Representation - Draft Modification Report

UNC 0678; 0678A; 0678B; 0678C; 0678D; 0678E; 0678F; 0678G; 0678H; 0678I; 0678J;

Amendments to Gas Transmission Charging Regime

0678	Amendments to Gas Transmission Charging Regime
0678A	Amendments to Gas Transmission Charging Regime (Postage Stamp)
0678B	Amendments to Gas Transmission Charging Regime
0678C	Amendments to Gas Transmission Charging Regime (Postage Stamp)
0678D	Amendments to Gas Transmission Charging Regime including a Cost based Optional Capacity Charge
0678E	Amendments to Gas Transmission Charging Regime – Treatment of Storage
0678F	Amendments to Gas Transmission Charging Regime – Treatment of Unprotected Entry Capacity Storage
0678G	Amendments to Gas Transmission Charging Regime including a Cost based Optional Capacity Charge
0678H	Amendments to Gas Transmission Charging Regime (Postage Stamp) including a Cost based Optional Capacity Charge
0678I	Amendments to Gas Transmission Charging Regime including Wheeling and an Ireland Security Discount
0678J	Amendments to Gas Charging Regime (Postage Stamp) including a Cost Based Optional Capacity Charge

Responses invited by: 5pm on 08 May 2019

To: enquiries@gasgovernance.co.uk

Representative:	Colin Williams
Organisation:	National Grid
Date of Representation:	8th May 2019
Support or oppose implementation? (Please note you will be asked for your reasoning further below)	0678 – Support 0678A – Qualified Support 0678B – Oppose 0678C – Qualified Support 0678D – Oppose 0678E – Qualified Support 0678F – Oppose 0678G – Oppose 0678H – Oppose 0678I – Oppose 0678J – Oppose
Expression of Preference (Please note you will be asked for your reasoning further below)	*If **EITHER** 0678; 0678A; 0678B; 0678C; 0678D; 0678E; 0678F; 0678G; 0678H; 0678I **OR** 0678J were to be implemented, which **ONE** Modification would be your preference?* 0678

Standard Relevant Objectives and Charging Methodology Relevant Objectives:

Standard Relevant Objective	678	678A	678B	678C	678D	678E	678F	678G	678H	678I	678J
(a)	None	None	None	None	None	None	None	None	None	None	None
(b)	None	None	None	None	None	None	None	None	None	None	None
(c)	Positive	Positive	Positive	Positive	Positive	Positive	Positive	Positive	Positive	Positive	Positive
(d)	Positive	Positive	Negative	Positive	Negative	Positive	Negative	Negative	Negative	Negative	Negative
(e)	None	None	None	None	None	None	None	None	None	None	None
(f)	None	None	None	None	None	None	None	None	None	None	None
(g)	Positive	Positive	Negative	Positive	Negative	Positive	Negative	Negative	Negative	Negative	Negative

Charging Relevant Objective	678	678A	678B	678C	678D	678E	678F	678G	678H	678I	678J
(a)	Positive	Positive	Positive	Positive	Positive	Positive	Positive	Positive	Positive	Positive	Positive
(aa)	Positive	Positive	Negative	Positive	Negative	Positive	Negative	Negative	Negative	Negative	Negative
(b)	Positive	Positive	Positive	Positive	Positive	Positive	Positive	Positive	Positive	Positive	Positive
(c)	Positive	Positive	Negative	Positive	Negative	Positive	Negative	Negative	Negative	Negative	Negative
(d)	None	None	None	None	None	None	None	None	None	None	None
(e)	Positive	Positive	Negative	Positive	Negative	Positive	Negative	Negative	Negative	Negative	Negative
Overall	Support	Qualified Support	Oppose	Qualified Support	Oppose	Qualified Support	Oppose	Oppose	Oppose	Oppose	Oppose

In reviewing the Relevant Objectives, we have considered aspects of the Proposals in addition to how overall, they further the Relevant Objectives compared to the prevailing arrangements.

We believe that Standard Relevant objectives (a), (b), (e) and (f) are either not relevant, or are not furthered by any of the Proposals.

We are of the view that Standard Relevant objective (c) is furthered by all Proposals as they all develop new charging methodologies that aim to take account of the relevant Licence obligations of the Transporter and take the EU Tariff Code (TAR) into account for compliance purposes which furthers this objective over and above the prevailing arrangements. We offer specific views on compliance of individual proposals elsewhere in this document.

We believe that Standard Relevant objective (d) is furthered by 0678, 0678A, 0678C and 0678E. With the Reference Price Methodologies (RPMs) proposed, and the other charging aspects, they further this objective compared to the prevailing regime. The respective RPMs proposed and the additional arrangements minimise amounts which need to be redistributed across Users. All other Proposals do not further this objective, in the case of 0678F this is due to the capacity surrender process being discriminatory in our view and it has not been sufficiently justified. The remainder of the Proposals which feature optional charging arrangements present issues by having the potential to change prices for Existing Contracts and the accessibility of these optional arrangements being wider than limited to where there is a genuine risk of bypass. In respect of Proposal 0678I, the 95% for the Ireland Security Discount has not been adequately justified.

In our opinion, Standard Relevant objective (g) is furthered by 0678, 0678A, 0678C and 0678E. We have a number of concerns regarding 0678A, 0678C and 0678E which have been reflected in the qualification of our support. However, for the remainder of the Proposals we have more significant concerns on TAR compliance, notably the compliance of the capacity surrender process advocated by 0678F and the optional charging arrangements proposed under 0678D,0678G, 0678H, 0678I and 0678J.

In our view, Charging Methodology Relevant Objective (d) is not furthered or is not relevant for any of the proposals.

We believe that Charging Methodology Relevant Objective (a) is furthered by all Proposals compared to the prevailing arrangements. Whilst we have highlighted concerns across the Proposals, we note that both Capacity Weighted Distance (CWD) and Postage Stamp (as alternative RPMs) are an improvement to meet and further this relevant objective, compared to prevailing Long Run Marginal Cost (LRMC) RPM.

We believe that Charging Methodology Relevant Objectives (aa) and (c) are furthered by 0678, 0678A, 0678C and 0678E. With the RPMs proposed, and the other charging aspects, they better facilitate these objectives compared to prevailing arrangements. The respective RPMs proposed and the additional arrangements minimise amounts redistributed across Users. All other Proposals do not further this objective, in the case of 0678F this is due to the capacity surrender process being discriminatory in our view and it has not been sufficiently justified. The remainder of the Proposals which feature optional charging arrangements present issues by having the potential to change prices for Existing Contracts and the accessibility of these optional arrangements being wider than limited to where there is a genuine risk of bypass. In respect of Proposal 0678I, the 95% for the Ireland Security Discount has not been adequately justified.

We are of the opinion that Charging Methodology Relevant Objective (b) is furthered by all Proposals. All aim to comply with TAR and propose RPMs that are furthering this objective (compared with the prevailing LRMC RPM) and seek to recover revenues from capacity-based charges.

We believe that Charging Methodology Relevant Objective (e) is furthered by 0678, 0678A, 0678C and 0678E. We have a number of concerns regarding 0678A, 0678C and 0678E which have been reflected in the qualification of our support. However, for the remainder of the Proposals we have more pressing concerns on compliance, notably the compliance of the capacity surrender process advocated by 0678F and the optional charging arrangements proposed under 0678B, 0678D, 0678G, 0678H, 0678I and 0678J.

Reason for support/opposition and preference: Please summarise (in one paragraph) the key reason(s)

0678 (National Grid)

We support implementation of this Proposal as National Grid is of the view that it effectively addresses compliance with TAR and represents the most cost reflective and equitable approach for all Users of the system.

We believe that this Proposal effectively addresses the concerns expressed by Ofgem in its rejection of Modification Proposal 0621 in December 2018.

National Grid continues to believe that relevant objectives (a), (aa), (b), (c) and (e) are better facilitated for the reasons stated in our Proposal. In summary, the proposed RPM which incorporates the FCC delivers most, if not all Transmission Services revenue from the cost reflective capacity charges, minimises any redistribution of revenues between users (via non-cost reflective Revenue Recovery charges), is compliant with TAR and provides a framework that promotes competition and minimises discrimination. It also provides a basis for more predictable, stable and less volatile charges.

0678A (RWE)

We offer support for this Proposal, qualified on the basis of concerns regarding the extent to which the absence of a distance and location specific capacity driver in the proposed RPM compromises cost reflectivity.

Whilst overall, the proposed approach better facilitates the relevant objectives (compared to the prevailing LRMC RPM) we believe the application of the CWD RPM would deliver a more cost reflective regime than both the LRMC and Postage Stamp based RPMs.

0678B (Centrica)

We oppose implementation of this Proposal as a consequence of the inclusion of an Optional Charge which may have the effect of adjusting the payable prices for capacity which falls within the scope of TAR Article 35 i.e. ‘Existing Contracts’.

Given that Article 35 effectively protects the price at which capacity was procured under these contracts, we believe that the proposed Optional Charge is not compliant with TAR.

In addition, whilst not an element (in isolation) that would justify our opposition, we are nevertheless concerned that the onerous change governance arrangements for the Forecasted Contracted Capacity (FCC) Methodology may delay the implementation of any necessary changes to such and therefore potentially compromise the ability of National Grid to determine cost reflective charges consistent with our Licence obligation in Standard Special Condition A5.

0678C (SSE)

We offer support for this Proposal, qualified on the basis of concerns regarding the extent to which the absence of a distance and location specific capacity driver in the proposed RPM and the change governance arrangements for the FCC Methodology compromises (or potentially compromises) cost reflectivity.

Whilst overall, the proposed approach better facilitates the relevant objectives (compared to the prevailing LRMC RPM) we believe the application of the CWD RPM would deliver a more cost reflective regime than both the LRMC and Postage Stamp based RPMs.

Our support is further qualified on the basis of concerns that the onerous change governance arrangements for the FCC Methodology may delay the implementation of any necessary changes to such and therefore potentially compromise the ability of National Grid to determine cost reflective charges consistent with our Licence obligation in Standard Special Condition A5. Further, we have concerns that limiting the protection from exposure to Revenue Recovery charges to Storage Connection Points (except own use gas) means that Existing Contracts at other Points will be subject to such charges which is potentially not consistent with TAR Article 35.

0678D (ENI)

We oppose implementation of this Proposal as a consequence of the inclusion of an Optional Charge which may have the effect of adjusting the payable prices for capacity which falls within the scope of TAR Article 35 i.e. 'Existing Contracts'.

Given that Article 35 effectively protects the price at which capacity was procured under these contracts, we believe that the proposed Optional Charge is not compliant with TAR.

0678E (Gateway)

We offer support for this Proposal, qualified on the basis that limiting the protection from exposure to Revenue Recovery charges to Storage Connection Points mean that Existing Contracts at other Points will be subject to such charges which is *potentially* not consistent with TAR Article 35.

0678F (Storengy)

We oppose implementation of this Proposal as a consequence of the inclusion of the capacity surrender process which we believe is unduly discriminatory in limiting this surrender facility to capacity procured within a specific period, in absence of sufficient justification for such a limitation.

In addition, whilst not an element (in isolation) that would justify our opposition, we are nevertheless concerned that limiting the protection from exposure to Revenue Recovery charges to Storage Connection Points mean that Existing Contracts at other Points will be subject to such charges which is *potentially* not consistent with TAR Article 35.
0678G (Vitol) We oppose implementation of this Proposal as a consequence of the inclusion of an Optional Charge which may have the effect of adjusting the payable prices for capacity which falls within the scope of TAR Article 35 i.e. 'Existing Contracts'. Given that Article 35 effectively protects the price at which capacity was procured under these contracts, we believe that the proposed Optional Charge is not compliant with TAR. In addition, whilst not an element (in isolation) that would justify our opposition, we are nevertheless concerned that limiting the protection from exposure to Revenue Recovery charges to Existing Contracts at Storage Connection Points mean that Existing Contracts at other Points will be subject to such charges which is *potentially* not consistent with TAR Article 35.
0678H (EP UK) We oppose implementation of this Proposal as a consequence of the inclusion of an Optional Charge which may have the effect of adjusting the payable prices for capacity which falls within the scope of TAR Article 35 i.e. 'Existing Contracts'. Given that Article 35 effectively protects the price at which capacity was procured under these contracts, we believe that the proposed Optional Charge is not compliant with TAR. In addition, whilst not elements (in isolation) that would justify our opposition, we are nevertheless concerned that limiting the protection from exposure to Revenue Recovery charges to Existing Contracts at Storage Connection Points mean that Existing Contracts at other Points will be subject to such charges which is *potentially* not consistent with TAR Article 35. Further, we have concerns regarding the extent to which the absence of a distance driver in the proposed RPM and the change governance arrangements for the FCC Methodology compromises (or potentially compromises) cost reflectivity.
0678I (Gazprom) We oppose implementation of this Proposal as a consequence of the inclusion of an Optional Charge (termed a Wheeling Charge in this Proposal) which may have the effect of adjusting the payable prices for capacity which falls within the scope of TAR Article 35 i.e. 'Existing Contracts'. Given that Article 35 effectively protects the price at which capacity was procured under these contracts, we believe that the proposed Optional Charge is not compliant with TAR. The Ireland Security Discount of 95% is not sufficiently justified in our view and additionally presents an issue in terms of the amount that could potentially be redistributed to other Users. In addition, whilst not an element (in isolation) that would justify our opposition, we are concerned that limitations to the frequency at which changes can be made to the FCC Methodology may delay the implementation of any necessary changes to such and therefore potentially compromise the ability of National Grid to determine cost reflective charges consistent with our Licence obligation in Standard Special Condition A5.

0678J (South Hook) We oppose implementation of this Proposal as a consequence of the inclusion of an Optional Charge which may have the effect of adjusting the payable prices for capacity which falls within the scope of TAR Article 35 i.e. 'Existing Contracts'. Given that Article 35 effectively protects the price at which capacity was procured under these contracts, we believe that the proposed Optional Charge is not compliant with TAR. In addition, whilst not an element (in isolation) that would justify our opposition, we are nevertheless concerned regarding the extent to which the absence of a distance driver in the proposed RPM and the change governance arrangements for the FCC Methodology compromises (or potentially compromises) cost reflectivity. Whilst overall, the proposed approach better facilitates the relevant objectives (compared to the prevailing LRMC RPM) we believe the application of the CWD RPM would deliver a more cost reflective regime than both the LRMC and Postage Stamp based RPMs.

Implementation: *What lead-time do you **wish** to see prior to implementation and why? Please specify which Modification if you are highlighting any issues.*

The changes will need to take effect for transportation prices from October 2019 to achieve compliance with TAR. If this is not possible implementation should be as soon a reasonably practicable thereafter.

As noted in the Draft Modification Report, National Grid (in collaboration with Xoserve) has an ongoing project to deliver the required process and system change to meet the obligations set out in Modification 0678 by October 2019. For any proposal that is Approved, it would be necessary to incorporate delivery of all features of the proposal into a compliant systems solution. Due to the unique nature of the project, considering timescales and efficient spend it is not possible to deliver a fully systemised solution meeting all the different requirements from every Alternative Modification. Where possible the system solution has been parameterised to provide the greatest possible flexibility, considering the constraints.

Impacts and Costs: *What analysis, development and ongoing costs would you face?*

0678 National Grid will incur the costs of making the required changes to central systems and processes. As highlighted above in the "Implementation" section, a project to deliver the requirements is already in progress.
0678A See response provided in respect of 0678.
0678B See response provided in respect of 0678.

0678C See response provided in respect of 0678.
0678D See response provided in respect of 0678.
0678E See response provided in respect of 0678.
0678F See response provided in respect of 0678.
0678G See response provided in respect of 0678.
0678H See response provided in respect of 0678.
0678I See response provided in respect of 0678.
0678J See response provided in respect of 0678.

Legal Text: *Are you satisfied that the Legal Text will deliver the intent of the Solutions for each Modification? Please specify which Modification if you are highlighting any issues.*

National Grid is satisfied that the legal text it has provided will deliver the intent of each respective solution.

The development of legal text was informed by a 'comparison table' which was used to identify differences between Proposal 0678 and each Alternative Proposal. The highlighted differences were verified by each Proposer as matching the content and intent of their respective Proposals.

Draft legal text for Proposal 0678, and variations from this text to accommodate the differences advocated by the Alternative Proposals, was shared with Workgroup 0678 on 4th April 2019. Subsequent clarifications regarding the operation of specific business rules in the respective solutions were sought from, and provider by, a number of Proposers. This resulted in refinements to the solutions within a number of the Alternative Proposals, the last of these variations was dated 10th April 2019.

Revised legal drafting for Proposal 0678, and variations from this text to accommodate the differences advocated by the Alternative Proposals, was issued to the Proposers on 10th April 2019 and subsequently published on the Joint Office website on 12th April 2019 for inclusion in the Draft Modification Report.

Subsequent to the issue of the Draft Modification Report for consultation, full sets of legal text for each Alternative (supplementing the text already published in respect of 0678) were issued to the Joint Office on 17th April 2019.

Are there any errors or omissions in this Modification Report that you think should be further considered? *Include details of any impacts/costs to your organisation that are directly related to this.*

0678 We have not identified any such errors or omissions.
0678A We have not identified any such errors or omissions.
0678B We have not identified any such errors or omissions.
0678C We have not identified any such errors or omissions.
0678D We have not identified any such errors or omissions.
0678E We have not identified any such errors or omissions.
0678F We have not identified any such errors or omissions.
0678G We have not identified any such errors or omissions.
0678H We have not identified any such errors or omissions.
0678I We have not identified any such errors or omissions.
0678J We have not identified any such errors or omissions.

Please provide below any additional analysis or information to support your representation

0678

Overall Aims

The methodology currently in place for the calculation of Gas Transmission Transportation charges, and the methodology to recover Transmission Owner (TO) and System Operator (SO) revenue through Entry and Exit charges, has been in place for a number of years. An assessment of the current methodology, scrutinised with industry stakeholders, highlighted that when reviewed against TAR and measured against the relevant objectives and stakeholder objectives, the current method of determining capacity reserve prices is no longer suitable.

To achieve the required objectives (relevant objectives, stakeholder objectives, regulatory change drivers) it was evident that changes were required to the current regime. As part of the workgroup development and discussions on the potential updates to the charging regime, focus was given to the suitability of the LRMC methodology as used currently taking into account stakeholder feedback and reflections on how the system use has changed and whether the NTS is expanding or not. This assessment[1] in 2017, which included a critique of the LRMC methodology and a comparison to CWD and postage stamp demonstrated that it was not considered suitable to continue with the LRMC methodology for a number of key reasons in the sensitivity assessments:

- LRMC results are not intuitive and the results are unpredictable;
- CWD and postage stamp are impacted by the sensitivity changes however the results are predictable.

As part of the workgroup development, the analysis was updated[2] in 2018. We believe the conclusions remain the same that the LRMC model is no longer suitable and should not be used prospectively. Therefore, an alternative such as CWD or Postage Stamp is more relevant to the current state and use of the NTS. We put forward the CWD as the preferred option as outlined in this response and our Proposal.

The additional regulatory change drivers are TAR and Ofgem's Gas Transmission Charging Review[3] (GTCR). One of the points common to both is a drive for use of cost reflective capacity charges to recover the majority, if not all, of the Transmission Services Revenue. Cost reflective charges are those that have specific cost drivers and the expectation, from TAR and GTCR are that these are based on capacity and distance. Therefore, any charges that are not using these drivers can be considered less cost reflective. The setting of charges which best reflect the costs incurred by National Grid in its Transportation business is also consistent with Standard Special Condition A5 (specifically 'relevant methodology objective' (a)) which requires the charging methodology '*to result in charges which reflect the costs incurred by the licensee in its transportation business*'.

The key objective of the new NTS Charging methodology was to develop a regime that delivers compliance with the TAR and (compared to the prevailing methodology) is:

- More predictable – Users better able to forecast prospective transportation costs;
- More stable – minimisation of year to year change in unit costs for a system point;

[1] https://www.gasgovernance.co.uk/ntscmf/subg1model

[2] https://www.gasgovernance.co.uk/sites/default/files/ggf/2018-04/%23%203%20RPM%20Sensitivity%20Analysis%20-%20Slide%20Pack%20v2.0.pdf

[3] https://www.ofgem.gov.uk/gas/transmission-networks/gas-transmission-charging-review

- Less volatile – minimisation of within-year change in unit costs for a system point;
- Fairer pricing – for use of the NTS all users to contribute towards the costs of the NTS; and
- Cost reflective – for the methodology proposals to be cost reflective.

One of the key mechanisms of achieving these objectives is to move to a regime whereby most of National Grid's Transportation revenue is recovered via capacity-based charges with minimal reliance upon revenue recovery charges to address any anticipated or actual over or under recovery compared to target revenue. This avoids excessive reliance on, arguably, non-cost reflective revenue recovery charges within the methodology.

As noted in our Proposal, the widespread use of zero-priced interruptible/off-peak capacity has led to lower than planned revenue from capacity sales. This in turn has had the undesirable consequence of necessitating recovery of a significant proportion of National Grid's allowed revenue via flow based (commodity) charging which was never the original intent of the methodology. This has resulted in volatile and unpredictable commodity prices which are very sensitive to changes in flow, hence zero-priced capacity can be arguably viewed as a key area in need of review in the current pricing regime. Therefore, another of the key principles of our Proposed methodology (applicable at all points) is that all parties must pay to procure capacity in the National Grid system.

In conclusion, in light of the issues highlighted, National Grid believes that the current methodology needs to be revised.

Capacity Reference Price Methodology (RPM)

National Grid believes the RPM is the mechanism by which Capacity Reference Prices are set. The aim should be torecover allowed Transmission Revenue with minimal requirement for any revenue recovery charges to reconcile any difference.

National Grid has proposed replacement of the current Long Run Marginal Cost (LRMC) RPM with a new Capacity Weighted Distance (CWD) model to underpin the RPM. We believe that use of a CWD RPM, and the way it is applied to the NTS, will deliver a regime that is more cost reflective than both LRMC and the alternative approach of a Postage Stamp model (as advocated by four of the Alternative Proposals).

Working on the hypothesis that Gas Transportation costs are sensitive to both the distance over which gas is transported and the capacity made available over that distance, a pricing model which calculates Capacity Reference Prices taking account of these elements is more cost reflective than models that do not take these into account. In respect of the capacity value input to the Reference Price calculation, we have proposed use of National Grid forecasts of capacity bookings at respective points which over time will reflect the expected changes in Shippers' capacity booking behaviour. This will further enhance cost reflectivity as our understanding of market behaviour in the new arrangements evolves and informs our capacity booking forecast process.

GTCR and TAR reference capacity and distance as cost drivers. Using forecast bookings is the only way of pricing to deliver most, if not all, of the transmission services revenue from capacity charging. If priced based on a forecast, and that forecast is right, as charges are levied on actual bookings revenue recovery will be 'on target'. However, where actual and forecast bookings diverge, revenue under or over recovery will be observed.

Geographical diversity is incorporating a distance driver, in this case the average shortest path between Entry and Exit points. This measure is utilised on the basis that the use of the network is not constrained i.e. gas can flow from any entry point to any exit point. This is more reflective of the commercial possibilities of how gas can be entered in and exited from the NTS compared to an often-contested flow scenario (i.e. the merit order of supplies under LRMC in the current methodology).

In the case of a Postage Stamp RPM, the use of an aggregated cost driver results in the same unit costs for all NTS points and is therefore not cost reflective when assessed against the hypothesis stated above. Effectively, any bespoke cost drivers for transportation to individual points (or groups of points) is effectively ignored. On this basis, we do not favour a Postage Stamp RPM given the misalignment with cost reflectivity principles and implications this has in the assessment of facilitation of the relevant objectives.

Taking the above into account, implementation of a CWD RPM will better facilitate the relevant objectives of the securing of effective competition between shippers (objective (d)) and the efficient discharge of National Grid licence obligations (objective (c)). This is achieved via derivation of shipper charges on the basis of an equitable methodology (points with equivalent weighted average distances and levels of capacity attract the same charge rates) which are more reflective of the costs incurred by the transporter when compared to the existing RPM.

By strengthening the mechanism of cost reflectivity of the capacity charges, the methodology is more cost reflective as it is achieving the ambitions. Cost reflectivity is not only about any cost inputs to the calculation – it is about recovery of revenues using appropriate cost drivers. CWD charges would be set with the aim to recover 100% of revenue via the cost reflective capacity charges.

Forecasted Contracted Capacity

National Grid supports the approach to aim to recover the Transmission Services Revenue recovery from cost reflective capacity charges. National Grid has developed an FCC Methodology (attached to the Proposal) which was shared with the Workgroup. An accurate FCC will be the only way to deliver a methodology that aims to recover most, if not all, of the transmission services revenue from the RPM generated capacity prices.

The FCC Methodology will need to evolve to take account of the potential changes in capacity booking behaviour that are expected but are difficult to predict without further evidence. Therefore, the governance rules applied in respect of the FCC methodology need to be nimble enough as to not unduly delay any revisions to the FCC Methodology which are driven by these behavioural changes.

Discounts

Our Proposal 0678 provides for application of discounts to Reference Prices to the extent required by TAR. This applies to both Storage Connection Points (where we have proposed the minimum prescribed 50% discount) and LNG points, albeit as 0% discount given that TAR does not mandate a minimum discount level for such points. In the case of interruptible (and off peak) capacity we applied the methodology prescribed in the TAR to determine a discount value. This was rounded up to 10% to maintain regime stability on the basis that the probability of interruption is unlikely to exceed 10% for the foreseeable future.

We recognise that a number of the Alternative Proposals incorporate a higher level of discount for Storage Connection Points and that a supporting assessment was submitted which sought to justify this increased discount level. We believe the 50% minimum discount is sufficient and note this can be reviewed over time. The 80% level is quite subjective to valuing the benefits and any discount has the impact of requiring recovery of the amount not paid as a result of the discount from other Users, although we recognise the materiality of the impact to other Users is low when comparing the 50% to the 80% discount proposals.

Although 0678 (and a number of the Alternatives) propose a 10% discount for interruptible / off peak, the level of discount will be kept under review. Given the proposal for the 10% discount to be explicit in the UNC, any subsequent change to the discount value would be subject to the UNC change process. Additionally, there may be a need to review the discount in line with Article 28 of TAR and should any change be required, it would follow the UNC change process.

Multipliers

National Grid has proposed a Multiplier of 1 for all capacity products as we do not wish to create an artificial incentive for procurement of one capacity product in preference to another product. As the System Operator, we would prefer that Users of the system 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).

It is intended that the Multiplier value will be kept under review. Given the proposal for the Multiplier to be explicit in the UNC, any subsequent change would be subject to the UNC change process. This change 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. We believe this proposal to be positive on competition grounds (objective d) and non-discriminatory grounds as the need to incentivise long or short term or vice versa through the Transmission charging framework is less relevant where capacity is not scarce and no obvious need to preferentially encourage bookings long or short term.

Inefficient Bypass of the NTS

Consistent with aims of the current optional product, bypass must be a realistic and commercially viable consideration (in terms of both construction and ongoing operation) for the relevant route. There are several reasons the current arrangements are in need of wholesale review, within the context of the rest of any charging framework.

- The passage of time (and incremental increases in the standard commodity charge rates driven by zero priced capacity and the level of uptake of the Optional charge) has exposed flaws in the current methodology. This has led to significant uptake of the NOCC, including routes for which bypass of the NTS is arguably not a realistic consideration.
- The distance over which it is currently accessible is not limited by any expectation that it would or would not be economic to bypass the NTS or not.
- It is more linked to the high commodity charges which in turn make it more desirable which does limits it as a realistic and practical alternative to investment when, arguably the current design of the NOCC was to be attractive over short distances.
- Levels of charges essentially avoided are substantial and any delta in the level of charge paid compared to the alternative should be carefully considered to be more appropriate in reflecting genuine risks of bypass.
- A move to a capacity-based regime will require review of the arrangements as the current proposals are commodity based for Transmission.

As a consequence, it is clear that the mechanism to deliver the dis-incentive via the charging framework requires a full review.

National Grid raised a UNC Request (0670R) in October 2018. The purpose of this request was to "*conduct a review and assessment of the charging methodology … to avoid the inefficient bypass of the NTS [to] assess the objectives, identify requirements, analyse potential options and propose an enduring proportionate solution*". Given this ongoing process to identify a robust enduring solution we believed it was not appropriate to pre-empt this work by including a mechanism in this Proposal. As noted elsewhere in this representation, alternative mechanisms need to be fully developed and comply with the broader requirements of TAR including requirements in respect of Existing Contracts under Article 35.

Depending on the timing of the effective date of 0678 (or any of the alternatives) there is scope for a modification following 670R to be implemented alongside or shortly afterwards.

Non-Transmission Services

Non-Transmission Services charges are proposed to be principally retained in their existing form. Accordingly, Non-Transmission Services revenue (net of income expected from a number of bespoke service cost recovery charges) is proposed to be recovered via flow-based commodity charges (assessed separately at entry and exit. This retains equitable treatment for all Users at entry and all Users at Exit. The remaining Non-Transmission Services charges as identified in the modifications, and all are the same in this respect, are all calculated in the same way as they are today. These charges include the St Fergus Compression charge, the DN Pensions deficit charge and some administration charges. We note that Non-Transmission Services charges were not considered as important to review as the Transmission Services charging arrangements. As such, these may be reviewed in the future as necessary through the UNC change process.

0678A

See the following narrative regarding:

- Reference Price Methodology (RPM): Postage Stamp RPM
- Forecasted Contracted Capacity (FCC) Methodology Governance: Change Governance for the FCC Methodology

0678B

See the following narrative regarding:

- Forecasted Contracted Capacity (FCC) Methodology Governance: Change Governance for the FCC Methodology
- NTS Optional Charge: Discounted Reserve Price
- Implementation: No Limitation

0678C

See the following narrative regarding:

- Reference Price Methodology (RPM): Postage Stamp RPM
- Forecasted Contracted Capacity (FCC) Methodology Governance: Change Governance for the FCC Methodology
- Specific Capacity Discount: Storage Connection Points
- Revenue Recovery Exemptions: Storage / Storage, except own use gas at Storage
- Implementation: Limited to commencement of Gas Year

0678D

See the following narrative regarding:

- NTS Optional Charge: Cost-Based Rate with reconciliation to FCC

0678E

See the following narrative regarding:

- Specific Capacity Discount: Storage Connection Points

Revenue Recovery Exemptions: Storage / Storage, except own use gas at Storage

0678F See the following narrative regarding: • Specific Capacity Discount: Storage Connection Points • Revenue Recovery Exemptions: Storage / Storage, except own use gas at Storage • Capacity Regime: Surrender Process
0678G See the following narrative regarding: • Revenue Recovery Exemptions: Existing Contracts at Storage • NTS Optional Charge: Cost-Based Rate with reconciliation to FCC
0678H See the following narrative regarding: • Reference Price Methodology (RPM): Postage Stamp RPM • Revenue Recovery Exemptions: Existing Contracts at Storage • NTS Optional Charge: Cost-Based Rate with reconciliation to FCC
0678I See the following narrative regarding: • Forecasted Contracted Capacity (FCC) Methodology Governance: Restriction on Changes to the FCC Methodology • Specific Capacity Discount: Ireland Security Discount • NTS Optional Charge: Cost-Based Rate • Implementation: Limited to commencement of Gas Year
0678J See the following narrative regarding: • Reference Price Methodology (RPM): Postage Stamp RPM • NTS Optional Charge: Cost-Based Rate with reconciliation to FCC

Additional Narrative for Aspects of the Methodology Where Alternative Approaches to UNC0678 are Proposed

Reference Price Methodology (RPM)

- **Postage Stamp RPM (0678A, 0678C, 0678H and 0678J)**

In assessing this approach, National Grid is cognisant of the requirements of Standard Special Condition A5 of our Licence that requires any modifications to the charging methodology to achieve the relevant charging methodology objectives. These objectives include a requirement that charges generated by application of the methodology are reflective of the costs incurred by National Grid in our transportation business. This means that when considering any proposed change to the methodology, reflection of National Grid's cost drivers is key.

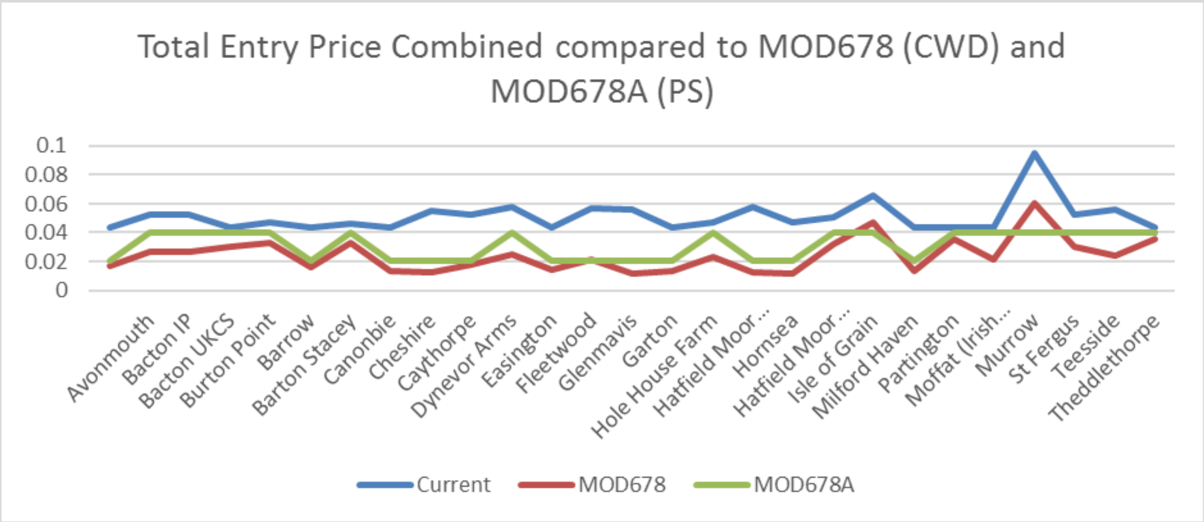
In a revenue control environment for regulation (known as price control for GB) there is a need to set charges to recover a known quantity of revenue. Therefore, it could be concluded that charges are based on revenue (the costs of the NTS) distributed in line with a methodology.

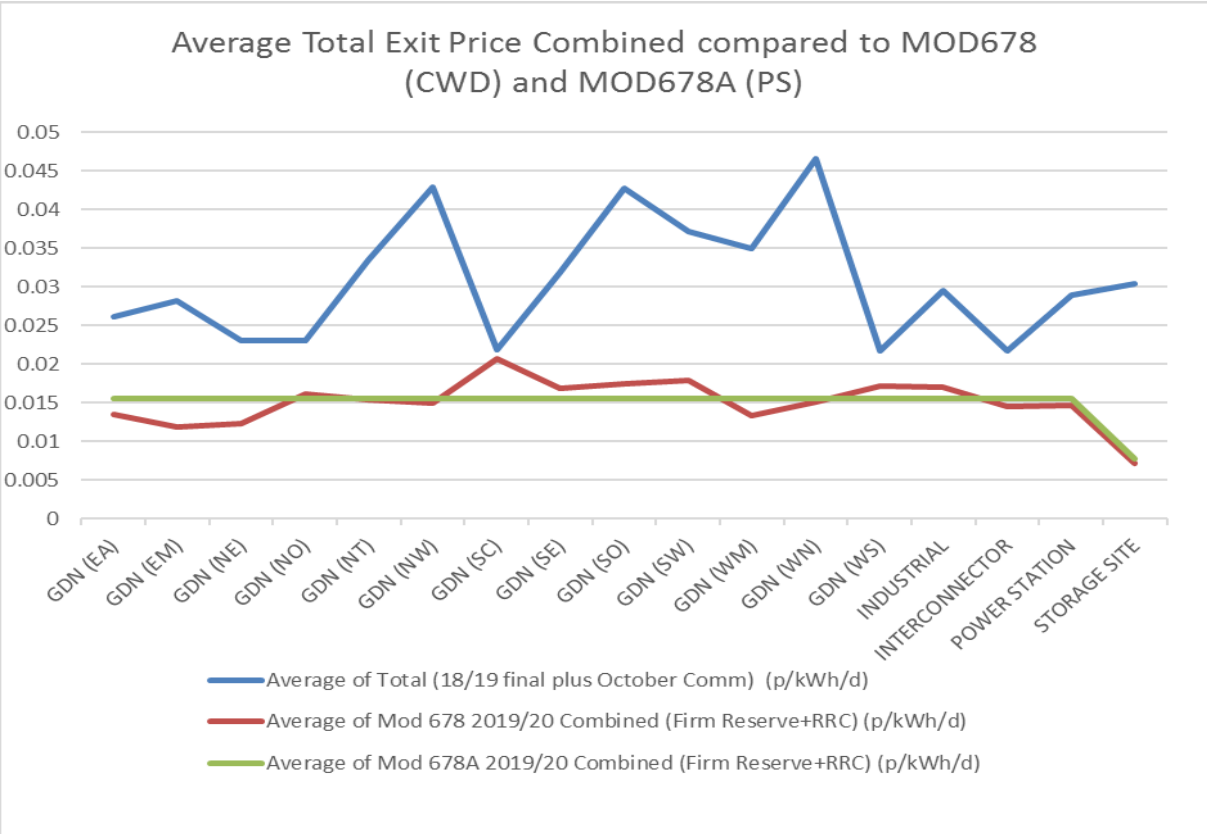
To create a methodology whereby *"charges… reflect the costs incurred by the licensee in its Transportation business"* is a challenging objective to interpret. Where revenue recovery is the target then it is important to have suitable cost drivers underpinning the methodology employed. Two important drivers for the costs incurred by National Grid in respect of the NTS are capacity and distance. Whilst locational drivers are of a reduced importance in an environment of non-expansion, the focus can move to usage of the established network where distance still plays a role.

Capacity remains important at a point specific level as it reflects the requirements and expected requirements for use of the NTS. For charging purposes, it is more appropriate to use values that reflect a continually updated review of capacity bookings to ensure that charges are levied on Users' requirements and anticipated need. In employing CWD, which uses a point specific capacity value, in combination with average shortest paths to and from entry points (reflecting the potential commercial arrangements for entering and exiting gas to and from the NTS), this provides a more complete use of cost drivers compared with the Postage Stamp approach.

Whilst the use of a CWD RPM narrows the range of prices across the NTS due to the averaging distance effect, the use of a Postage Stamp RPM narrows this further to the point where all entry and all exit points will have the same price. This can be illustrated, using 2019/20 as an example and some generic assumptions in the two charts below (one for Entry and one for Exit). Current charges reflect the combination of published charges for capacity added to Transmission Commodity. For CWD and PS they are based on 0678 and 0678A respectively and are based on adjusted charges per the Modification Proposals.

Compared to the prevailing methodology, the range of prices can be seen as reduced when comparing current to CWD to Postage Stamp, providing a better foundation for improved stability and predictability and reduced volatility.





In summary, we believe that in order to modify the methodology to adopt an RPM that sets charges reflecting costs incurred by National Grid consistent with Standard Special Condition A5 (specifically 'relevant methodology objective' (a)), it is necessary to use the cost drivers as described above, being both capacity *and* distance, for example as in the proposed CWD RPM. Should this objective not be as relevant or required, then changes to charges could logically follow alternative RPM approaches such as Postage Stamp.

Forecasted Contracted Capacity (FCC) Methodology Governance

- **Change Governance for the FCC Methodology (0678A, 0678B, and 0678C)**

  We believe that management of changes to the FCC Methodology outside UNC governance is a proportionate process that nevertheless engages Users in the governance process and critically allows changes to the FCC Methodology to be made in a timely manner. We note that the Ofgem disapproval process affords Users the right of appeal to an appropriate independent arbiter which we believe provides the appropriate check and balance.

  The alternative approach of incorporating the FCC Methodology into the UNC (thus applying UNC governance to any proposed changes) increases the risk of changes not being implemented in a timely manner. Accordingly, the benefits of any refinement may not be realised in the desired timescale, or the unintended detrimental consequence of any methodology rule may be prolonged. Evidence to support this concern can found by examining the industry time taken to complete the development and decision stages of recent charging related UNC change proposals including this one and UNC0621.

  We firmly believe that limiting the ability of the FCC Methodology to evolve in a timely manner (for example, to reflect any changes to capacity booking behaviours), and therefore derive more accurate FCC values, will increase the risk of mismatches between collected and allowed revenues which will need to be reconciled in the following gas year. This may in fact *increase* the level of charge rate volatility between gas years which runs counter to the aims of the new arrangements.

- **Restriction on Changes to the FCC Methodology (0678I)**

  The FCC values are critical inputs to the setting of Reference Prices via the CWD and Postage Stamp RPMs and the accuracy of the FCC values therefore has a direct influence on the ability of National Grid to collect the correct amount of revenue from Transmission Services Capacity Charges. The accuracy of this recovery (i.e. relative to 'allowed' revenue) determines the extent of revenue that needs to be retrieved via Revenue Recovery Charges.

  Whilst recognising the benefits of a stable charging regime, there nevertheless needs to be sufficient flexibility in the charge setting arrangements for National Grid to adjust the FCC Methodology. The consequences of change being frustrated (as described above in the context of FCC methodology Change Governance) apply equally in this case.

  The ability to set charges and have suitable flexibility on this aspect of the RPM facilitates the setting of charges to recover revenue in line with National Grid's Licence and to minimise any consequences of over or under recovery on future year's charging

Specific Capacity Discounts

- **Storage Connection Points (0678C, 0678E and 0678F)**

  Whilst we acknowledge that affording a higher storage discount arguably has no material impact to Reference Prices for other points on the network, it is nevertheless the case that the 'costs' of providing an increased discount for Storage are effectively socialised elsewhere in the charging regime.

  Ireland Security Discount (0678I)

The Proposer has expressed a view that the provision of such a discount is provided for by Article 9(2) of TAR in terms of the Moffat pipeline fulfilling the criteria for Infrastructure Ending Isolation of Member States (in terms of the importance of the Moffat Interconnector to supplies to the Republic of Ireland). National Grid's view is that this discount is not mandated, it "may be applied". Further, we do not believe this is sufficiently justified as the proposer has not provided specific justification for a discount level of 95% beyond noting the distributional impact on other Users of the National Transmission System in GB. We note the high value of the discount and would challenge whether the suggested non-material impact on other Users, as the sole justification, provides sufficient rationale. Arguably, such a discount could be viewed as detrimental to supply competition on the island of Ireland by disincentivising further exploration or planned LNG and storage projects in this area.

Acknowledging that the comment was made in respect of a discount for Storage, in its decision letter for Modification Proposal 0621 Ofgem stated that "*Any discount above 50% would need a clear justification*" and further stated (this time specifically in respect of Interconnectors) "*we do not currently consider there is sufficient rationale for a bidirectional interconnector discount*".

<u>Revenue Recovery Exemptions</u>

- **Storage / Storage, except own use gas at Storage (0678C, 0678E and 0678F)**

National Grid is of the view that Users at Storage Connection Points are utilising the system and should therefore bear an appropriate level of system usage costs. Consistent with this principle, capacity that does not fall within the scope of TAR Article 35 (Existing Contracts) should potentially be subject to the all the relevant charges prescribed in the charging methodology.

- **Existing Contracts at Storage (0678G and 0678H)**

We believe that limiting the protection for Existing Contracts to such volumes procured at Storage Connection Points only is potentially not consistent with TAR. This would have the consequence of exposing Existing Contracts at points other than Storage Connection Points to Revenue Recovery charges potentially in conflict with Article 35(1) which states that TAR shall not impact the levels of transmission tariffs for Existing Contracts. Noting that this was National Grid's initial Proposal in respect of the Revenue Recovery exemption, it was the presence of such compliance concerns that led to National Grid revising its proposal in this respect.

<u>NTS Optional Charge</u>

- **Discounted Reserve Price (0678B)**

- **Cost-Based Rate with reconciliation to FCC (0678D, 0678G, 0678H and 0678J)**

- **Cost Based Rate (0678I)**

National Grid is supportive of a wholesale review of the way in which incentivising use of the NTS (as opposed to potentially inefficient NTS bypass pipelines) can or should be accommodated into the Transportation Charging Methodology. National Grid raised UNC0670R review group in October 2018 to *"…assess the objectives, identify requirements, analyse potential options and propose an enduring proportionate solution".*

We continue to believe that UNC0670R is the relevant and most appropriate vehicle for the review of this aspect of charging to ensure that possible solutions consider all the impacts within the charging methodology (and wider UNC regime) and are fully developed.

We recognise the differing approaches proposed by the alternatives to 0678. Whilst not all are direct replacements to the existing NTS Optional Commodity Rate, overall they broadly aim to achieve a similar goal in terms of providing reduced or alternative charges under the particular circumstances specified in each proposal.

National Grid recognises the appetite for such a mechanism, however we continue to believe that:

- a charging product of this nature is not a requirement under TAR, therefore the absence of such an arrangement is not detrimental to TAR compliance;
- the aim and design of such a product should, if intended to manage inefficient bypass, limit access to routes where bypass pipelines are a genuine and likely consideration (which could pass additional costs into to the market and therefore consumers) as opposed to being additionally available for other routes where bypass is not realistic. In such cases, electing to incur the optional charge is simply more economic that the incurring the standard charges.
- it is important to afford time (via UNC0670R) to appropriately review, consider the delivery options and focus on the most suitable approach to avoid any issues or unintended consequences that would potentially require remedy. We believe there is a material risk of such consequences materialising if one of the Alternative proposals (incorporating such an arrangement) is implemented. We highlight a few of these in the para's below

Consequences of the proposed NTS Optional Charges/Wheeling Charge arrangements are:

- the mechanisms proposed are 'commercial' options with no limitation to routes (apart from 0678I) where bypass is a genuine consideration. This is one of the concerns under the current regime (albeit this is exacerbated due to the high levels of commodity charge, in turn caused by the availability of zero-price capacity at both entry and exit points);
- the difference between the normal charges and the relevant optional charges would be collected from points on other routes which are not subject to the optional charges. Where the charge is widely accessible, has substantial discounts or has the potential for significant uptake, this will result in charges for other routes increasing which remains a concern.
- the charges change the prices payable and under all proposals effectively have the capability to change (where used) the price for Existing Contracts as described in TAR Article 35. This undermines the fixed price nature of the Existing Contract as defined in Article 35 of TAR. The price at the time of allocation for Existing Contracts, should be the price paid, should it be higher or lower than any prevailing pricing arrangements.

A number of the proposed approaches are being considered as options under UNC0670R however they have been incorporated into these UNC0678 alternatives before being fully developed within UNC0670R.

We do acknowledge that under some of the proposals there are mechanisms to help prevent it being "overly generous" in nature where the amount redistributed and therefore charged to other Users is reduced such as:

- The system utilisation adjustment in 0678B;
- The annual fee element in 0678D, 0678G, 0678H and 0678J.

However, these to not prevent them being seen (and we believe used) as purely commercial alternatives which do not reflect the genuine likelihood of bypass. We believe more is required to fully address the issues and potential consequences above and 0670R is, in our view the most suitable vehicle to do this.

Capacity Regime

- **Surrender Process (0678F)**

The scope of our original Proposal (UNC0678) and indeed UNC0621 was purposely limited to the Transmission Charging regime. Noting that this Proposal additionally advocates change to the capacity regime, this particular aspect of the Proposal in itself needs to better facilitate the code relevant objectives.

We note that the justification for the limited access to the surrender facility is based upon narrative provided by National Grid in the relevant pricing notification that the Proposer contends provided insufficient warning that Reserve Prices may be subject to change as a consequence of implementation of TAR. However, we believe that the implementation and publication of TAR *in itself* provided all GB stakeholders with sufficient notification of potential changes necessary to the GB regime in order to achieve compliance. Accordingly, it was incumbent on all Users to reflect the risk of change in their respective capacity procurement strategies in the interim period.

We believe that the proposed process is discriminatory in limiting this surrender facility to capacity procured within a specific period. In absence of sufficient justification for such a limitation we do not view the availability of this mechanism to a subset of capacity as appropriate.

Implementation

- **No limitation (0678B)**

We recognise the need for GB to be complaint with TAR as soon as is reasonably practicable and acknowledge that by not seeking any restriction in implementation timing, this particular Proposal seeks to achieve this.

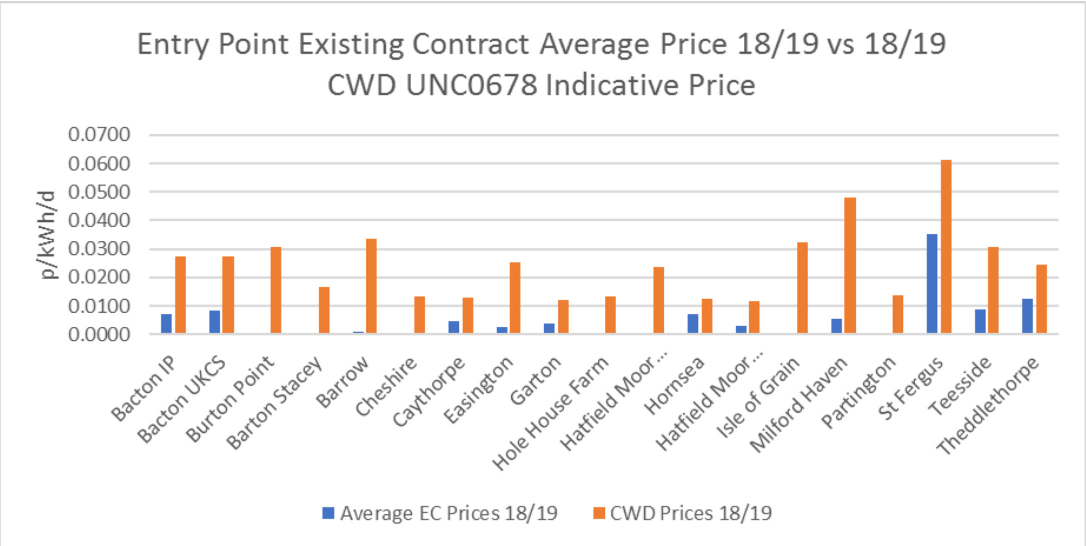
Acknowledging this point, a balance nevertheless needs to be struck between compliance and the industry's ability to effectively implement any new regime in an orderly manner.

- **Limited to commencement of Gas Year (0678C, 0678I)**

Noting the above points concerning effective and orderly implementation of any new regime, the approach advocated in these two Proposals is to seek to constrain implementation to the commencement of a Gas Year. Whilst this would on the face of it appear to provide the most orderly form of implementation, it is open to question whether this limitation would achieve TAR compliance as soon as reasonably practicable in certain scenarios.

Consultation Questions Requested by the Authority

The Authority has requested that the following questions be considered by Respondents when writing their responses.

Question Number	Question
1.	What impact, if any, do you think tariff differentials between existing and new contracts will have on users booking behaviour? *We recognise that the subject of Existing Contracts (ECs) and the necessary consequences of their treatment, when considering TAR NC, is a challenging area. In GB, there are large volumes of long-term Entry Capacity procured on the 'pay-as-bid' approach within the current regime whereby a fixed price can be determined in advance for longer term QSEC allocated capacity. These fixed prices, considering compliance with Article 35 of TAR, have necessary consequences on the resulting methodology and whilst they can make up large volumes, these will reduce over time.* *The mechanism in the RPM (notably adopted across all the proposals) to exclude the revenue and volumes of ECs) from the Reference Price calculation is a necessary consequence of TAR NC to:* • *Preserve the fixed prices payable by EC holders as outlined in this response;* • *Ensure that the RPM, with its inputs, is setting reference and reserve prices to recover the target allowed revenue without intended use of revenue recovery charges (RRCs).* *As a result of the proposed methodology changes there will be differences to the prices paid by Existing Contract holders and for new capacity. This is highlighted in the chart below that illustrates the Average Entry point specific Existing Contract capacity price compared to the CWD illustrative prices modelled for Gas Year 2018/19:*  *This chart shows the differences vary across Entry points and types of Entry Point, where typically the highest difference is at Storage facilities and LNG terminals where usage is relatively low compared to levels of ECs. Across most other Entry Points the delta between*

	average EC price and that of the CWD price is much lower. Existing Contracts will reduce over time. *As highlighted in the independent report commissioned by National Grid from Baringa asking to assess the impacts of the treatment of Existing Contracts and price differentials to new (i.e. non-EC) capacity (available here:* https://www.gasgovernance.co.uk/0678/Analysis) *in their conclusion:* *"On the basis of the data available to us and our economic analysis, we consider that the likely effects of any such differential on consumer welfare and broader gas market dynamics are unlikely to be material or lasting."* *As noted in our summary note (available here* https://www.gasgovernance.co.uk/0678/Analysis*) we note that "Following a decision on UNC0678 and future monitoring future changes to the charging framework may be considered." As we continually monitor changes under an updated regime, there are a range of options that could be considered should it be required.* *We do not believe that this differential in isolation will influence booking behaviour. The User will still be incentivised (via the capacity overrun regime) combined with changes to the discount levels proposed, to book levels of capacity which in aggregate is sufficient to meet its customers' requirements.*
2.	What date should the changes proposed by the modifications become effective and why? *As detailed in our Proposal, we believe that implementation should ideally allow a minimum 2 clear months notice with new methodology applicable for prices payable from 1st of the following month. We have proposed a date of 1 October 2019, or as early as possible after, for the changes to take effect.* *However, acknowledging the needs to minimise period of non-compliance we have not sought to constrain implementation by providing that any other date (after 1st October 2019) can be determined by the Authority. implementation from the first day of a month is logical from an invoicing and charge setting perspective.*
3.	The proposals have different specific capacity discounts for storage sites. What level of storage discount do you consider is appropriate and can you provide clear justification if the discount is greater than 50% *We believe the 50% minimum discount is sufficient and note this can be reviewed over time. The 80% level is quite subjective to valuing the benefits and any discount has the impact of requiring recovery of the amount not paid because of the discount from other Users. We recognise the materiality of the impact to other Users is low when comparing the 50% to the 80% discount proposals.*
4.	Can you provide reasons why an NTS Optional Charge is or is not justified? If you consider an NTS Optional Charge is justified, which proposal do you prefer and why is it compliant with TAR NC? *An NTS Optional Product is not a requirement for any methodology. It is also not required to have such a product as a feature of any proposed methodology to be compliant with TAR.* *We recognise that reflection in the methodology of an incentive to use the NTS (as opposed to a dedicated pipeline) is commercially justified in principle, however we took the view that this Proposal should not pre-empt the work of request group UNC0670R, which is looking to provide a wholesale review of this type of product as part of a Transportation Charging Framework. This takes into account the issues of the current equivalent product that is in need of a review and needs to address further the concerns outlined in Ofgem's decision letter on UNC0621. Any review of such a charging arrangement must consider the rest of the charging framework in its change proposals to ensure it is appropriate overall. Any*

	modification that may come following the conclusion of 0670R must consider the outcome of 0678 to ensure compatibility with the rest of the charging arrangements. *Whilst recognising the positive progress made in this group to date, it should be allowed to come to a suitable conclusion and make a fully informed recommendation. Should this be recommendation be the development of a new charge, sufficient time should be afforded to fully develop a robust mechanism.* *The arrangements proposed in 0678B, 0678D, 0678G, 0678H, 0678I and 0678J do not fully address the issues and concerns mentioned above and we remain of the view that 0670R (and subsequent modification, if required) is the most suitable vehicle to review the next steps for any charging arrangement for managing genuine inefficient bypass of the NTS as part of the Transportation Charging Framework.*
5.	Do you consider the proposals to be compliant with relevant legally binding decisions of the European Commission and/or the Agency for the Co-Operation of Energy Regulators? *In the following, we have limited our responses to a view of compliance with TAR.* *We believe that **0678** is compliant for the reasons set out in the Proposal and Draft Modification Report.* *We believe that **0678A** is compliant if the Postage Stamp RPM is assessed as more cost reflective when compared to the counterfactual specified in the TAR (Recital 3).* *We believe that **0678B** is potentially not compliant because the proposed NTS Optional Charges may have the effect of revising the contracted price for capacity under Existing Contracts (contrary to Article 35).* *We believe that **0678C** is compliant if the Postage Stamp RPM is assessed as more cost reflective when compared to the counterfactual specified in the TAR (Recital 3).* *We believe that **0678D** is potentially not compliant because the proposed NTS Optional Charges may have the effect of revising the contracted price for capacity under Existing Contracts (contrary to Article 35).* *We believe that **0678E** and **0678F** are potentially not compliant because the levy of Revenue Recovery charges to non-Storage Connection Points may revise the contracted price for capacity under Existing Contracts (contrary to Article 35).* *We also believe **0678F** is potentially non-compliant due to the structure of its proposal for capacity surrender. We do not feel the rationale is suitably justified and only provides for capacity surrender for a specific volume of capacity which is potentially discriminatory. It also provides for return of some (not all) capacity purchased post entry into force of TAR NC (6 April 2017) when all capacity is subjected to floating charges and any capacity procured on or after 6 April 2017 would be in the knowledge of TAR NC and that it would be at the Shippers discretion as to their participation in any auction post 6 April 2017.* *We believe that **0678G** is potentially not compliant because the levy of Revenue Recovery charges to non-Storage Connection Points may revise the contracted price for capacity under Existing Contracts (contrary to Article 35). Further, it is potentially not compliant because the proposed NTS Optional Charges may have the effect of revising the contracted price for capacity under Existing Contracts (contrary to Article 35).* *Whilst we believe that the Postage Stamp RPM is compliant if it is assessed as being more cost reflective when compared to the counterfactual specified in the TAR (Recital 3), overall, we believe that **0678H** is potentially not compliant due to the levy of Revenue Recovery charges to non-Storage Connection Points which may revise the contracted price for capacity under Existing Contracts (contrary to Article 35). Further, it is potentially not*

	compliant because the proposed NTS Optional Charges may have the effect of revising the contracted price capacity under Existing Contracts (contrary to Article 35). *We believe that **0678I** is potentially not compliant because the proposed NTS Optional Charges may have the effect of revising the contracted price for capacity under Existing Contracts (contrary to Article 35).* *Whilst we believe that the Postage Stamp RPM is compliant if it is assessed as being more cost reflective when compared to the counterfactual specified in the TAR (Recital 3), overall, we believe that **0678J** is potentially not compliant because the proposed NTS Optional Charges may have the effect of revising the contracted price capacity under Existing Contracts (contrary to Article 35).*
6.	It is proposed that National Grid Gas may review or update the Forecasted Contracted Capacity (FCC) Methodology following consultation with stakeholders, unless Ofgem (upon application by any Shipper or Distribution Network Operator) directs that the change is not made as per its powers under Standard Special Condition A11(18) of National Grid's Licence. Do you believe that this governance framework is fit for purpose? Please provide reasons for your answer. *We believe it is fit for purpose and is a proportionate process that engages Users is the governance process but allows changes to be made in a timely manner. Exposure to full UNC governance increases the risk of changes not being made in time and thus the benefits of any FCC methodology refinement not be realised in the desired timescale. This process, especially with open governance and modifications of considerable complexity, such as on the topic of Transportation Charging, can result in a prolonged change process which is not conducive to timely and effective code changes. Issues can be caused by multiple Alternative Proposals being raised and the inflexibility to adapt the change processes in a timely manner to limit alternatives and permit time to focus on the core issues. Time available is therefore diluted due to numbers of alternatives limiting the focused debate and consideration required for effective engagement for changes of this magnitude. This has been seen on 0621 and 0678 in recent years.* *This is an area we believe the UNC change process is lacking and highlights that whilst an ambition would be to conclude and implement changes on a desired date, the process is at risk of delays through timing and numbers of Alternative Proposals and can take far longer than it reasonably should. Therefore, on balance, we feel it is more effective to have the FCC Methodology outside of the UNC change process.* *To deliver changes, if it were in the UNC, it would be a necessity to raise a Modification Proposal, consult, have Modification Panel decisions and Ofgem decisions and time to produce FCC Values for charge setting by fixed dates each year. The UNC change process cannot guarantee dates for completion with the Modification Rules as they are.* *In proposing the approach, we wanted to take on board comments that stakeholders preferred involvement of Ofgem in the overall governance process. This approach enables Ofgem to be involved without placing formal requirements for decision making, which would be required for every change, should the FCC Methodology be in the UNC.* *We note that the disapproval process affords Users a right of appeal to an appropriate arbiter, in this case, Ofgem and is used for a number of other UNC processes and documents (for example in respect of amendments to the Uniform Network Code Validation Rules as per UNC TPD M5.3.3).*