry Point FCC	Exit TRP / Entry Point FCC

Note that the proposed FCC calculation takes into account the treatment of capacity associated with Existing Contracts (see below)

Entry Point Reference Prices are calculated in the following steps in the Postage Stamp model, see figure 2.

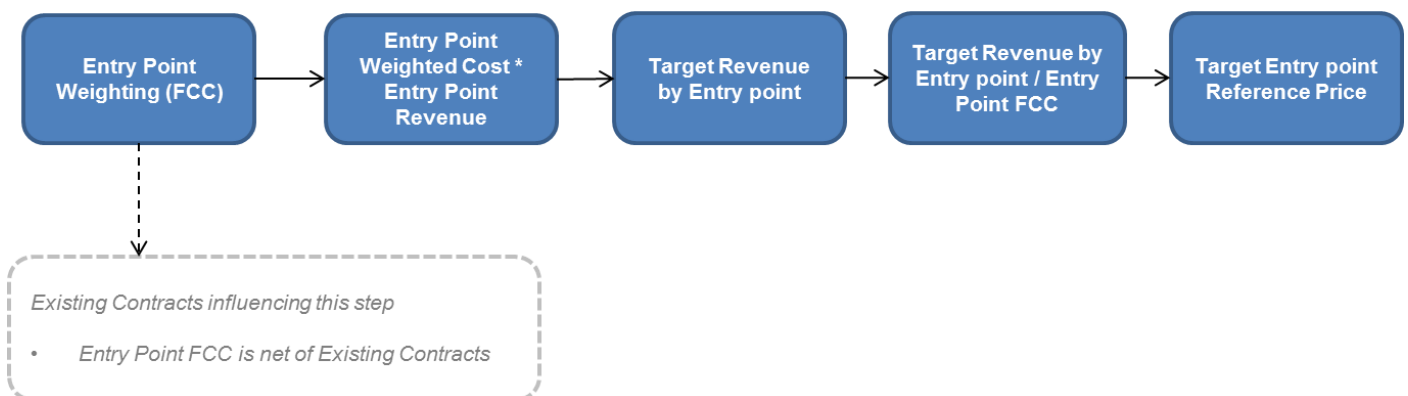


Figure 2: Entry Point Reference Prices calculation model

Exit Point Reference Prices are calculated in the following steps in the Postage Stamp model, see Figure 3.



**Figure 3: Exit Point Reference Prices calculation model**

## Forecasted Contracted Capacity (FCC) under the Postage Stamp RPM

The Forecasted Contracted Capacity Methodology forms part of the RPM under the TAR NC.

It is proposed that the FCC for an Entry Point or an Exit Point will be equal to a forecasted value determined by a new Methodology (the “FCC Methodology”) under the UNC. The FCC Methodology will be used to determine the capacity forecast for each entry and exit point..

The FCC Methodology will be subject to a review process under the UNC. This review will take place ahead of each tariff year. Updated FCC values will be communicated to industry as part of the publication of charges as required under the National Grid Licence and the TAR NC.

. Any changes to the FCC Methodology would be subject to a review process under the UNC which will include consultation with industry. Any such consultation would be concluded in advance of setting the tariffs for the forthcoming tariff (gas) year. The FCC Methodology will take into account the treatment of capacity associated with Existing Contracts and any new or future entry or exit capacity requirements

The FCC Methodology will take account of a range of inputs to inform a forecast for the gas year for which tariffs are to be generated (the relevant gas year). These inputs will include both historical and forecast data such as, and not limited to, a forecast of GB demand, historical sold capacity, historical flows on the NTS applicable to each Entry and Exit point. The resulting FCC Methodology will be applicable for the tariff (gas) year for which Reference Prices are being produced.

In preparing the FCC for each entry and exit point the FCC Methodology will take into account the capacity bookings (where capacity has been allocated at a price greater than zero at each Entry and Exit Point), and forecast flow levels, to determine a value that will inform the proportion of capacity bookings for each specific Entry and Exit Point.

The initial FCC methodology will be determined by National Grid and take effect at implementation. This will use sold levels (only where a price greater than zero is the allocated price) and will take account of the change in interruptible pricing. As there is a move away from 100% discounts to a 10% discount, the approach will reflect the booking levels where those procuring capacity have been paying a price greater than zero. The assumption on this particular item in the initial FCC Methodology is that, as they will have incurred a liability, this capacity is more sought after than that for which a 100% discounted (zero) price was the outcome.

Alongside the FCC Methodology all relevant information that enables users to reproduce and calculate the tariffs under the RPM should be published. This includes information as required under Article 29 (particularly in relation to interruptible capacity) and Article 30 (particularly in relation to the parameters used in the RPM and associated with the derivation of transmission services and on transmission services revenue) of the TAR NC.

National Grid should also publish alongside the FCC Methodology and the Transmission Charges and in advance of the relevant gas year of: *“a simplified tariff model, updated regularly, accompanied by the explanation of how to use it, enabling network users to calculate the transmission tariffs applicable for*

*the prevailing tariff period and to estimate their possible evolution beyond such tariff period” as required under Article 30 (2)(b)*

## **Reference Prices under the Postage Stamp RPM**

The postage stamp RPM will result in a set of reference prices for each entry and exit points on the GB gas transmission system in accordance with Article 8 of the TAR NC.

## **Reserve Prices produced from Reference Prices (Chapter III of the TAR NC)**

**Under Modification 0678A for yearly standard capacity products for firm capacity, the reference prices shall be used as reserve prices (Article 12(1)).**

Reserve Prices for capacity will be produced in p/kWh/d for a Gas Year (in accordance with Article 12 (2) of the TAR NC. Reserve Prices will be calculated each year based on the latest available set of inputs and once published, these will be the Reserve Prices applicable for the relevant gas year regardless of when the capacity product is procured in accordance with Article 12 (3) of the TAR NC.

For example, the price payable for capacity procured in 2019 for a period in October 2025 will be the Reserve Price determined for gas year 2025/26 plus, where applicable, any premium payable. This premium will be equal to either:

- The difference between the allocated price and Reserve Price in the relevant auction when the capacity was initially contracted for ('auction premium'); or
- The amount specified in respect of entry capacity allocated via a PARCA Application as described in TPD B1.14 and the Entry Capacity Release Methodology Statement ('PARCA premium').

## **Level of multipliers and seasonal factors (Article 13 of the TAR NC)**

The Reserve Price for Firm capacity at an Entry Point or an Exit Point is determined by application of any applicable Multipliers to the relevant Reference Price.

It is proposed that Multipliers:

- Shall not be zero for any capacity type or product;
- Are not to be used for the purposes of managing revenue recovery;
- Shall be calculated on an ex-ante basis ahead of the applicable year.

The Multiplier applied to the Reference Prices for all Entry Point and Exit Points in order to determine the Reserve Price will be 1 (one) and meet the criteria set out in Article 13 of the TAR NC.

## **Calculation of reserve prices for non-yearly standard capacity products for firm capacity in absence of seasonal factors (Article 14 of the TAR NC)**

Reserve prices for non-yearly standard capacity products for firm capacity shall be calculated in accordance with the arrangements set out in Article 14 of the TAR NC.

## **Interruptible (Entry) and Off-peak (Exit) Capacity Article 16 of the TAR NC)**

The Reserve Price for Interruptible Capacity at an Entry Point and Off-peak Capacity at an Exit Point is derived by application of an ex-ante discount to the Reserve Prices for the corresponding Firm capacity products (the day ahead firm price at the relevant Entry Point and the daily firm price at the relevant Exit Point). The calculation of the discount shall be in accordance with Article 16 of the TAR NC. when determining the level of discount applied in respect of Interruptible and Off-peak Capacity from 01 October 2019 or implementation date of this Modification should it be after, the likelihood of interruption and the estimated economic value of the Interruptible

or Off-peak capacity products are used to determine a discount value (as per Article 16 of the TAR NC). A 'banding approach' will be adopted for the period commencing 01 October 2019 or implementation date of this modification should it be after and for subsequent years, such that the proposed discount value will be rounded up to the nearest 10%:

It is proposed that for the period commencing 01 October 2019, or the implementation date of this Modification should it be after, the discount applied in respect of Interruptible and Off-peak Capacity:

- At Entry Points is 10%; and
- At Exit Points is 10%.

### **Adjustments of tariffs at entry points from and exit points to storage facilities and at entry points from LNG facilities and infrastructure ending isolation (Article 9 of the TAR NC)**

In respect of storage sites, (locations where the type of Entry point/Offtake is designated as a 'Storage Site' in National Grid's Licence (Special Condition 5F Table 4B for Entry Points, and Special Condition 5G Table 8 for Exit Points) the applicable specific capacity discount for a given gas year will be equal to 50% This discount be applied to Reserve Price in respect of Firm and Interruptible/Off-peak capacity at storage sites. This comprises the adjustment to tariffs at storage facilities as set out in Article 9(1) of the TAR NC

It is proposed that in respect of Liquefied Natural Gas (LNG) sites, (locations where the type of Entry point is designated as a 'LNG Importation Terminal' in National Grid's Licence (Special Condition 5F Table 4B)) for the period commencing 01 October 2019 or implementation date of this Modification should it be later, the applicable Specific Capacity Discount for a given gas year will be equal to 0%. This comprises the adjustment to tariffs at storage facilities as set out in Article 9(2) of the TAR NC.

Note that under Modification 0678A there a no adjustments to tariffs applicable to 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

### **Minimum Reserve Prices (Chapter III of the TAR NC)**

It is proposed that Reserve Prices for Firm and Interruptible / Off-peak capacity (determined following the application of any relevant Multipliers, Specific Capacity Discounts, or Interruptible / Off-peak adjustments) will be subject to a minimum value (collar) of 0.0001p/kWh/d. This minimum should be established in accordance with Chapter III of the TAR NC.

### **Additional Calculation Step under RPM for Reference / Reserve Prices ((Chapter IV of the TAR NetworkCode)**

The following step is applicable for Reference Prices and Reserve prices on an enduring basis to ensure revenue recovery.

Once the Reserve Prices have been calculated taking into account all the required Multipliers, Specific Capacity Discounts and Interruptible / Off-peak adjustment there will be an under recovery driven by the levels of discounts or adjustments (e.g. Interruptible / Off-peak adjustment and Specific Capacity Discounts). This anticipated under recovery will result in the need for an adjustment to be applied to the Postage Stamp calculation in order to recalculate Reference Prices, and therefore Reserve Prices, such that the under recovery is estimated to be zero or close to zero. This will be applied to the Entry and Exit Capacity calculations to recalculate the Entry and Exit Capacity Reference Prices and Reserve Prices for all Entry and Exit points and in doing so will minimise the size of the Transmission Services Entry and Exit Revenue Recovery charges.

This step within the calculation is incorporated within the RPM. This is required in order to manage the tariffs such that they are being set to recover the target revenue. Without this step tariffs, would be set such that they would under-recover or not be set in a manner to aim to recover the target revenue. This impact of this step is the same for all points within the RPM as the revenue additive is input as a feature of the RPM calculation in the CWD approach. This limits any potential distortions as proportionally all points pick up an uplift within the RPM proportionate the CWD reference price they receive.

### Summary of Reserve Price Derivation (Chapter III of the TAR NC)

The following diagram (see Figure 4) summarises the proposed approach to the derivation of Reserve Prices (from the applicable Reference Price) for both Firm and Interruptible / Off-peak Capacity products (including Capacity at Storage and LNG sites).

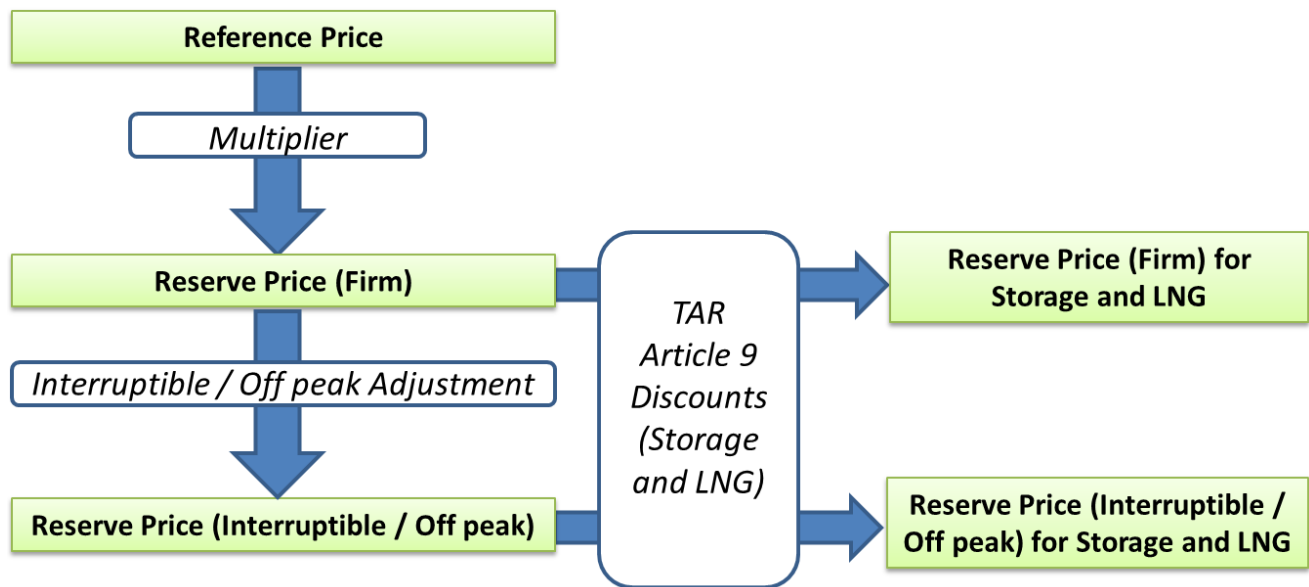


Figure 4: Reserve Price derivation

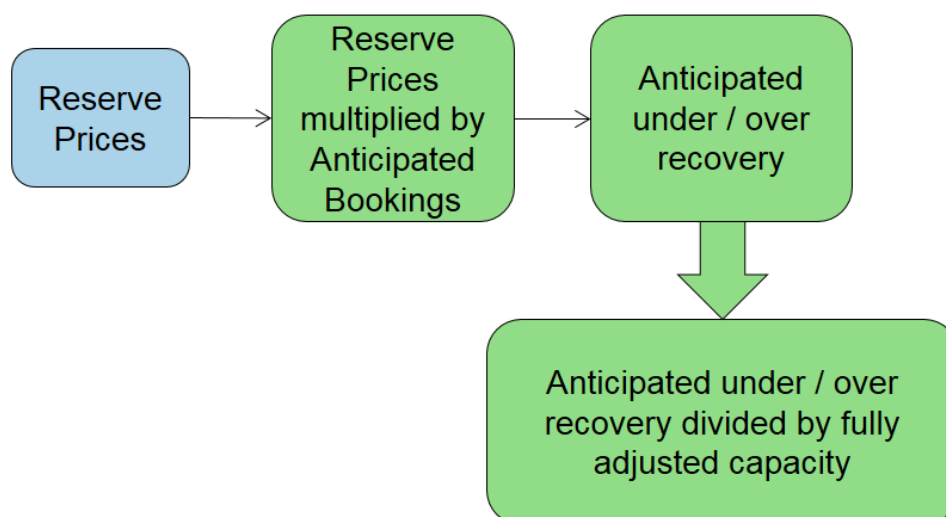
### Capacity Step Prices

For the purposes of capacity step prices used in the QSEC Auction, these will be an additional 5% of the applicable Reserve Price or 0.0001 p/kWh/Day, whichever is the greatest, per step.

### Transmission Services Revenue Recovery Charges (Chapter IV of the TAR NC).

It is proposed that where a proportion of revenue could be under/over recovered (i.e. compared to the target Transmission Services revenues) as a consequence of application of Reserve Prices applicable for the following gas year, a revenue recovery mechanism is applied.

The Transmission Services Revenue Recovery charges (Transmission Services Entry Revenue Recovery charge and Transmission Services Exit Revenue Recovery charge) will be calculated after the Reserve Prices have been determined and will be calculated as follows (see Figure 5) for Entry and Exit in the same way:



**Figure 5: Transmission Services Revenue Recovery Mechanism**

It is proposed that the 'Anticipated Bookings' value will be based on National Grid's forecast of capacity bookings and therefore used to forecast the anticipated under or over recovery. It is proposed that the Transmission Services Revenue Recovery charge rate may be adjusted at during the relevant gas year subject to the existing notice requirements for variation of Transportation Charges (subject to Chapter VIII of the TAR NC).

It is proposed that the Transmission Services revenue recovery mechanism is capacity based and applied as additional capacity charges to all fully adjusted capacity except Existing Contracts. The Transmission Services Entry and Exit revenue recovery charges for this period will be produced in p/kWh/d. For the avoidance of doubt, any Entry Capacity (except Existing Contracts) or Exit Capacity booked for the applicable year would be subject to Revenue Recovery charges.

It is proposed that in respect of adjustments (including as a consequence of trades) to available Entry Capacity, where the adjustment is executed:

- Up to and including 05 April 2017, the Capacity will be treated as Entry Capacity procured via Existing Contracts; or
- Subsequent to 05 April 2017, the Capacity will not be treated as Entry Capacity procured via Existing Contracts.

### NTS Optional rate (see para 3.23 in Section 3)

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

#### Transition

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

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

### NTS Transmission Services Entry Charge Rebate



It is proposed that this will be applied as a Transmission Services entry capacity credit. The charge mechanism reduces any Transmission Services entry over recovery. The process may be triggered at the end of the Formula Year

### **NTS Transmission Services Entry Capacity Retention Charge**

NTS Entry Capacity Substitution is where National Grid moves unsold non-incremental Obligated Entry Capacity from one (donor) ASEP to meet the demand for incremental Obligated Entry Capacity at a different (recipient) ASEP. It is proposed that where a User elects to exclude capacity at potential donor ASEPs from being treated as substitutable capacity without having to buy and be allocated the capacity it is required to take out a “retainer”.

The retainer is valid for one year, covering all QSEC auctions (including ad-hoc auctions) held in this period. It is proposed that National Grid will exclude the relevant quantity from the substitution process, but the retainer will not create any rights to the User to be allocated or to use the capacity. The retainer will not prevent Users (including the User taking out the retainer) from buying that capacity at the ASEP in question in the period covered by the retainer.

The retainer is subject to a one-off charge which is payable via an ad hoc invoice raised within 2 months of the QSEC auction allocations being confirmed. If a User wishes to protect capacity for more than one year then a further retainer must be obtained each year and a charge will be payable each year for which a retainer is taken out.

Where any capacity covered by a retainer is allocated, a refund of the retention fee may be made; for example, for a retainer taken out for Gas Year 2013/14 in January 2010, a refund can be triggered by an allocation at the relevant ASEP made during a QSEC auction in 2010, 2011 and 2012, and an AMSEC auction in 2013 and 2014.

NTS Entry Capacity Retention Charges, in regard to non-incremental Obligated Entry Capacity, are calculated based on the minimal capacity charge rate of 0.0001 pence per kWh per day applying over a time period of 32 quarters; this equates to 0.2922 p/kWh of Entry Capacity retained.

NTS Entry Capacity Retention Charges and refunds in regard to non-incremental Obligated Entry Capacity are treated as Transmission Services.

### **Non-Transmission Services Charging**

It is proposed that revenue due for collection via General Non-Transmission Services Entry and Exit Charges will be equal to the Non-Transmission Services revenue minus the DN Pensions Charges, NTS Meter Maintenance Charges, St. Fergus Compressor Charges, Shared Supply Meter Point Administration Charges and Allocation Charges at Interconnectors.

The revenue due for collection via General Non-Transmission Services Entry and Exit Charges will be recovered through a flow based charge as a flat unit price for all Entry Points and Exit Points. It is proposed that the St. Fergus Compressor Charges and General Non-Transmission Services Entry and Exit Charge rates may be adjusted at any point within the gas year.

It is proposed that this is applied to all flows excluding Storage flows unless it is flowed as “own use” gas at the Storage point.

The General Non-Transmission Services charge will be produced in p/kWh.

Where Allowed Revenue for Non-Transmission Services is required to be determined in respect of a period of less than 12 months and that period is not 01 April to 31 March (National Grid’s Formula Year), it is proposed that profiling factors will be applied separately to Entry and Exit Annual Allowed Revenue in order to determine appropriate values (respectively for Entry and Exit) for the relevant period. The target Entry and Exit revenue

profiling factors will operate in such a way that within any Formula Year the tariffs will be set to minimise any under or over recovery in respect of Non-Transmission Services.

### **Treatment of under/over recovery (K) – after each formula year**

It is proposed that a separate under or over revenue recovery (otherwise known as the “K” value) will be calculated for Transmission Services and Non-Transmission Services for the formula year. This will be different to the TO and SO “K” values however the principle of reconciling Transmission Entry and Exit revenues separately will remain.

It is proposed that the approach and calculation will be specified in the UNC, to be approved by Ofgem. In addition to Transmission and Non-Transmission being reconciled this Modification also proposes to have reconciliation between Entry and Exit under Transmission Services.

#### ***Transmission Services Revenue:***

It is proposed to maintain 50/50 split between Entry and Exit (for the purposes of allocating revenues to the charges to recover Transmission Services Entry and Exit Revenues). It is also proposed to maintain the reconciliation of Entry and Exit for Transmission Services, as per the current approach for TO charges. This would continue to mean that Entry and Exit, under Transmission Services, when reconciled would not result in Entry impacting Exit or vice versa.

The applicable years Transmission Service Revenue will be split 50:50 between revenue to collect on Entry Capacity charges and revenue to collect on Exit Capacity charges. This value will then be added to any under/over recovery (Transmission Services K value) which was calculated in y-2 (two years ago) and split between Entry and Exit in the correct proportion, to make the applicable revenue which will be used in the CWD model to calculate the capacity charges.

#### ***Non-Transmission Services Revenue:***

It is proposed that all those charges in respect of Non-Transmission Services shall contribute towards Non-Transmission Services revenue recovery. All charges are set on an ex-ante basis.

It is proposed that any under or over recovery attributed to the charges other than the Non-Transmission Services Entry and Exit Charge shall not be subject to reconciliation with any K value (Non-Transmission Services K value) adjusting the Non-Transmission Services Revenue recovery charge. Non-Transmission Services revenue charge will be added to the Non-Transmission Services K value which was calculated in y-2 (two years ago) which will be used to calculate the applicable years Non-Transmission Services Revenue which will be used for calculation of the Non-Transmission Services Charges.

### **Transportation Charges: Information Publication**

Publication of relevant information in relation to Modification 0678A must be compliant with the UNC and the TAR NC Chapter VIII “Publication Requirements”.

It should be made clear that the provisions of the TAR NC with respect to publication of information related to the RPM are the relevant provisions in the UNC. Therefore the provisions that form the information publication requirements as required by TAR NC with respect to the RPM will reside in the UNC.

National Grid as the designated TSO for GB shall ensure publication under the UNC of all and only the necessary information with respect to the RPM in compliance with Chapter VIII of the TAR NC.

It is proposed that information in respect of Transportation Charges will be published in accordance with the table below.

**Figure 6: Publication dates for Transportation Charges**

	Data Item	Publication	Issued by*:
Transmission Services	Forecasted Contracted Capacity	FCC Methodology and Charging Model	2 months prior to effective date**
	CWD Distances	Charging Model	
	Capacity Reference Prices	Transportation Statement	
	Multipliers	Transportation Statement	
	Capacity Reserve Prices	Transportation Statement	
	Interruptible Adjustment (Entry)	Transportation Statement	
	Interruptible Adjustment (Exit)	Transportation Statement	
	Specific Capacity Discounts (Storage)	Transportation Statement	
	Specific Capacity Discounts (LNG)	Transportation Statement	
	Revenue Recovery Charge (Entry)	Transportation Statement	
	Revenue Recovery Charge (Exit)	Transportation Statement	
Non-Transmission Services	Non-Transmission Services Charges	Transportation Statement	
	DN Pension Deficit Charges	Transportation Statement	
	NTS Metering Charges	Transportation Statement	
	St Fergus Compression Charges	Transportation Statement	
	SSMP Administration Charges	Transportation Statement	
	Allocation Charges at Interconnectors	Transportation Statement	

# The CWD distances will be calculated and published for the purpose of undertaking analysis of a Counterfactual CWD Model under this modification proposal.

\* Issued by means the date by which the listed information will be consolidated and published in the relevant publication. The information in this table will be published and made available in steps via the relevant notice and supporting material which may be before the date listed. The publication dates may also be changed depending on the implementation of this Modification.

\*\* Unless the Authority provides the necessary approval for a shorter notice period to be provided.

### Existing Contracts (Article 35 of the TAR NC)

The following provisions will apply to existing contracts relating to r Entry Capacity (for 01 October 2019 or from the effective date of this Modification, whichever is later) allocated up to 06 April 2017.

- These are “Existing Contracts”, as outlined in Article 35 in EU Tariff Code where the “contract or capacity booking concluded before the entry into force of the EU Tariff Code – 06 April 2017, such contracts or capacity bookings foresee no change in the levels of capacity and/or commodity based transmission tariffs except for indexation, if any”.
- 3.26.2. The capacity procured and revenue expected to be recovered under these “Existing Contracts” impact the application of the CWD charging model (specifically when determining

Reference Prices at Entry Points) and calculation of Transmission Services Revenue Recovery Charges.

EU Tariff Code Article 17 requires that “...the level of transmission tariffs shall ensure that the transmission services revenue is recovered by the transmission system operator in a timely manner...” and that “...the under- or over-recovery of the transmission services revenue shall be minimised...”.

Accordingly, to ensure that the Reference Prices determined by the proposed Postage Stamp RPM provide a level of revenue recovery as close to target as possible (thereby minimising amounts needing to be collected via revenue recovery mechanisms), the capacity already booked and revenue levels already ‘set’ in respect of Existing Contracts are netted off the aggregate capacity and aggregate revenue figures entered into the Postage Stamp RPM. Consistent with this aspiration, an additional scaling factor (as described in para 3.17) is applied to Reference Prices to account for the anticipated under collection driven by the application of any discounts (e.g. interruptible and specific capacity discounts)

Recognising that Article 6(3) of the EU Tariff Code requires that “...the same RPM shall be applied to all entry and exit points...” it is nevertheless the case in GB that Existing Contracts only occur at Entry Points. Should Existing Contracts have additionally existed at Exit Points it would have been necessary for the equivalent netting off to take place in respect of Exit Point to ensure compliance. Given the GB position, application of this at Entry Points only is not in conflict with Article 6(3).

### **Effective Date for the charges driven by this proposal**

The Effective Date of this Proposal can be any date as determined by Ofgem. It is proposed that the Effective Date will provide at least two clear months’ notice from the date of Ofgem’s decision and thereafter take effect from the 1<sup>st</sup> of the following month, unless an alternative specific date is stipulated by Ofgem in its decision as outlined in 3.40 of the Why Change section of this Proposal.

Where the Effective Date of the Proposal necessitates changes to reserves prices taking effect on dates other than 01 October, National Grid will require an Ofgem derogation from its obligation under Standard Special Condition A4(2) of its licence which limits changes to reserve prices to once a year and for such change to only take effect on the aforementioned date.

For the avoidance of doubt, for all Entry Points and Exit Points the revised arrangements will apply in respect of the payable price for capacity allocated for the Effective Date onwards. This rule applies regardless of whether the Effective Date falls within the overall period of tranche of capacity (i.e. within a period of a quarterly or annual allocation).

### **Specific Changes to the UNC0678 legal text proposed under MODIFICATION 0678A**

Legal text has been published for Modification 0678A. Modification 0678A proposed that the legal text is based on Modification 0678A There are a number of specific exceptions which could be reflected in the legal text as follows:

- The RPM in UNC0678 is based on postage stamp. The Modification 0678A legal text refers to “distance” which is the “Weighted Average Distance” from every Exit Point (for an Entry Point) or Entry Point (for an Exit Point). The legal text for Modification 0678A should be amended to set distance for Entry and Exit points to zero (0). This enables the revenue associated with historical sunk costs to be allocated on the basis of the FCC rather than distance. This change could be reflected in the legal text paragraph 2.2.2 of Annex B, Section Y – Charging Methodologies, Part A – NTS Charging Methodologies, A-I – NTS Transportation Charging Methodology as follows:

2.2.2 (k) **“Weighted Average Distance”** shall be zero (0) for all Entry and Exit Points for the purpose of ~~is determined in accordance with~~ paragraph 2.8;

- The Modification 0678A legal text should be amended to reflect the requirement to include the CWD RPM as a counterfactual in compliance with the TAR Network Code as indicated in Recital 3. This should replicate the process indicated in the Modification 0678A legal text (Annex B, Section Y – Charging Methodologies, Part A – NTS Charging Methodologies, A-I – NTS Transportation Charging Methodology) which should be copied into a section related to the development of a counterfactual as required under the TAR NC. The legal text should be amended to ensure publication of the outputs of the CWD RPM counterfactual alongside the Postage Stamp RPM;
- The Modification 0678A legal text should be amended with respect to the FCC Methodology to include within Paragraph 2.5.2 (Annex B, Section Y – Charging Methodologies, Part A – NTS Charging Methodologies, A-I – NTS Transportation Charging Methodology):
  - A requirement to publish the prevailing FCC values for each Entry and Exit point as part of or alongside the publication of the FCC Methodology;
  - A requirement to publish draft FCC values for each Entry and Exit Point in advance of the Final FCC values that will be used in the calculation of Transmission Charges;
- The MODIFICATION 0678A legal text should include a requirement to publish all relevant information that enables users to reproduce and calculate the tariffs under the RPM should be published. This includes information as required under Article 29 (particularly in relation to interruptible capacity) and Article 30 of the TAR NC (particularly in relation to the parameters used in the RPM and associated with the derivation of transmission services and transmission services revenue); and.
- The MODIFICATION 0678A legal text should include a requirement to publish alongside in advance of the relevant gas year of: *“a simplified tariff model, updated regularly, accompanied by the explanation of how to use it, enabling network users to calculate the transmission tariffs applicable for the prevailing tariff period and to estimate their possible evolution beyond such tariff period”* as required under TAR NC Article 30 (2)(b).

The legal text should be reviewed to ensure compliance with the relevant provisions of the TAR NC. It should be made clear that the provisions of the TAR NC with respect to the RPM are the relevant provisions in the UNC. The provisions that form the RPM as required by TAR NC with respect to the RPM shall reside in the UNC.

The legal text should also be reviewed to ensure that all and only the necessary provisions with respect to the TAR NC are set out in the UNC.

## 6 Impacts & Other Considerations

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

N/A

## Consumer Impacts

There will be impact on different consumer groups, but the allowed revenue collected by National Grid NTS will not change. Analysis of the difference between the CWD RPM proposed under UNC0678 and the Postage Stamp RPM proposed under MODIFICATION 0678A is included in Annex 2.

## Cross Code Impacts

None

## EU Code Impacts

EU Tariff Code compliance is considered as part of this Proposal. A compliance assessment with the TAR NC for MODIFICATION 0678A is included in Annex 1.

## Central Systems Impacts

There will be impacts on Gemini and UK Link invoicing systems.

# 7 Relevant Objectives

**Table 2: 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.	None
b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters.	None
c) Efficient discharge of the licensee's obligations.	Positive
d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	Positive
e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers.	None
f) Promotion of efficiency in the implementation and administration of the Code.	None
g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	Positive

Demonstration of how the Relevant Objectives are furthered:



**c) Efficient discharge of the licensee's obligations.**

The proposed changes to TPD B and EID B (where applicable) support the implementation of the new charging methodology and arrangements. Standard Special Condition A5(5) of the NTS Licence sets out the relevant methodology objectives and that these objectives are better facilitated for the reasons detailed below in Table 5 ('Impact of the Modification on the Relevant Charging Methodology Objectives').

**d) Securing of effective competition between relevant shippers;**

The proposed changes to TPD B and EID B (where applicable) support the implementation of the new charging methodology and arrangements. To the extent that the application of a Postage Stamp RPM is expected to provide a more stable and predictable price setting regime, Shippers will have a greater level of confidence in their forecasts of prospective use of network costs and therefore set their own service costs more accurately (potentially with a lower risk margin) thereby enhancing effective competition. Charges will be calculated in a fair proportionate and non-distortive manner thereby facilitating competition.

**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.**

The proposed changes to TPD B and EID B (where applicable) support the implementation of the new charging methodology and arrangements including those elements required to comply with the EU Tariff Code. The decision to reject MODIFICATION 0621 and its Alternatives highlighted three areas of compliance that needed to be addressed (Interim Contracts, Transition Period and Shorthaul). This Modification proposes changes that will address these. In order to provide a compliant proposal to address these areas, the Modification proposes:

- Not to propose the creation of Interim Contracts;
- Not to use a transition period for the introduction of the methodology changes; and
- The removal of the charge to manage avoidance of inefficient bypass (as highlighted in this proposal, National Grid has raised a separate review group (UNC0670R) to address this aspect of charging in the longer term).

The following table highlights the key components of this Proposal, the Articles of the EU Tariff Code that constrain the form and operation of those components and a brief description of how this Proposal complies with those requirements.

Aspect	EU Tariff Code Requirements	Addressed in this Proposal by:
<b>RPM</b>	Recital 3: requirement to use CWD as the counterfactual for proposed RPM	A <b>Postage Stamp RPM</b> is proposed. The CWD outlined in Article 8 will serve as the counterfactual where relevant.
	Article 6: RPM application - <ul style="list-style-type: none"> <li>• approved by NRA;</li> <li>• provides a Reference Price;</li> <li>• same RPM applied at all Entry Points and Exit Points; and</li> <li>• adjustments only on basis of Article 9 or benchmarking by NRA, equalisation by the TSO or the NRA, or rescaling by the TSO.</li> </ul>	The proposed Postage Stamp RPM: <ul style="list-style-type: none"> <li>• is subject to Authority approval (required to implement this Proposal);</li> <li>• provides a Reference Price;</li> <li>• applies to all Entry Points and Exit Points; and</li> <li>• incorporates adjustments in line with Article 9 and rescaling (to minimise Revenue Recovery values)</li> </ul>



Aspect	EU Tariff Code Requirements	Addressed in this Proposal by:
	<p>Article 7: Choice of RPM to comply with following requirements -</p> <ul style="list-style-type: none"> <li>• enable Users to re-produce the calculation;</li> <li>• take account of actual costs in providing Transmission Services;</li> <li>• non-discriminatory and no undue cross subsidisation taking account of Article 5;</li> <li>• no material volume risk assigned to end consumers; and</li> <li>• no distortion of cross border trade.</li> </ul>	<p>l)678A is based on a <b>Postage Stamp RPM</b>. n respect of the proposed RPM:</p> <ul style="list-style-type: none"> <li>• the calculation is capable of re-production as it is set out in the charging methodology;</li> <li>• target revenues are set taking account of actual costs (at price control);</li> <li>• it is designed to be non-discriminatory with no un-due cross subsidisation;</li> <li>• it recovers <i>capacity</i> charges from Network Users (i.e. not flow-based); and</li> <li>• it is not expected to distort cross border trade.</li> </ul>
	<p>Article 8: CWD as set out in (2) with the following parameters –</p> <ul style="list-style-type: none"> <li>• recovered via capacity charges;</li> <li>• uses a Forecasted Contracted Capacity;</li> <li>• combinations of entry points and exit points, where some entry points and some exit points can be combined in a relevant flow scenario</li> <li>• the Entry Exit target revenue is split 50:50.</li> </ul>	<p>The proposed RPM is principally as detailed in this Article and features:</p> <ul style="list-style-type: none"> <li>• a capacity based Transmission Services charging regime;</li> <li>• Forecasted Contracted Capacity derived in accordance with a documented FCC Methodology;</li> <li>• there is no specific provision in the calculation of the Reference Prices as the assumption for the NTS is that all gas from an Entry point can flow to any Exit point.</li> <li>• target revenues are based on a 50:50 split between Entry Points and Exit Points.</li> </ul>
Multiplier	<p>Article 13: parameters for Multipliers –</p> <ul style="list-style-type: none"> <li>• for quarterly and monthly capacity, between 1 and 1.5; and</li> <li>• for daily and within day capacity, between 1 and 3 except in ‘duly justified cases’</li> </ul>	<p>A Multiplier of 1 is proposed for all capacity products which is within the parameters set by this Article</p>
Interruptible / Off peak	<p>Article 16: calculation of Reserve Prices for interruptible capacity -</p> <ul style="list-style-type: none"> <li>• multiply firm Reserve price by difference between 100% and interruptible discount</li> </ul> <p>Interruptible discount determined on the basis of –</p> <ul style="list-style-type: none"> <li>• probability of interruption; and</li> <li>• adjustment factor representing the estimated economic value of the interruptible capacity product.</li> </ul>	<p>A discount of 10% is proposed which has been determined taking account of the criteria identified in this this Article.</p> <p>A discount of greater than 10% is not justified when taking these into account.</p>
Discounts	<p>Article 9: provision for discounts for –</p> <ul style="list-style-type: none"> <li>• Storage, at least 50%; and</li> <li>• LNG facilities, may be applied in order to increase security of supply</li> </ul>	<p>A discount of 50% is proposed in respect of Storage which is the minimum prescribed by this Article. A discount of 0% has been proposed in respect of LNG which is not in conflict with this Article (this Article prescribes that application of a discount for LNG is optional).</p>
Revenue Recovery	<p>Article 4(3): Method of recovery –</p> <ul style="list-style-type: none"> <li>• capacity based;</li> <li>• with NRA approval and by exception, flow based.</li> </ul>	<p>Capacity-based Transmission Services charges and revenue recovery mechanism are proposed.</p>
	<p>Article 17: General rules including -</p> <ul style="list-style-type: none"> <li>• requirement to minimise revenue recovery values</li> </ul>	<p>The proposed netting off of Existing Contracts and scaling (to take account of discounts) aims to minimise Revenue Recovery. Development of a robust FCC Methodology will also facilitate this aim.</p>

Aspect	EU Tariff Code Requirements	Addressed in this Proposal by:
	<p>Article 18: Under and Over Recovery -</p> <ul style="list-style-type: none"> <li>• calculated as difference between target revenue and actual revenue in the same tariff period</li> </ul>	<p>The proposed determination of revenue recovery is consistent with the calculation described in this Article.</p>
Existing Contracts	<p>Article 35: existing contracts</p> <ul style="list-style-type: none"> <li>• EU Tariff Code rules dis-applied for capacity procured at any entry or exit point before 6 April 2017; and</li> <li>• Existing contracts not able to be renewed prolonged or rolled over after expiry</li> </ul>	<p>Maintenance of existing terms and conditions for procured capacity is afforded to those falling within the definition of Existing Contracts. All other capacity products are subject to the proposed enduring regime which is compliant with the other requirements of the EU Tariff Code.</p>

**Table 3: 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;	None
aa) That, in so far as prices in respect of transportation arrangements are established by auction, either: (i) no reserve price is applied, or (ii) that reserve price is set at a level - (I) best calculated to promote efficiency and avoid undue preference in the supply of transportation services; and (II) best calculated to promote competition between gas suppliers and between gas shippers;	None
b) That, so far as is consistent with sub-paragraph (a), the charging methodology properly takes account of developments in the transportation business;	Positive
c) That, so far as is consistent with sub-paragraphs (a) and (b), compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers; and	None
d) That the charging methodology reflects any alternative arrangements put in place in accordance with a determination made by the Secretary of State under paragraph 2A(a) of Standard Special Condition A27 (Disposal of Assets).	None
e) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	Positive

This Modification proposal does not conflict with:

- (i) Paragraphs 8, 9, 10 and 11 of Standard Condition 4B of the Transporter's Licence; or
  - (ii) Paragraphs 2, 2A and 3 of Standard Special Condition A4 of the Transporter's Licence;
- as the charges will be changed at the required times and to the required notice periods.

Demonstration of how the Relevant Objectives are furthered:

- 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:
  - (i) no reserve price is applied, or
  - (ii) that reserve price is set at a level -
  - (I) best calculated to promote efficiency and avoid undue preference in the supply of transportation services; and
  - (II) best calculated to promote competition between gas suppliers and between gas shippers; and:
- 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**

The proposer believes that the proposed utilisation of a Postage Stamp RPM which re-distributes National Grid's costs on a capacity basis will ensure cost recovery. The proposed model is better suited to the recovery of the historic sunk costs of the NTS and better relates to the expected future contracting usage of the existing NTS. The current Long Run Marginal Cost Methodology (LRMC model) is more suitable for an expanding network requiring an investment-based RPM.

A sub-group of the NTS Charging Methodology Forum identified that as the inputs into the LRMC model are varied the resulting price changes are not intuitive and the changes can cause unpredictable results, and the changes to prices can be volatile. As a result, similar offtake points (in terms of offtake volumes and distances from points of entry) may incur materially different charges. Use of a methodology which delivers postage stamp costs would better facilitate these objectives

- b) **That, so far as is consistent with sub-paragraph (a), the charging methodology properly takes account of developments in the transportation business;**

The update to the Transmission Services methodology proposal takes into account developments which have taken place in the transportation business, in particular that the network is no longer expanding.

- 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.**

The EU Tariff Code compliance is taken into account in this Modification proposal. Accordingly, implementation of this Proposal would ensure that the GB arrangements are compliant with the EU Tariff Code. The decision to reject MODIFICATION 0621 and its Alternatives highlighted three areas of compliance that needed to be addressed (Interim Contracts, Transition Period and 'Shorthaul'). This Modification proposes changes that will address these. In order to provide a compliant proposal to address these areas, the Modification is proposing:

- Not to propose the creation of Interim Contracts;
- Not to use a transition period for the introduction of the methodology changes; and
- The removal of the charge to manage avoidance of inefficient bypass (as highlighted in this proposal, National Grid has raised a separate review group (UNC0670R) to address this aspect of charging in the longer term.

## 8 Implementation

Implementation of this Modification is proposed to be in line with an Ofgem decision. It should be by 31 May 2019 or as soon as possible after this date.

This Modification and the 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 (and the relevant Statutory Instrument) as soon as possible.

## 9 Annex 1: Views of the Proposer of 0678A on Compliance

**Annex 1: Views of the Proposer of 0678A on Compliance with COMMISSION REGULATION (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas, Mar 19, 2019**

## **10 Annex 2: Views of the Proposer of 0678A – Analysis and comparison**

**Annex 2: Views of the Proposer of 0678A – Analysis and comparison between “0678A Postage Stamp Reference Price Methodology” and “0678CWD Reference Price Methodology” Mar 19, 2019**