V0.4 – 10 January 2018

NTSCMF / Sub Group – Avoiding Inefficient bypass of the NTS

Some key terms in relation to the Optional Commodity Charge (OCC):

Term	Detail
Optional Commodity Charge (OCC)	Users can elect to pay the NTS Optional Commodity Charge (OCC) as an alternative to both the NTS Entry and Exit (SO & TO) Commodity Charges. The NTS OCC is derived from the estimated cost of laying and operating a dedicated pipeline of NTS specification. This is defined in UNC TPD Section Y.
Transmission Services	Transmission services mean the regulated services that are provided by the transmission system operator within the entry-exit system for the purpose of transmission. This is defined within the Tariff Network Code (TAR NC).
Non-Transmission Services	Non-transmission services mean the regulated services other than transmission services and other than services regulated by Regulation (EU) No 312/2014 that are provided by the transmission system operator. This is defined within the Tariff Network Code (TAR NC).

Background

The NTS Optional Commodity charge (OCC) is currently available to all NTS Users and was originally designed as an incentive to avoid inefficient market investment where the associated flow would bypass the NTS. Upon requesting the NTS OCC an entry-exit site specific rate is calculated using the NTS Optional OCC Rate formula. Where selected the NTS OCC provides an alternative charge to NTS Entry and Exit (SO & TO) Commodity charges.

Further information on the NTS OCC and how it is calculated can be found in UNC TPD Section Y, Section 3.5.

Summary of Discussion(s)

- The OCC as it is currently is calculated today will need to be amended if a product is developed which is intended to maximise the use of the NTS and avoid inefficient bypass of the NTS.
- Under TAR NC there could be a product designed/developed to be either:
    - a discount to the charge to collect the Non-Transmission Services Revenue or;
    - a discount to the capacity charges to collect the Transmission Services Revenue
- The impact on the discount and the interaction with other charges will need to be looked at.
- A product that is designed will need to be relevant and appropriate to the overall charging framework as it will continue to "interact" with other charges
- Should it preserve the original intent of the product i.e. to maximise the use of the NTS and avoid inefficient bypass of the NTS.
- Ideas on how a product might work (not exhaustive):
    - Discount to capacity charges, would need to look at which parts of the applicable capacity charge can get a discount and how feeds into other charges i.e. multipliers and discounts provided under Article 9 (e.g. Storage)
    - Discount on Non-Transmission Services charges, will depend on structure of the product
    - Could be the same product for IP's and Non-IP's or could have different products
        - if different products then need to look at interactions between IP and Non-IP's and if can have the designed product from an IP to a Non-IP

Conclusion as at March 2017

For a product that discourages inefficient bypass of the NTS, this will need to be revisited as part of the Gas Charging Review due to the potential changes to the rest of the charging framework. The criteria for such a product will need to be reviewed and can be developed as part of the ongoing UNC modification changes with the exact design and application following these discussions.

With regards to modelling, the initial models will not have shorthaul included in them. Detail and the inclusion of shorthaul (or any such product to discourage inefficient bypass of the NTS) will be accommodated at a later date.

For the avoidance of doubt, it is considered beneficial to have a charging item that discourages inefficient bypass of the NTS. The charge may result in a proposal that is not exactly the same as the current framework. In order to keep alignment with the core principles (e.g. that it is 'short' and a genuine alternative to incentivise use of the NTS as opposed to bypass) a different approach may be accommodated (e.g. could consider changes to costs, changes to formula, inclusion of a distance cap) and therefore the resulting charge or calculation of the inefficient bypass charge may not be the same as it is under the current methodology.

Version Control

V0.1	Discussion at sub group on 19.12.16
V0.2	Updated after sub group on 18.01.17 – and name of paper changed to "Avoiding Inefficient bypass of the NTS" from "Optional Commodity Charge"
V0.3	Updated following discussion at Sub Group on 03.03.17
V0.4	Updated to address action 0404 from the NTSCMF/UNC0621 workgroup as noted in 11 January minutes and actions. (https://www.gasgovernance.co.uk/ntscmf/110118)