

UNC Modification		At what stage is this document in the process?
<h1>UNC 0728C (Urgent):</h1> <h2>Introduction of a Capacity Discount to Avoid Inefficient Bypass of the NTS</h2>		<div style="display: flex; flex-direction: column; gap: 5px;"> <div style="border: 1px solid green; background-color: #2e8b57; color: white; padding: 2px; display: flex; align-items: center; justify-content: center;">01 Modification</div> <div style="border: 1px solid blue; background-color: #add8e6; padding: 2px; display: flex; align-items: center; justify-content: center;">02 Workgroup Report</div> <div style="border: 1px solid purple; background-color: #d8bfd8; padding: 2px; display: flex; align-items: center; justify-content: center;">03 Draft Modification Report</div> <div style="border: 1px solid orange; background-color: #ffcc99; padding: 2px; display: flex; align-items: center; justify-content: center;">04 Final Modification Report</div> </div>
<p><b>Purpose of Modification:</b></p> <p>This Modification seeks to introduce a Capacity Discount which would be related to the potential for users to construct their own NTS bypass pipeline (the NTS Optional Commodity Rate). The Capacity Discount would have the following features:</p> <ul style="list-style-type: none"> <li>• The discount would be applied to firm entry capacity and firm exit capacity;</li> <li>• It would apply to an eligible route from an eligible entry point to an eligible exit point;</li> <li>• It would be available on application to a shipper with respect to the eligible route;</li> <li>• The discount would vary with distance, decreasing as distance increases based on an assessment of the costs of building a bypass pipeline;</li> <li>• The maximum distance limit for an eligible route would be 18 km;</li> <li>• The maximum discount shall be 90% of the prevailing postage stamp capacity charges applicable to firm products at entry and exit;</li> <li>• The minimum discount shall be 10% of the prevailing postage stamp capacity charges applicable to firm products at entry and exit; and</li> <li>• The minimum discount shall apply at the maximum distance limit</li> </ul>		
	<p>The Proposer recommends that this modification should be:</p> <ul style="list-style-type: none"> <li>• treated as an Alternative to Modification 0728 and should proceed under the same timetable as that agreed with the Authority for Modification 0728 as far as is practicable</li> </ul>	
	<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	
The Proposer recommends the following timetable:	
Modification sent to Ofgem	09 June 2020
Ofgem Decision on Urgency	12 June 2020
Draft Modification Report issued for consultation	15 June 2020
Consultation Close-out for representations	26 June 2020
Final Modification Report available for Panel	02 July 2020
Modification Panel recommendation	03 July 2020
Final Modification Report issued to Ofgem	03 July 2020
Proposed Implementation date (subject to Ofgem's decision)	01 October 2020

**?** Any questions?

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## 1 Summary

### What

This Modification seeks to implement a more cost reflective charging arrangement for Transmission Services related to users directly connected NTS Users located at or near Entry Points, where construction of a pipeline to bypass the NTS may be a viable commercial option. It proposes the introduction of a capacity discount applicable to the entry and exit points in relation to a pipeline route where it is feasible for a user to consider the construction of a bypass pipeline.

This Modification takes into account the decision Ofgem has made regarding Modification 0678<sup>1</sup> and addresses the areas of compliance identified in this decision to ensure compliance with EU Tariff Code (Regulation 2017/460)<sup>2</sup>. Modification 0678A which does not include a bespoke provision for directly connected NTS Users located at or near Entry Points, where construction of a pipeline to bypass the NTS may be a viable commercial option.

This Modification proposes an implementation date of 01 October 2020.

### Why

This modification proposal will introduce a discount which would be applied to firm capacity products at entry and exit for eligible routes it is feasible for a user to consider the construction of a bypass pipeline.

Modification 0678A will align the overall GB Transmission Charging Methodology to the new charging structures with the EU Tariff Code. This modification is compliant with with the EU Tariff Code. It enables a capacity based discount for the capacity based products envisaged under the EU Tariff Code.

The EU Tariff Code does not set out specific arrangements that addresses the issues associated with the potential risk of inefficient bypass. However it facilitates the introduction of capacity discounts in manner that is compatible with Article 4(2) which requires that "Transmission tariffs may be set in a manner as to take into account the conditions for firm capacity products and Article 4(3) "The transmission services revenue shall be recovered by capacity-based transmission tariffs."

A bypass pipeline creates an option for users to source gas from a local entry point or from the NTS (subject to maintaining a connection to the NTS). Once built the pipeline is a sunk cost but is subject to operating costs. Users with a bypass pipeline and ongoing connection with the NTS will be able to exercise the option whenever it is cheaper to source gas from an entry point rather than the NTS (taking into account the avoided NTS transmission cost). In these circumstances there is no obligation for users to flow using a bypass pipeline pipeline.

The absence of a capacity discount may encourage some users to adopt a short term and more risk booking strategy to try to minimise capacity costs (avoid capacity charges when they do not wish to flow).

This modification will introduce a capacity discount for all firm bookings by a shipper at both entry and exit for eligible routes. The discount is on the full firm capacity (irrespective of the flow) subject to the exclusion of existing contracts. This more closely resembles the option created by a bypass pipeline. Users will retain a liability for at least 10% of NTS charges.

<sup>1</sup> <https://www.gasgovernance.co.uk/0678>

<sup>2</sup> [EU Tariff Code \(Regulation 2017/460\): https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32017R0460](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32017R0460)

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## How

A new charging arrangement is proposed specifically for directly connected NTS Users located at, or near, Entry Points where construction of a pipeline to bypass the NTS may be a commercially viable option.

Through applying a generic methodology, incorporating a view of expected costs of bypass, an assessment compared to likely charges in conjunction with key principles of delivering a **simple, targeted** and **proportionate** approach, this will better facilitate understanding of a genuine bypass risk, and thus eligibility for the capacity discount applied to firm entry and exit products.

The capacity discount is informed by the costs and benefits associated with remaining connected to the NTS. These criteria and the formula for calculating the discount rates will be reviewed periodically, to ensure its suitability and application particularly with respect to the costs of building a bypass pipeline.

Changes are proposed to the Charging Methodology contained within UNC TPD Section Y. It is also likely that changes to other sections of the UNC TPD (Sections B and G) and the Transition Document will be required.

## 2 Governance

### Justification for Urgency

Urgent status is sought on the basis that the need to introduce the mechanism advocated by this Modification is related to an imminent date: 01 October 2020. This is the date is related to the removal of the NTS Optional Commodity Charge and implementation of UNC0678A.

There is a relatively short period of time between the expected publication of the Authority's decision in respect of the Modification 0678A and the 'go-live' date of 01 October 2020 which is not sufficient enough to deliver a timely decision in respect of this Modification were it to follow standard governance procedures.

If the defect identified in this modification proposal is not urgently addressed, there would be significant commercial impacts on certain UNC parties and consumers given that existing bespoke arrangements for the relevant points would cease, meaning they would be subject to 'standard' charges (from October 2020). This is likely, in turn, to materially impact the charges levied to customers, dependent on how those Users recover transportation costs.

### Justification for Authority Direction

This Modification 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 this Modification will have a material impact on the allocation of charges across NTS networks Users.

The continuation of the existing NTS Optional Charge may distort the gas market by providing discounts for users where it is not feasible to construct bypass pipelines.

Failing to develop a replacement for the NTS OCC would have a significant impact on those Users and consumers currently using, or potentially benefitting, from the NTS OCC. It would also increase the likelihood of a party bypassing the NTS or considering a bypass of the NTS.

Analysis based on the period 2020/21 using the Postage Stamp (PS) method described in Modification 0678A and applying the prevailing NTS OCC product suggests that this could potentially lead to thirty-seven of the currently active routes potentially bypassing the NTS. These represent those parties who could avail of the NTS OCC based on the usage of the product in place within the Gas Year October 2019 – September 2020.

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In total, these routes have a combined 'impact' on Transportation Charges of approximately £184.2m (calculated on the basis of the current methodology in place for Gas Year 19/20 using the known nominated routes at this time). Modelling using 0678A for Gas Year 20/21 this would be made of £28.7m of NTS OCC contributions and £155.5m of socialisation based on a Transmission Owner and System Operator revenues which equates to approximately 20% of Maximum Allowed Revenue for that period. If all these Users did bypass the NTS then £28.7m extra would also be socialised.

Whilst this level of bypass may be unlikely, due to some of these distances involved, it would be realistic to suggest some would more actively consider a bypass if there were no specific product within the charging framework.

### Requested Next Steps

This Modification should:

- should be treated as an urgent modification.

The topic of managing inefficient bypass as part of the Transportation Charging Methodology has been extensively discussed during the development of Modifications 0621 - *Amendments to Gas Transmission Charging Regime* (and alternatives), 0678 - *Amendments to Gas Transmission Charging Regime* (and alternatives), 0636 - *Updating the parameters for the NTS Optional Commodity Charge* and 0653 - *Updating the parameters for the NTS Optional Commodity Charge – Introducing the NTS Optional Capacity Charge*. A more targeted review has been undertaken under the remit of Request 0670R with further discussions taking place in the NTS Charging Methodology Forum (NTSCMF). Pre-Modification discussions have been tabled at Request 0670R and at the NTSCMF including the meeting on 2<sup>nd</sup> June 2020.

## 3 Why Change?

### Background

- 3.1. The topic of managing inefficient bypass as part of the Transportation Charging Methodology has been extensively discussed during the development of Modifications 0621 (and alternatives), 0678 (and alternatives), 0636 and 0653.
- 3.2. A more targeted review has been undertaken under the remit of Request 0670R with further discussions taking place in the NTS Charging Methodology Forum (NTSCMF). Pre-Modification discussions have taken place at Request 0670R and/or the NTSCMF.
- 3.3. This Modification is proposing a new product capacity discount which would be compatible with the implementation of Modification 0678A, where there is no such discount for managing inefficient bypass as part of the proposed Charging Methodology. Where any relevant comparisons are made to the methodology (the prevailing NTS OCC) that is in place up to and including Gas Year 2019/20 (i.e. Prior to Modification 0678A or 0678) this is referenced in the appropriate section.

### Consequences if Not Addressed

- 3.4. If the Charging Methodology does not incorporate measures to address potential bypass of the NTS in the circumstances described, there will likely be more active consideration of bypass of the NTS. In some instances, doing so could reduce transportation charges significantly for selected Users, resulting in large savings over a relatively short period of time for such points.

- 3.5. Should the relevant consumers elect to bypass the NTS, large volumes could be lost from the NTS whilst the Maximum Allowed Revenue (MAR) nevertheless remains unchanged. This could create a significant increase in charge rates for all remaining Users of the NTS, with no contribution towards this revenue from those electing to bypass.
- 3.6. Analysis shows that this could mean socialisation of up to a combined 24.4% of Transmission Operator (TO) costs and System Operator (SO) costs based on the prevailing NTS OCC (before Modification 0678A is implemented), spread over both Entry and Exit Users:

	Prevailing NTS OCC
<b>OCC Contribution</b>	£28,695,987.33
<b>Potential TO Socialisation</b>	£97,559,664.09
<b>SO Socialisation</b>	£57,983,030.86
<b>Total as % of MAR</b>	24.4%
<b>Routes Considered</b>	37
<b>Max Effective Rate Discount</b>	99.3%
<b>Longest Route Considered</b>	244.0

- 3.7. Incentivising those points genuinely at risk of bypassing to continue to use the NTS would create some additional costs for other Users, but these should be less than the figures possible should there be no incentive put in place and this demand be 'lost' from the NTS along with contributions towards Allowed Revenue collection.
- 3.8. With any arrangement that results in a discounted treatment for some Users, the amount of the 'discount' realised will adjust other charges. This can often be referred to as a cross subsidy, given it results in an amount not paid by some, and picked up by others. As a result, the level of this redistribution should also play a part in the assessment of the Modification.

### Impacts and Considerations

- 3.9. Ultimately a network User's primary driver, as to whether to remain on the NTS or bypass the network entirely, will be based on which option is more cost effective for their business. This decision will take in to account the up-front capital expenditure for construction and/or commissioning of a pipeline, potentially lengthy planning and construction times, cost of use of the NTS during that period, long-term operational expenses including upkeep and maintenance of the asset and the costs associated with maintaining a connection with the NTS. This would be compared with the Transportation Charges related to alternatively accessing and using the NTS. This decision would likely consider the less easily quantifiable advantages inherent in remaining connected to the NTS such as security of supply and access to the National Balancing Point (NBP).
- 3.10. In practice, bypassing the network requires a single pipeline from Entry point to Exit point, the planning, development and construction of which could take months or years in some instances. As an indication of timescales, the current Planning and Advanced Reservation of Capacity Agreement (PARCA) process sets timescales between 12 and 90 months (between 1 and 7.5 years).

- 3.11. It should be noted that any access to the proposed capacity discount would be immediate and has the benefit, where eligibility and accessibility permits. This is also an advantage in remaining connected to the NTS compared to the process that would lead up to and include building and commissioning and operating a bypass pipeline.
- 3.12. One concern highlighted was, amongst other points, Users potentially being able to take advantage of some preferential charges, regardless of whether a genuine consideration is bypass of the NTS. Under the NTS OCC this issue is also seen whereby, the uptake of the Capacity Discount, in combination with the impacts and interactions in the Charging Methodology results in a disproportionate use over its intended usage and resulting in unrealistic distances for a potential bypass.
- 3.13. Therefore, this modification proposes that both the charge rate, and more importantly eligibility for a new Capacity Discount, must be more informed by the risk of bypass. The distance between exit and entry point, as well as forecasted volumes, must be accounted for in calculating the potential costs or savings available to those looking to bypass the network. Whilst difficult to quantify, Users should also be aware of the additional benefits described above.
- 3.14. Industry must also be aware that a bypass pipeline or a reduced rate for some Users does result in an increase to the costs for others. As described above, not replacing the NTS OCC, and affected Users choosing to bypass, would generate significant shortfall in the revenue recovered as a result of underutilisation of the NTS and so charge rates for all other users would increase. Therefore, the Methodology for this Capacity Discount must balance the potential loss of demand from the NTS (and the resultant increase in revenue recovery from those remaining connected) with the potential level of cross subsidy due to discounts being provided to those at risk of bypassing the system.
- 3.15. Under this modification some level of socialisation is required to incentivise Users to remain connected to the NTS and avoid the potentially larger costs associated with the loss of large volumes of demand from the NTS. Nonetheless, the Proposer also recognises the need to target only those points where a risk is clear and present, in particular those Users who have situated their businesses near an Entry point.
- 3.16. Socialisation of some costs and charges can typically be a feature of a regime with multiple Users and specific access arrangements. Where discounts or alternative charges are a feature (e.g. the Storage discount to Transmission Services (TS) capacity reserve prices in Modification 0678A, Storage exemption from General Non-Transmission Services (Gen Non-TS) Commodity charges or the Interruptible Discount to TS capacity reserve prices) they result in amounts effectively not levied on some Users and paid for by others. Providing these further the relevant objectives these can be viewed as positive when applied in the overall methodology.

## Recent Developments

- 3.17. A critique of the current NTS Charging Methodology undertaken as part of the Gas Transmission Charging Review identified that it is too volatile, unpredictable and does not provide stability of charges for Users. Modification 0678A will introduce a new NTS Charging Methodology that produces stable and predictable transportation charging and is compliant with EU Tariff Code (Regulation 2017/460). Under Modification 0678 and 0678A, the NTS OCC will cease with effect from implementation of Modification 0678 or 0678A.

3.18. Despite the absence of a mechanism to dis-incentivise inefficient bypass of the NTS in Modification 0678A, there remains an enduring need for the prospective Charging Methodology to include bespoke charging arrangements to ensure the efficient use of the network, in this case to avoid inefficient bypass of the NTS by large consumers located close to points of entry to the NTS. To facilitate this aspiration, National Grid initiated the review under Request 0670R to provide a suitable forum to discuss and consider outside of the main charging developments under Modification 0678 and its alternatives.

## Overview of the Proposed Solution

### Capacity Discount for Firm Capacity

- 3.19. This Modification is compatible with the Modification 0678A baseline.
- 3.20. For the Eligible Quantity (EQ) of capacity (which will have an Eligible Entry Quantity and an Eligible Exit Quantity), over a qualifying nominated route (an Entry point and an Exit point), as per the Licence, there will be a discount to Transmission Services Entry and Exit Capacity reserve prices. The level of discount will vary dependent on distance, reducing as distances increase up to a maximum distance. A maximum and minimum discount have been developed along with eligibility and access criteria. Any capacity above the Eligible Quantity will pay the standard charges.
- 3.21. Transmission Services Entry and Exit Revenue Recovery Charges on capacity bookings remain payable and General Non-Transmission Services Entry and Exit charges remain payable on flows.
- 3.22. Further details on the specific components are outlined later in this Section 3.

## Justification for Aspects of the Solution

### Eligibility

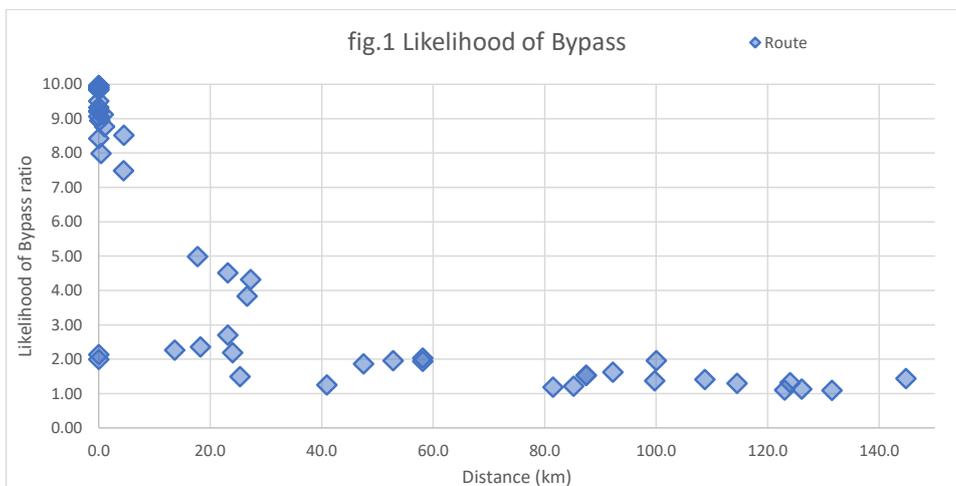
- 3.23. In determining eligibility for the discount, several factors have been considered:
- This Discount is designed to reduce the risk of bypass for directly connected NTS Users only, therefore Distribution Networks and connections to Distribution Networks are not eligible to use this Discount. For connections to Distribution Networks, a bypass from an NTS Entry Point to the end DN offtake would therefore bypass both the Transmission and Distribution Networks which is unlikely to be considered. If it were the optimal infrastructure, it could be reasonably assumed it would be part of the DN network (and represented into its funding and regulated revenues) and therefore a bypass to the NTS is not likely to be an active consideration.
- It should also be noted that when considering the party responsible for capacity and flows when it comes to DN offtakes to the NTS, they are different Users. It is not expected these would therefore be able to comparatively assess bypassing the NTS as the DN is responsible for capacity and the Shipper for the flows.
- Storage Sites are, purposefully, embedded within the NTS and so by design, it would be impossible to bypass the NTS. They are therefore not eligible to use this Discount.

### Determining a Discount Curve

3.24. To attempt to assess the likelihood of bypass National Grid calculated for each route combination a set of costs as part of the UNC0670R work. Using the General Flow Equation; with constants taken

from current TPD Section Y 2.5.2, current MNEPOR values, and a combination of straight-line (where available) and pipeline distances taken from the National Grid pipeline data-book, a Pipe Diameter for all potential routes was calculated..

- 3.25. Using a formula published by the Council of European Energy Regulators in paper "PROJECT CEER-TCB18 -Pan-European cost-efficiency benchmark for gas transmission system operators – 17.07.2019"<sup>3</sup>, timescales inferred from the PARCA process and the costs of using the NTS during construction period under Modification 0678A (where no NTS OCC product will exist) a ratio of annualised bypass construction costs vs. NTS costs was calculated. The costs include the costs that would most likely go into the preparation and building of an alternative pipeline. The design of the Discount is generic in its nature and application and may not consider every possible specific scenario.
- 3.26. As part of the UNC0670R work National Grid did not include the operational costs as the NTS operational charges (made predominantly via General Non-Transmission Services Entry and Exit Commodity Charges). This is consistent with the generic nature of the Discount and ambitions to keep it simple and proportionate for all those accessing and using the NTS.
- 3.27. The graph below (fig.1) plots these ratios determined as a measure of build costs versus NTS Charges against the distance between Entry and Exit points to inform the likelihood of bypass. Each marker on the graph represents a route from an Eligible Entry Point to an Eligible Exit Point



- 3.28. The graph demonstrates a curve and suggests a correlation between distance and likelihood of bypass. The highest calculated ratio of bypass costs against NTS usage costs is at 0km, the ratio at that point is 9.973:1, this implies the most likely bypass User, over a ten-year period could achieve

<sup>3</sup> <https://www.ceer.eu/1767>

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an 89.97% reduction on NTS Transmission costs. As part of the 0678R work National Grid rounded this up to the nearest whole % value, 90%, to inform the Maximum Discount offered under the new proposed arrangement.

3.29. The discount level is scaled down dependant on distance from the Entry point to a minimum of 10% discount. This limit of 10% discount is also informed by the likelihood of bypass. The data suggests that no User beyond 17.7km would consider investing the time, effort and capital required to bypass when the benefits over 10 years are not significant.

3.30. The discount starts at 90% at 0Km and falls to the discount limit at 10%. Below the discount limit (i.e. Less than 10% discount), a larger discount is available via the regular interruptible auction and so all Users could find equal or better value outside of the offered bypass avoidance capacity discount. It is assumed that the most economic decision would be made by the relevant party to access the lower priced capacity. This therefore informs a 'cut-off' for the distance over which this product is available.

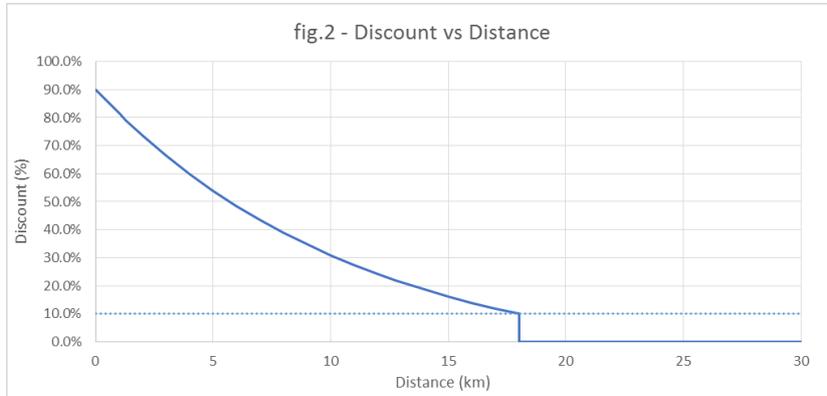
3.31. The maximum distance is therefore 18km (rounded up to the nearest whole km). Beyond the maximum distance permitted of 18km, any nomination would be ineligible for the capacity discount.

#### Route Specific Discount

3.32. The scaling of the Route Specific Discount at any point between 0km and the Maximum Distance Limitation is based on a curve. The curve is designed to peak at 0km with a discount of 90%, and meet the calculated distance cap at 10%. Immediately after this point the discount drops to zero.

$$PCD_r = \left( \left( \frac{1}{\text{IFERROR} \left( e^{\left( \frac{1.6094}{MDL} \right)}, 1 \right)} \right)^{SLDr} \right) - \left( 1 - \left( \frac{MDA}{100} \right) \right)$$

3.33. Using the established guidance points; 90% Max Discount Available (MDA), 10% Minimum Discount Available (which informs the constant: 1.6094) and a distance limitation of 18km, this plots a curve as demonstrated in fig.2 below:



### Eligible Quantity

3.34. The Route Specific Discount will only be applicable in respect of the Eligible Quantity of capacity.

3.35. The Eligible Quantity (EQ) of capacity calculation is fully defined in the Business Rules (Section E). There is potential for a different value for Entry EQ and Exit EQ in the same nominated route.

3.36. In summary, this is based on the minimum of two values (associated to the route requested and the User):

- the eligible Firm\* Capacity at Entry
- the eligible Firm\* Capacity at Exit

\*Firm Capacity includes Obligated and Non-Obligated Firm Capacity

The eligible shipper firm capacity at the eligible entry point(s) and the eligible shipper firm capacity at eligible exit point(s) will qualify for the discount (subject to the treatment of existing contract capacity). There is no requirement to flow gas with respect to the eligible firm capacity held by a shipper at an eligible entry point(s) and held by a shipper at an eligible exit point(s) with respect to the eligible route.

3.37. It will be assumed that at an Entry Point, Existing Contracts (EC) will be utilised against first, and therefore as Existing Contracts are a fixed price which cannot be changed, any discount will not be applied to Existing Contracts. Only capacity above the level of Existing Contracts will become Eligible, providing that there is also enough Firm Capacity in excess of the Existing Contract to match the shipper firm exit capacity (for the eligible route).

3.38. Capacity acquired via secondary transfers will not be considered for a discount, this is due to the liability for traded capacity remaining with the initial purchaser rather than transferring to the new holder making it impossible to discount under current trading rules.

3.39. For Entry, Capacity acquired via secondary transfers and Existing Contracts as per Modification 0678A and 0678, whilst ineligible for a discount on the Entry Reserve prices, these can be used to calculate a discount to Exit Reserve Prices.

3.40. For Exit, Capacity acquired via secondary transfers, whilst ineligible for a discount on the Exit Reserve prices, these can be used to calculate a discount to Entry Reserve Prices.

3.41. Capacity sold via secondary transfers will also adjust the amount available for discount. Should there be transfers out equivalent to firm capacity purchased by that Shipper (as primary capacity, bought directly from National Grid Gas), then these two values offset each-other and no discount is available.

3.42. Where a Shipper has two eligible routes which start at the same Entry Point, the capacity recorded at the Entry Point, will be split between the eligible Exit Points, proportional to the Exit capacity and Exit capacity. Capacity from Existing Contracts will also be apportioned between the two routes to ensure neither routes are disproportionately impacted.

3.43. For any volumes in excess of the Eligible Quantities of capacity, these will pay the standard charges applicable (i.e. non-discounted Transmission Services capacity reserve charges, and any other Transmission Services and Non-Transmission Services Charges).

#### **Application and Disapplication**

3.44. Once applied for, a nomination is considered to be enduring and will roll over for each Gas Year unless there is a disapplication.

3.45. A nomination is only valid should it be for a route permitted in the rules for eligibility.

3.46. Should a User wish to change the nominated route they can change the Entry Point with respect to an Exit point for a nominated route for example but cannot revert to the original nominated route within a Gas Year.

3.47. Once dis-applied for a route then a User cannot nominate that route again in that Gas Year.

3.48. Once on the route, the payable price, for Eligible Quantities will always be the lower of the discounted rate or the "standard" rates.

#### **Review**

3.49. It is proposed that the distance established for the purposes of this Modification as the maximum distance eligible, will remain in place until a suitable time for review. It is expected that National Grid will continually monitor the uptake and impacts of this capacity discount and propose amendments should it be considered necessary via normal UNC change processes. Examples of what may drive a review may include and not be limited to, assessing the level of cross subsidisation, uptake, any other related modification that may require a change. Any change would follow UNC governance for changes.

3.50. Applications for new routes will be assessed based on the same criteria.

#### **Implementation**

3.51. Proposed arrangements need to refer to the effective date as given by any Ofgem direction.

#### **Incorporation / Impacts on other charges**

3.52. Where possible, any anticipated Shortfall in revenues as a result of applying this capacity discount will be accommodated into the Reference Price Methodology in determining the reference prices to apply for the tariff year.

3.53. Transmission Services Revenue Recovery Charges, when set or updated, will also take into account the anticipated and actual recovery of revenues from the capacity discount.

#### Revenues

3.54. Transmission Services Allowed Entry and Exit Revenues will be calculated as per Modifications 0678/0678A. The revenue collected from the capacity discount will go towards the Transmission Services Entry or Exit collection. As the charges for eligible quantities will be discounted capacity charges, they remain capacity revenue to be collected as part of the Transmission Services Revenues.

## 4 Code Specific Matters

### Reference Documents

[UNC Request 0670R: https://www.gasgovernance.co.uk/0670](https://www.gasgovernance.co.uk/0670)

[EU Tariff Code \(Regulation 2017/460\): https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32017R0460](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32017R0460)

[UNC Modification Proposal 0678 and Alternatives: https://www.gasgovernance.co.uk/0678](https://www.gasgovernance.co.uk/0678)

Existing NTS Optional Commodity Charge (NTS OCC) Methodology (Part A1 of [UNC TPD Y](#)): <https://www.gasgovernance.co.uk/TPD>

[Gas Transmission Charging Review \(GTCR\) and associated update letters: https://www.ofgem.gov.uk/gas/transmission-networks/gas-transmission-charging-review](https://www.ofgem.gov.uk/gas/transmission-networks/gas-transmission-charging-review)

[Customer and Stakeholder Objectives developed within NTSCMF: http://www.gasgovernance.co.uk/ntscmf/060916](http://www.gasgovernance.co.uk/ntscmf/060916)

### Knowledge/Skills

An understanding of Request 0670R, Modification 0678 (and alternatives), UNC TPD Section Y Part A, the EU Tariff Code, Gas Transmission Charging Review (GTCR) documentation and the customer / stakeholder objectives developed within NTSCMF would be beneficial.

## 5 Solution

### A. Introduction

1. These Business Rules describe the scope of, eligibility for, and calculation of, a capacity discount for Avoiding Inefficient Bypass of the NTS, which incorporates within the NTS Charging Methodology a capacity discount as a means of dis-incentivising inefficient bypass of the NTS.

2. These rules have been developed to form the solution for UNC Modification Proposal '*Introduction of a Capacity Discount for Avoiding Inefficient Bypass of the NTS*' (version 1.0). These rules do not constitute legal text but are designed to allow legal text to be drafted.

## **B. Definitions**

3. '**CDSP**' means the Central Data Services Provider;
4. '**Direct Connect**' or '**DC**' means an Exit Point from the National Transmission System (NTS) which does not comprise a Storage Connection Point or an Offtake to a Distribution Network;
5. '**Distance Matrix**' means the document owned and maintained by National Grid that specifies the straight-line distances in kilometres (to an accuracy of one decimal place) between Entry Points and Exit Points on the National Transmission System;
6. '**Entry Point**' means an Aggregate System Entry Point as defined in the Uniform Network Code;
7. '**Exit Point**' means NTS Exit Point as defined in the Uniform Network Code;
8. '**Existing Contracts**' means capacity procured (for an Entry Point) prior to 6<sup>th</sup> April 2017 (for the avoidance of doubt, the capacity purchased may apply in respect of a day or days following this specified date). In respect of adjustments (including trades) to available Entry Capacity, where the adjustment is executed:
  - 8.1. up to and including 5<sup>th</sup> April 2017, the Capacity will be treated as Entry Capacity procured via Existing Contracts; or
  - 8.2. subsequent to the 5<sup>th</sup> April 2017, the Capacity will not be treated as Entry Capacity procured via Existing Contracts.
9. '**Firm Entitlement**' means, in the context of Entry capacity or Exit capacity, all Firm capacity (including any Existing Contracts) prior to adjustments for all Secondary Transactions;
10. '**Forecasted Contracted Capacity**' or '**FCC**' means the forecast capacity booked at an Entry Point or and Exit Point (for the forthcoming Gas Year) excluding Existing Contracts. The FCC for an Entry Point or an Exit Point will be equal to a forecast value determined by National Grid taking account of capacity booking trends observed at respective Entry Points and Exit Points as specified in the FCC Methodology.
11. '**Net Firm Entitlement**' means, Firm Entitlement adjusted for all Secondary Transactions and, for the avoidance of doubt, excluding all Interruptible Capacity;
12. '**PARCA**' means a Planning and Advanced Reservation of Capacity Agreement;
13. '**Premium Price**' means the difference between the allocated (final) price and the Reserve Price in the relevant auction or as specified in the relevant PARCA agreement;
14. '**Reserve Price**' means the price for a capacity product (p/kWh/d) following the application of any adjustments;

15. **'Secondary Transactions'** means:

- 15.1. 'acquiring' and 'disposing' capacity trades (System Capacity Transfer as per UNC TPD section 5.1);
- 15.2. long term use it or lose it (withdrawal of capacity by National Grid as per UNC EID section B8);
- 15.3. Congestion Management Procedure (CMP) surrender (Surrender as per UNC EID section B7);
- 15.4. rolling monthly surrender (Surrendered NTS Entry Capacity as per UNC TPD section B2.3); and
- 15.5. buybacks (Surrender of NTS Entry Capacity as per UNC TPD Section B2.10).

For the avoidance of doubt, Secondary Transactions do not include assignments (Capacity Assignment as per UNC TPD Section B6) nor EAFLEC decreases (Reduction of Enduring Annual NTS Exit (Flat) Capacity as per UNC TPD section B3.2).

16. **'Transmission Services Target Revenue'** means Transmission Owner (TO) revenue (as determined in the National Grid's Transporter Licence) minus revenue due in respect of NTS Metering activities and DN Pensions Deficit costs and including those charges in respect of NTS Capacity (but not including Overrun Charges) or the surrender of NTS Capacity classified as a component of SO allowed revenue. The Transmission Services Target Revenue will also be reduced by any known revenue associated to Existing Contracts.

**C. Capacity Discount Description and Alternative Charges**

17. The Capacity Discount for Avoiding Inefficient Bypass of the NTS ('**Capacity Discount**') is available, in respect of Firm Capacity only, for the relevant routes to derive a discount that will be applied to the standard Transmission Services Capacity Reserve Prices for Entry and Exit (the '**Discounted Reserve Price**'). A route comprises the combination of an Entry Point, an Exit Point and a User. Where the User elects to incur the Discounted Reserve Price, this will be payable in respect of the Entry Eligible Quantity (determined as per paragraph 35) and Exit Eligible Quantity (determined as per paragraph 36) of Transmission Service Entry Capacity and Exit Capacity respectively for the route.

18. The standard Transmission Services Capacity Reserve Prices for:

- 18.1. the relevant Entry Point will be payable for any Entry Capacity registered at the Entry Point in excess of the Entry Eligible Quantity; and
- 18.2. the relevant Exit Point will be payable for any Exit Capacity registered at the Exit Point in excess of the Exit Eligible Quantity.

19. The Discounted Reserve Price in respect of Entry Capacity ( $DRP_{En}$ ) is determined using the following formula:

$$DRP_{En} = RP_{En} \times \frac{100 - CD_r}{100}$$

where:

$RP_{En}$  means the standard Reserve Price for firm Entry Capacity (in respect of the relevant Eligible Entry Capacity Tranche as defined in paragraph 35.3) as determined pursuant to the Charging Methodology. If there is no Reserve Price for firm Entry Capacity in the Charging Methodology then the Reserve Price shall be set to zero.

$CD_r$  means the percentage value of the Capacity Discount (rounded to the nearest whole number) for the relevant route determined as per paragraph 34.

20. The Discounted Reserve Price in respect of Exit Capacity ( $DRP_{Ex}$ ) is determined using the following formula:

$$DRP_{Ex} = RP_{Ex} \times \frac{100 - CD_r}{100}$$

where:

$RP_{Ex}$  means the standard Reserve Price for firm Exit Capacity (in respect of the relevant Eligible Exit Capacity Tranche as defined in paragraph 36.3) as determined pursuant to the NTS Charging Methodology. If there is no Reserve Price for firm Exit Capacity in the Charging Methodology, then the Reserve Price shall be set to zero.

$CD_r$  means the percentage value of the Capacity Discount (rounded to the nearest whole number) for the relevant route determined as per paragraph 34.

21. The values  $DRP_{En}$  and  $DRP_{Ex}$  will be rounded to 10 decimal places where the relevant point is an Interconnection Point and 6 decimal places where the relevant point is not an Interconnection Point.

22. As the Capacity Discount represents a discount only to the Transmission Services Reserve Price for capacity, any Premium Price remains payable in full.

23. For the avoidance of doubt:

23.1. any capacity overrun charges will be calculated using the standard Transmission Services Capacity Reserve Prices for the relevant Entry Point or Exit Point; and

23.2. all other charges (where relevant) will remain payable including the General Non-Transmission Services Charges and any Transmission Services Revenue Recovery Charges.

#### **Duration**

24. The election to incur the Discounted Reserve Price (as a consequence of the application of the Conditional Discount) will be enduring until:

24.1. the relevant User makes a valid Dis-application in accordance with paragraph 46; or

24.2. the point at which the relevant User is no longer a Registered User at the specified Exit Point; or

- 24.3. a Periodic Review (undertaken as per paragraph 51) or recalculation undertaken as per paragraph 52 determines that the Conditional Discount (CD<sub>r</sub>) for the relevant route is 0%.

**Interaction with Charging Methodology**

25. National Grid will forecast the extent of all Users' elections to incur the Discounted Reserve Price for the forthcoming Gas Year. The net impact (of this forecast) on the aggregate amounts of Transmission Services Revenue which National Grid NTS estimates would be earned in the Gas Year will be taken into account (where practicable) as follows:
- 25.1. (except for the Gas Year Commencing 1<sup>st</sup> October 2020) when assessing the Entry Revenue Scaling Factor and Exit Revenue Scaling Factor for the relevant Gas Year<sup>4</sup>; otherwise
- 25.2. will be taken into account in the determination of Transmission Services Revenue Recovery Charges for the relevant Gas Year.

**D. Route Eligibility**

26. Whereas one Eligible Entry Point (see paragraph 27) can be associated with more than one Eligible Exit Point (see paragraph 28), it is not permitted for a single User to associate more than one Eligible Entry Point to an individual Eligible Exit Point.

**Entry Points**

27. The following Entry Point types (as listed in National Grid's Transporter Licence, Special Condition 5F.27, Table 4B) are '**Eligible Entry Points**':
- 27.1. Beach Terminal;
- 27.2. Biomethane Plant;
- 27.3. Interconnection Point;
- 27.4. LNG Importation Terminal; and
- 27.5. Onshore Field

**Exit Points**

28. The following Exit Point types (as listed in National Grid's Transporter Licence, Special Condition 5G.31, Table 8) are '**Eligible Exit Points**':
- 28.1. DC ('Direct Connect'); and

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<sup>4</sup> See Modification 0678A legal text: UNC TPD Section Y Part A-I paragraph 2.4.3 or Modification Proposal 0678 legal text: UNC TPD Section Y Part A-I paragraph 2.4.4

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28.2. Interconnector.

### **E. Determination of Discount**

29. The sequential steps detailed below are applied in order to derive the percentage point value of the Capacity Discount (the term  $CD_r$  as applied in paragraphs 19 and 20) for the relevant route.

#### ***Minimum and Maximum Allowed Discount***

30. The minimum discount available at the maximum discount limit (see paragraph 32) is 10%.

31. The Maximum Discount Available (MDA) for a straight-line distance of zero is 90%.

#### ***Maximum Discount Limit (MDL)***

32. The value, MDL will be set at 18km. This figure will be reviewed in line with paragraph 51 to ensure it remains appropriate over time.

#### ***Route Specific Discount***

33. The Provisional Conditional Discount ( $PCD_r$ ) for the relevant route will be determined by application of the following formula:

$$PCD_r = \left( \left( \frac{1}{IFERROR\left(e^{\frac{1.6094}{MDL}, 1}\right)} \right)^{\wedge SLD_r} \right) - \left( 1 - \left( \frac{MDA}{100} \right) \right)$$

where:

MDL means the Maximum Discount limit determined in accordance with paragraph 32; and

MDA means the Maximum Discount Available determined in accordance with paragraph 31.

$SLD_r$  means the Route Straight-line Distance.

34. The Capacity Discount ( $CD_r$ ) for the relevant route will be equal to the Provisional Conditional Discount ( $PCD_r$ ) unless the Provisional Capacity Discount is less than 10% in which case the Capacity Discount will be equal to zero.

#### ***Eligible Quantities***

35. The Entry Eligible Quantity ( $EQ_{En}$ ) for which the Discounted Reserve Price applies will be determined per route, in respect of each day as follows:

$$EQ_{En} = \text{Min}(IEQ_{En}, AQ_{En})$$

where:

$IEQ_{En}$  means the Initial Eligible Quantity at Entry determined in accordance with paragraph 35.1; and

$AQ_{En}$  means the Apportionment Quantity at Entry determined in accordance with paragraph 35.2;

35.1. The Initial Eligible Quantity at Entry ( $IEQ_{En}$ ) will be determined each day as follows:

$$IEQ_{En} = \text{Max}(0, (\text{Min}(CAP_{En}, CAP_{Ex}) - EC_{En}))$$

$CAP_{En}$  means in respect of Entry capacity, the greater of zero (0) and the User's Net Firm Entitlement on the day at the Eligible Entry Point;

$CAP_{Ex}$  means in respect of Exit capacity, the greater of zero (0) and the User's Net Firm Entitlement on the day at the Eligible Exit Point;

$EC_{En}$  means the quantity of Entry Capacity procured via an Existing Contract.

35.2. The Apportionment Quantity at Entry ( $AQ_{En}$ ) will be determined each day as follows:

$$AQ_{En} = \sum CTQ_{En}$$

where:

$\sum$  means the sum of; and

$CTQ_{En}$  means the quantity of capacity in an Eligible Entry Capacity Tranche at Quantity Holder level as defined in paragraph 35.3;

35.3. An Eligible Entry Capacity Tranche means an Entry Capacity allocation procured or assigned in a single event at a known, uniform price that is not interruptible capacity nor Existing Contract Capacity and is not transacted via Secondary Transactions.

36. The Exit Eligible Quantity ( $EQ_{Ex}$ ) for which the Discounted Reserve Price applies will be determined in respect of each day as follows:

$$EQ_{Ex} = \text{Min}(IEQ_{Ex}, AQ_{Ex})$$

where:

$IEQ_{Ex}$  means the Initial Eligible Quantity at Exit determined in accordance with paragraph 36.1; and

$AQ_{Ex}$  means the Apportionment Quantity at Exit determined in accordance with paragraph 36.2.

36.1. The Initial Eligible Quantity at Exit ( $IEQ_{Ex}$ ) will be determined each day as follows:

$$IEQ_{Ex} = \text{Min}(CAP_{En}, CAP_{Ex})$$

$CAP_{En}$  means in respect of Entry capacity, the greater of zero (0) and the User's Net Firm Entitlement on the day at the Eligible Entry Point;

$CAP_{Ex}$  means in respect of Exit capacity, the greater of zero (0) and the User's Net Firm Entitlement on the day at the Eligible Exit Point;

36.2. The Apportionment Quantity at Exit ( $AQ_{Ex}$ ) will be determined each day as follows:

$$AQ_{Ex} = \sum CTQ_{Ex}$$

where:

$\Sigma$  means the sum of; and

$CTQ_{Ex}$  means the quantity of capacity in an Eligible Exit Capacity Tranche at Quantity Holder level as defined in paragraph 36.3.

36.3. An Eligible Exit Capacity Tranche means Exit Capacity allocation procured or assigned in a single event at a known, uniform price that is not interruptible capacity and is not transacted via Secondary Transactions.

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

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

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

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

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

38. For the purposes of determining the apportionment of:

- 38.1. Entry Eligible Quantity between Eligible Entry Capacity Tranches, the Eligible Entry Quantity will be pro-rated on the basis of the Eligible Entry Capacity Tranche capacity quantity as a proportion of the aggregate of the Eligible Entry Capacity Tranche capacity quantities; and
- 38.2. Exit Eligible Quantity between Eligible Exit Capacity Tranches (that may have been procured at different unit rates i.e. p/Kwh/d), the Eligible Exit Quantity will be pro-rated on the basis of the Eligible Exit Capacity Tranche capacity quantity as a proportion of the aggregate of the Eligible Exit Capacity Tranche capacity quantities.

**F. Application and Dis-application Process**

- 39. A User can elect to incur the Discounted Reserve Price by making a valid Application to the CDSP via the Supply Point Nomination and Confirmation process or Supply Point Amendment process (or the equivalent notification for Interconnection Points).
- 40. A valid Application in respect of a route must:
  - 40.1. specify one Eligible Entry Point and one Eligible Exit Point;
  - 40.2. have a Route Straight-line Distance (SLD<sub>r</sub>) that is within the Maximum Distance Limit (as per paragraph 32);
  - 40.3. not specify a route already elected by the applicant User previously within the Gas Year; and
  - 40.4. not specify an alternate Entry Point where the Exit Point has already had a valid Application within the Gas Year from that applicant User.
- 41. The Application will be validated against the criteria in paragraph 40 and a response will be issued to the User by the CDSP within two Supply Point Systems Business Days of receipt of the Application. This response will either be:
  - 41.1. rejection of the Application (specifying a reason); or
  - 41.2. notice of referral of the Application to National Grid; or
  - 41.3. a Capacity Discount offer (or the equivalent notification for Interconnection Points) quoting a Capacity Discount value for the relevant route which will be valid for a period of six-months from the date of the Capacity Discount offer.
- 42. Where a valid Application is referred to National Grid (as per paragraph 41.2), a response will be issued to the User by the CDSP following the CDSP's receipt of the response to the referral from National Grid. This response will be that specified in either paragraph 41.1 or paragraph 41.3.
- 43. The User is entitled to dispute the Route Straight-line Distance utilised by National Grid to determine the Capacity Discount by submitting a new Application with an alternative six-figure grid reference for the Eligible Exit Point with supporting evidence. The CDSP will respond accordingly in line with paragraph 41.

44. User acceptance of a Capacity Discount offer (or the equivalent notification for Interconnection Points) issued in response to a valid Application must be confirmed (or the equivalent notification for Interconnection Points) by the User. It must specify a requested Effective Date which is between five and thirty Supply Point Systems Business Days after the date of receipt of the Capacity Discount offer (or the equivalent notification for Interconnection Points).
45. Once a confirmation (or the equivalent notification for Interconnection Points) has been accepted, the Capacity Discount becomes active on the Effective Date.
46. A User which has applied to incur the Discounted Reserve Price may withdraw this election by making a valid Dis-application to the CDSP via the Supply Point Nomination, Confirmation or Supply Point Amendment process (or the equivalent notification for Interconnection Points). From the effective date of this withdrawal, the standard Transmission Services Capacity Reserve Price will become payable.
47. A valid Dis-application must specify a requested withdrawal date which is between five and thirty Supply Point Systems Business Days following the date of receipt the Dis-application.
48. In making a Dis-application, the User acknowledges and accepts that withdrawal of the election for the relevant route will prevent (within the same Gas Year):
  - 48.1. re-application for the same route; and
  - 48.2. an application for a new route based on the same Exit Point with an alternative Entry Point.
49. The Dis-application will be validated against the criteria in paragraph 47 and a response will be issued to the User by the CDSP within two Supply Point Systems Business Days of receipt of the Dis-application. This response will either be rejection of the Dis-application (specifying a reason) or confirmation of the withdrawal date.
50. For the avoidance of doubt, a route, the combination of Entry Point, Exit Point and User, can only be elected once per Gas Year. A User may apply, and withdraw within-year, but would not be permitted to reapply for the same route unless the requested effective date is in the following Gas Year.

#### **G. Periodic Review and Price Change Notification**

51. National Grid will undertake a Review at the start of each price control period (Periodic Review) of the Capacity Discount mechanism to:
  - 51.1. assess all new and existing Entry Points and Exit Points based on updated information, point classifications, new points and updated FCC values;
  - 51.2. assess whether any Entry Points or Exit Points are no longer Eligible due to changes in site type or status;
  - 51.3. assess the suitability of the Maximum Distance Limit (MDL<sub>v</sub>) in relation to the feasibility for users to construct a bypass pipeline

52. National Grid will recalculate Capacity Discounts annually and issue a Price Change Notification to the relevant Users (by 01 August) specifying the updated Capacity Discount value and, where appropriate, advise Users of routes which no longer qualify for a Capacity Discount. In respect of the latter, the relevant Users election for the Capacity Discount will be automatically removed with effect from 1<sup>st</sup> October (with a notice to this effect issued to the User by the second Supply Point Systems Business Day prior to this date).
53. The recalculation referred to in paragraph 52 will take place prior to 1<sup>st</sup> May each year.
54. The CDSP will issue an annual reminder to the relevant Users that the Capacity Discount will continue to apply in following Gas Year unless a valid Dis-application is submitted by the User.

#### **H. Implementation (including transition)**

55. Implementation of the modification proposal will terminate all existing NTS Optional Commodity Rate arrangements at the end of Gas Day prior to the Earliest Charge Commencement Date, accordingly:
  - 55.1. notification of the termination of the existing NTS Optional Commodity Rate arrangements will be provided to all relevant Users as soon as reasonably practicable following publication of Ofgem's final decision to implement the Modification Proposal (the '**Modification Direction Date**');
  - 55.2. where, following the Modification Direction Date, a User elects to incur the NTS Optional Commodity Rate, National Grid NTS will inform the User, as soon as reasonably practicable after this election, that such election will lapse on the Earliest Charge Commencement Date; and
  - 55.3. for the avoidance of doubt, any existing NTS Optional Commodity Charge nomination by a User, pursuant to TPD Section G (as in force prior to implementation of this Modification Proposal ) shall lapse and have no effect on, and from, the Earliest Charge Commencement Date.
56. The first day from which the Discounted Reserve Price can be levied is from 01 October 2020 (the '**Earliest Charge Commencement Date**').
57. Implementation of the new UNC rules regarding the Capacity Discount will take effect in time to allow for the following to be completed ahead of the Earliest Charge Commencement Date:
  - 57.1. publication of the Transportation Statement for the first Gas Year (or part of such); and
  - 57.2. the processing of Applications for the Discounted Reserve Price (providing sufficient notice for the Discounted Reserve Price to be levied from the Earliest Charge Commencement Date).

#### **I. Invoicing**

58. Capacity Charges levied at the Discounted Reserve Price will be invoiced and payable in accordance with UNC TPD Section S.

## 6 Impacts & Other Considerations

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

None

The ongoing Capacity Access Review under Request 0705R<sup>5</sup> will not be directly affected by this Modification as it has its own objectives and structure. There could be some topics of discussion within that context that may be re-prioritised or discussed based on the outcome of this Modification.

### Consumer Impacts

There is likely to be impact on different consumer groups (e.g. those directly connected to the NTS who may not be a Shipper, Shippers, Distribution Networks, and ultimately end consumers). Due to the nature of potential bypass, in some circumstances it may not be a Shipper who would bypass and the charging relationship for capacity (and the responsibility to nominate for the Capacity discount) remains with the Shipper.

It should be noted that the allowed revenue collected by National Grid NTS will not change, only the parties that pay and in what quantity. The Gas Transportation Charges recover a set amount of monies from Users of the NTS and these allowed revenues are determined in line with National Grid's Licence. This Modification is proposing a set of changes whereby it places the most appropriate levels of charges on those accessing and using the NTS, this Modification also considers those Users where it may be more likely to bypass the NTS.

This Modification provides a discounted transportation charge for relevant Users at a subset of Exit points (fulfilling the relevant criteria) that will essentially require the value of the discount to be recovered from Users at those points *not* electing to or not in a position to incur the Capacity Discount. This will seek to ensure that in a given Formula Year, the actual revenue recovered by National Grid is as close as possible to its allowed revenue by appropriate adjustments to the Scaling Factor, thereby minimising the value of any Revenue Recovery Charges.

The precise nature of how the User recovers the transportation charges it pays to National Grid NTS is dependent upon the downstream contractual arrangements Users have in place with their various counterparties. This may vary between individual Users.

### Cross Code Impacts

None

### EU Code Impacts

EU Tariff Code compliance (in respect of the proposed Capacity Discount) is considered as part of this Modification. Please see Section 7 Relevant Objectives.

### Central Systems Impacts

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

<sup>5</sup> <https://www.qasgovernance.co.uk/0705>

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## 7 Relevant Objectives

Impact of the modification on the Relevant Objectives:

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

Demonstration of how the Relevant Objectives are furthered:

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

The proposed changes to the UNC support the implementation of the new NTS Capacity Discount. Standard Special Condition A5(5) of the NTS Licence sets out the relevant methodology objectives and the Proposer believes that these objectives are better facilitated for the reasons detailed below (Relevant Charging Methodology Objectives: Demonstration of how the Relevant Objectives are furthered)

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

The proposed changes to the UNC support the implementation of the new NTS Capacity Discount. To the extent that this charge is expected to provide an incentive for large consumers located close to NTS points of entry to utilise (or continue to utilise) the NTS, thereby enhancing effective competition.

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

The discussions under Request 0670R identified that it would be beneficial to have a capacity discount that helps manage potential inefficient bypass through the charging framework. Request 0670R is not closed at the time of this Modification. However, the Proposer expects this Modification will form the basis of further discussions on managing inefficient bypass via charging through industry discussions into the future.

Relevant Charging Methodology objective (a) is furthered by the introduction of a capacity discount that assists in providing an option to those more likely to consider a bypass of the NTS. This therefore provides a Charging Framework that is to the benefit of all Users by providing the infrastructure to access and use, maximising its use for all parties, limiting any additional costs (i.e. bypass costs) passing into the market and ultimately on to consumers. It also minimises the levels of charges associated to revenues that would still be charged via Transportation Charges for any potential underutilised parts of the network (as a result of bypass). Therefore, this is more 'cost-reflective' as it does provide an option over a bypass thereby, should parties continue to use the NTS, they contribute towards the NTS Costs and therefore do

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not result in the whole amount (i.e. If they did bypass and not contribute to the NTS at all, all costs would be socialised) being levied on other Users.

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

The proposed methodology relating to Transmission Services considers developments which have taken place in the transportation business, in particular that the network is no longer expanding.

The capacity discount proposed uses more up to date costing assessments from a recent CEER review and publication. It also takes on board elements from PARCA timelines to help inform the build period.

In putting this capacity discount in place, with more up to date costs and that provides an even level of access, this considers the updated Charging Framework to be delivered by Modification 0678A and also how the network is accessed and used. This provides an alternative to bypass for those within a specific distance informed by several factors, where it is economic to do so.

This, National Grid believes takes into account the changing nature of how Users wish to access the NTS, and a desire to make the NTS an attractive option for those who may be more likely to consider a bypass, to use the existing NTS infrastructure.

Given the nature of cross subsidies inherent with any methodology that affords some discounts or alternative treatment (e.g. exemptions) this is also a factor that needs to be reflected on. Any amount, effectively not charged on one User, will be borne by another. In the case of the capacity discount the amount of the discount is by default levied on those ineligible (save for the use of Non-Transmission Charges, where applicable). By limiting the level of this amount, this provides a well-used NTS, competition amongst Users and avoids potential costs being levied. These could include charges to recover the revenues associated to the potentially underutilised part of the network (in the event of a bypass) onto those who will pay NTS Transportation Charges. It could also include any costs of a bypass that, would in some way be charged to a set of consumers in the wider market. By striking the balance with the application of the capacity discount this minimises any undue levels of charging levied onto those ineligible for this discount.

**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**

This Modification recognises the different Users of the NTS. Some Users, particularly those with direct or indirect links to the direct connections to the NTS that are near to an Entry Point, may actively consider a bypass to the NTS if it is, all things considered, economic and commercially preferable to do so. This Modification which builds on Modification 0678A, would put in place a methodology for those Users who are considered more likely to bypass the NTS and provide an option to use the NTS in place of a bypass pipeline.

This option is available for them to factor into decision-making processes as it would not be the only consideration in a bypass decision. This Modification therefore furthers this objective as it provides an option for those Users who are more likely to consider a bypass based on costs of capacity and payback periods versus Transportation charges. It will therefore provide effective competition on access and use of the NTS. This Modification assumes that any discount does make its way to the end 'connectee' who may pay for access to the NTS via a Shipper.

**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 Proposer believes that this Modification is compliant with EU Tariff Code Article 4 (2) which states "Transmission tariffs may be set in a manner as to take into account the conditions for firm capacity

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products.". This capacity discount relates to Transmission Services. The capacity discount is on firm capacity only and does not have any dependence on flows at the eligible entry and eligible exit points for an eligible route. Non-firm capacity is ineligible for a discount with respect to an eligible route. The proposal, does not create any undue cross subsidy for other Users with the use of limiting factors such as the accessibility and eligibility of the capacity.

## 8 Implementation

Implementation dates will ideally be such as to maintain an appropriate mechanism within the NTS Charging Methodology to dis-incentivise bypass of the NTS, in practice achieved by a seamless transition between the existing NTS Optional Commodity Rate and the capacity discount advocated by this Modification. Implementation is proposed to take effect from the start of the gas year and is compatible with the implementation of Modification 0678A.

## 9 Legal Text

Legal Text will be based on the business rules set out in this proposal. We expect that legal text will be provided by National Grid.

Legal text provided here: <https://www.gasgovernance.co.uk/0728/text>

## 10 Recommendations

### Proposer's Recommendation to the Authority

The Authority is asked to:

- Agree this Modification should be treated as Urgent and should proceed as such under a timetable agreed by the Authority.

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## 11 Appendix 1 – Comparison of Modifications 0728/A/B/C/D

### UNC Modification Proposals 0728 and Alternatives: Comparison of Key Elements

Charge Group	Element	0728	0728A	0728B	0728C	0728D
		v1.0 (6/3/2020)	v1.0 (4/6/2020)	v1.0 (4/6/2020)	v1.0 (4/3/2020)	v1.0 (4/3/2020)
		<b>National Grid</b>	<b>South Hook Gas Company</b>	<b>Vitol SA Geneva</b>	<b>RWE</b>	<b>ENI Trading &amp; Shipping</b>
	Charge which the discount is applied to	Entry Capacity Reserve Price and Exit Capacity Reserve Price	Entry Capacity Reserve Price and Exit Capacity Reserve Price	Entry Capacity Reserve Price and Exit Capacity Reserve Price	Entry Capacity Reserve Price and Exit Capacity Reserve Price	Entry Capacity Reserve Price and Exit Capacity Reserve Price
	DCL Distance (km)	18	18	28	18	5 (standard 90% discount)
Transmission Services Conditional Discount	Initial Eligible Quantity (Entry)	(Lower of Entry Capacity, Exit Capacity, Entry Allocation, Exit Allocation) less any Existing Contract Capacity	(Lower of Entry Capacity, Exit Capacity, Entry Allocation, Exit Allocation) less any Existing Contract Capacity	(Lower of Entry Capacity, Exit Capacity, Entry Allocation, Exit Allocation) less any Existing Contract Capacity	(Lower of Entry Capacity, Exit Capacity) less any Existing Contract Capacity	(Lower of Entry Capacity, Exit Capacity, Entry Allocation, Exit Allocation) less any Existing Contract Capacity
	Initial Eligible Quantity (Exit)	Lower of Entry Capacity, Exit Capacity, Entry Allocation, Exit Allocation	Lower of Entry Capacity, Exit Capacity, Entry Allocation, Exit Allocation	Lower of Entry Capacity, Exit Capacity, Entry Allocation, Exit Allocation	Lower of Entry Capacity, Exit Capacity	Lower of Entry Capacity, Exit Capacity, Entry Allocation, Exit Allocation
Non-Transmission Services Conditional Discount	Charge which the discount is applied to	N/A	General Non-Transmission Services Charge	N/A	N/A	General Non-Transmission Services Charge
	Discount (%)	N/A	80	N/A	N/A	54
	Eligible Quantity	N/A	Lower of Entry Allocation, Exit Allocation	N/A	N/A	Lower of Entry Allocation, Exit Allocation

Variation in treatment of element from UNC Modification Proposal 0728