

Representation - Draft Modification Report

UNC 0621; 0621A; 0621B; 0621C; 0621D; 0621E; 0621F; 0621H; 0621J; 0621K*; 0621L

Amendments to Gas Transmission Charging Regime

*** Amendments to Gas Transmission Charging Regime and the treatment of Gas Storage**

Responses invited by: 5pm on 22 June 2018

To: enquiries@gasgovernance.co.uk

Representative:	Colin Williams
Organisation:	National Grid
Date of Representation:	22 June 2018
Support or oppose implementation?	<p>0621 - Support</p> <p>0621A – Comments</p> <p>0621B - Oppose</p> <p>0621C - Oppose</p> <p>0621D - Oppose</p> <p>0621E - Oppose</p> <p>0621F - Comments</p> <p>0621H - Comments</p> <p>0621J - Oppose</p> <p>0621K - Oppose</p> <p>0621L - Oppose</p>
Expression of Preference:	<p><i>If either 0621; 0621A; 0621B; 0621C; 0621D; 0621E; 0621F; 0621H; 0621J; 0621K or 0621L were to be implemented, which <u>ONE</u> modification would be your preference?</i></p> <p>0621</p>

Standard Relevant Objective:

0621
c) Positive
d) Positive
g) Positive

0621A
a) None
c) None
d) None
g) Positive

0621B
a) None
c) None
d) None
g) Negative

0621C
a) None
c) None
d) Negative
g) Negative

0621D
a) None
c) None
d) Negative
g) Positive

0621E
c) None
d) Positive
g) Negative

0621F
c) None
d) Negative
g) Positive

0621H
c) None
d) Negative
g) Positive

0621J
c) None
d) None
g) Positive

0621K
a) None
c) None
d) Negative
g) Negative

0621L
c) None
d) None
g) Positive

**Charging Methodology
Relevant Objective:**

0621

- a) Positive
- aa) Positive
- b) Positive
- c) Positive
- e) Positive

0621A

- a) Positive
- aa) None
- b) Positive
- c) None
- e) Positive

0621B

- a) Positive until 2021, then Negative
- aa) Positive until 2021, then Negative
- b) Positive
- c) Positive until 2021, then Negative
- e) Negative

0621C

- a) Positive
- aa) Negative
- b) Positive
- c) Negative
- e) Negative

0621D

- a) Positive
- aa) Negative
- b) Positive
- c) Negative
- e) Positive

0621E

- a) Positive
- aa) Positive
- b) Positive
- c) Positive
- e) Negative

0621F

- a) Positive
- aa) None
- b) Positive
- c) Negative
- e) Positive

0621H

- a) Positive
- aa) Positive
- b) Positive
- c) Negative
- e) Positive

(continued overleaf)

Charging Methodology Relevant Objective (continued):	0621J a) Negative aa) Positive b) Positive c) Negative e) Positive
	0621K a) Positive aa) Negative b) Positive c) Negative e) Negative
	0621L a) Positive aa) Negative b) Positive c) Negative e) Positive

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

Further rationale for our views (summarised below) is provided later in our representation.

0621

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

National Grid believes that relevant objectives (a), (aa), (b), (c) and (e) are better facilitated for the reasons stated in our Proposal. In summary, by moving towards a RPM that delivers most, if not all of the Transmission Services revenue from the cost reflective capacity charges, minimises any redistribution of revenues between users and is compliant with TAR, provides a framework that promotes competition and minimises discrimination. It also provides a basis for more predictable, stable and less volatile charges as the FCC value is updated.

0621A

We offer comments in respect of this Proposal. It incorporates an increased discount for Storage Points that is arguably excessive and if deemed as such, would necessitate an inappropriate socialisation of costs to other points that we believe Storage Points should legitimately incur. On this basis, there is risk of a negative impact on competition between shippers albeit the materiality of this risk is likely to be low and could therefore be assessed as acceptable in the context of the wider arrangements.

0621B

We oppose implementation of this Proposal as we believe that it is not consistent with the longer-term ambition to establish a principally capacity based charging regime envisaged by TAR. The retention on an enduring basis of a Forecasted Contracted Capacity value equal to ‘obligated’ values stated in our licence, combined with retention of high Transmission Commodity

charges to manage revenue recovery, will further erode the cost reflectivity of the regime and retain an optional charge which we believe may not be robust in the longer term.

0621C

We oppose implementation of this Proposal. Whilst this modification does propose a CWD model to recover the target revenue similar to 0621, we believe it is not appropriate for a User at a point to incur Revenue Recovery charges on a flow and capacity basis as part of a revenue recovery regime which is overly and unnecessarily complex and at Interconnection Points is, in our view, non-compliant with TAR. Further, we believe that the proposed Optional Charge would be commercially attractive to a significant proportion of routes (potentially far in excess of that envisaged when the original charge was established) which could result in an inappropriate socialisation of costs to non-Optional Charge points/routes. We believe it more appropriate to consider this as part of the wholesale review of the way in which charging incentivises avoidance of wider inefficient bypass investment where the objectives and design can be developed together. We do not consider any proposal that has a commodity based Transmission charge at IPs for the purposes of managing revenue recovery of Transmission Services is compliant on which grounds we must oppose.

0621D

We oppose implementation of this Proposal. We believe that utilisation of the square root of distance in the Reference Price calculation will negatively impact the cost reflectivity of the resultant Reference Prices. Further, we believe that an Optional Charge is a necessary component of the charging regime to disincentivise inefficient bypass of the NTS.

0621E

We oppose implementation of this Proposal. Whilst this modification does propose a CWD model to recover the target revenue similar to 0621, we believe it is neither preferable, nor necessary to create disparity (in terms of the duration of the transitional period) between Entry and Exit. Further, we do not believe it is appropriate for a User at a point to incur Revenue Recovery charges on a flow and capacity basis as part of a revenue recovery regime which we believe is overly and unnecessarily complex and at Interconnection Points is, in our view, non-compliant with TAR. We do not consider any proposal that has a commodity based Transmission charge at IPs for the purposes of managing revenue recovery of Transmission Services is compliant on which grounds we must oppose.

0621F

We offer comments in respect of this Proposal. It incorporates a discount for Interconnection Points that is arguably not justified and if deemed as such, would necessitate an inappropriate socialisation of costs to other points that we believe Interconnection Points should legitimately incur. On this basis, there is risk of a negative impact on competition between shippers albeit the materiality of this risk is likely to be low and could therefore be assessed as acceptable in the context of the wider arrangements.

0621H

We offer comments in respect of this Proposal. We have concerns that all capacity procured via Historical Contracts would be insulated from exposure to Revenue Recovery Charges and the impact on other charges by redistributing monies not recovered from Historical Contracts. We believe that Users holding this capacity should bear an appropriate level of system usage costs which is not the case if such Users do not incur any Revenue Recovery charges. On this basis, there is risk of a negative impact on competition between shippers albeit the materiality could be assessed as acceptable in the context of the wider arrangements.

0621J

We oppose implementation of this Proposal as we do not believe that a 'Postage Stamp' Reference Price Methodology is cost reflective given the misalignment with costs reflectivity principles (being driven by capacity and distance) and we therefore do not believe that implementation would better facilitate the relevant objectives for the reasons stated elsewhere in this response.

0621K

We oppose implementation of this Proposal as inclusion of an 100% discount to the Reference Price for a subset of capacity (in a specific direction for Exit Storage) at Storage Points creates an inequitable regime at Storage Points (between Entry and Exit) where one considers the probability of interruption and the other does not. Further, the proposed discount does not consider the elements required to be considered by TAR and is not consistent with the stated aim of the prospective methodology that all parties must pay to utilise capacity in the National Grid system.

0621L

We oppose implementation of this Proposal as we believe inclusion of gross revenue and capacity within the revenue element of the CWD calculation (the Weighted Average Cost step) will generate Reserve Prices which will not be applied to those fixed price contracts and therefore creates a shortfall in the revenue recovered via capacity charges. We note this is the intention of the Proposal to have any under recovery spread across all capacity (except historical storage). This will increase the proportion of revenue that needs to be recovered via the Revenue Recovery mechanism whereas the aim of the new regime, we believe, is *minimise* the extent of such in order to enhance cost reflectivity.

Implementation:

The changes required will need to take effect for transportation prices from October 2019 to achieve compliance with TAR. Given the scale of the potential impacts and the time needed to assess such, analysis of the impacts on central systems and processes is already in progress and is therefore proceeding 'at risk' and in parallel to the UNC (and subsequent) processes. The lack of certainty on the specifics on the prospective regime (given that number of different approaches proposed) means that multiple options are being assessed. In order to be able to deliver the necessary changes we require a decision by mid-March 2019 to implement in the required timescales and to provide certainty to the market.

Impacts and Costs:

National Grid will incur the costs of making the required changes to central systems and processes. As highlighted above, analysis of the requirements is already in progress and at an appropriate point, the extent and scale of the analysis, development, implementation and ongoing costs of making such changes will be determined.

Legal Text:

National Grid is satisfied that the legal text it has provided will deliver the intent of each respective solution subject to the minor correction stated below.

The development of legal text was informed by a 'comparison table' which was used to identify differences between Proposal 0621 and each Alternative Proposal. The highlighted differences were verified by each Proposer as matching the content and intent of their respective Proposals.

Initial draft text for Proposal 0621 was shared with Workgroup 0621 on 12th April 2018 and consequential refinements were highlighted to Workgroup 0621 on 24th April 2018. Legal drafting for the differences between Proposal 0621 and the Alternative Proposals (as referred to above) were shared and agreed with individual proposers in the period between 24th April 2018 and the date of submission to the Joint Office of the full suite legal text for inclusion in the Draft Modification Report (16th May 2018).

Subsequent to the issue of the Draft Modification Report for consultation, two minor issues were identified with the legal text provided for Proposal 0621C which required correction in order to fully align with the content and intent of the Proposal. National Grid notified the Joint Office these errors on 12th June 2018 and provided updated versions of the relevant legal text documents. This updated legal text, along with an explanation of the changes, was communicated to industry stakeholders by the Joint Office on 13th June 2018.

One further minor omission has been identified in the legal text for those Proposals that advocate the application of an NTS Optional Charge for the transitional period (except Proposal 0621C). The omission is in Transition Document Part IIC section 25.5.6 where reference to the defined term 'NTS Optional Capacity Rate' should alternatively be stated as the 'NTS Optional Charge Capacity Rate' and thus match the wording of the charge as defined in section 25.5.2(b).

This change is required to the legal text for Proposals 0621, 0621B, 0621E, 0621F, 0621H, 0621J, 0621K and 0621L and ensures that legal text is in line with the Proposals. National Grid does not believe this represents a material error that merits any re-consultation or re-assessment.

Modification Panel Members have requested that the following questions are addressed:

Please specify which Modification your views relate to.

1. *Do you believe there is specific issues that should be considered by Ofgem's Regulatory Impact Assessment?*

National Grid suggests inclusion of the following:

- **The downstream effects of charging.**

There are several potential interpretations on the overall impacts of these charges and how they will end up in the charges across users and ultimately to end consumers. In combination of the DN pricing structure and the way in which suppliers combine all the charges into theirs it would be beneficial to consider, especially as the overall Transmission revenues to be recovered will not change but they will be distributed differently.

- **Behavioural assessments.**

The analysis to date shows the scale of potential impacts based on no behavioural changes and on some illustrative default scenarios developed and discussed in the workgroup development of the 0621 and Alternative Proposals. It is expected there will be a behavioural change as a result of any of the proposed modifications, due in no small part to the removal of zero prices (for all except the noted capacity subset of 0621K). The need to learn and gather information to inform a new forecast is one of the main reasons for the transitional period to inform the FCC to be used from the end of the transitional period.

Tools have been developed and shared with industry stakeholders that allow their own behavioural assumptions to be modelled, however it would be beneficial to

share some views on this area and for feedback on the assumptions/outcomes through the Impact Assessment.

Ofgem requested that the following questions be included as part of the consultation. Panel agreed to include these:

- 2. The rationale in the report for having an interim period and using the obligated capacity as the Forecasted Contracted Capacity (FCC) is to avoid significant changes to charges and have a period to understand how booking behaviour changes. How does this compare to having two structural changes to charges (one at the start of the interim period and another at the enduring period)?*

National Grid believes that a transitional period is necessary as the new proposals come into effect. All Proposals except 0621B propose a transitional period. A transitional period is necessary in order to learn and gather data as the changes take effect, most notably the removal of zero prices for interruptible/off peak capacity. The Proposals also include changes to discounts, multipliers and the firm capacity charges payable under the new Reference Price regime. The challenge presented here is why not move to a new forecast from 2019 then an updated forecast from 2021, as opposed to the use of baselines from 2019 and a forecast after the transitional period where used (all except 0621B).

A move to two structural changes to the FCC would leave a dependency on such a forecast for the purposes of managing revenue recovery and be at greater risk of inaccuracies without additional information to help inform it.

We explore this further in the additional analysis section of this response to illustrate the risk of using a forecast that has a greater potential of inaccuracies and the benefit for the transitional period of using a more stable set up whilst gathering information on behavioural changes to inform a new forecast for FCC to be used for prices from October 2021.

If there was a change, for example, to have a capacity revenue recovery charge in addition to an updated forecast from 2019 (i.e. instead of using obligated plus commodity for the short transitional period), we believe it would likely be necessary to also to require a combination of other mechanisms to manage any risk of significant over/under recovery, for example including quarterly changes to the revenue recovery charge and/or use of multipliers for revenue recovery. Neither of these options will deliver stable, predictable prices for Customers and the use of a transitional period as proposed by 0621 and other alternatives is our preference before moving into the enduring proposals.

- 3. What (if any) consequences do you see from 'interim contracts' being allocated at QSEC and AMSEC auctions in 2019 given the timings of these auctions in the UNC and possible date of Ofgem decision on UNC621? What options are there to deal with these consequences and what impact would these options have?*

Fixed price contracts are a feature of the GB regime. Interim contracts are those fixed price entry contracts, allocated before the "effective date" and after the entry into force date of TAR of 6 April 2017.

The "effective date" will depend on Ofgem's decision date for the modification and will determine whether the payable price for any allocations will be under the current or new regime. The consequences of any capacity allocated under the AMSEC or QSEC in 2019 will depend on the regime under which the payable prices are determined.

If these auctions are allocated with payable prices from the current methodology, it would likely represent the last opportunity to procure fixed price capacity before floating prices come into effect.

If the allocations are to be payable under the current regime, this will increase the capacity and revenue to be netted off in any of the revenue allocation steps (where applicable) thereby increasing other prices for “new” entry capacity. If they are under the new regime, then any capacity allocated would be under the new floating regime even if the initial prices (depending on the time of the decision) were published based on the current methodology. Any communications for this would be managed to ensure as much certainty was communicated to shippers and they can be fully aware of the outcomes of participating in the auctions.

National Grid has an obligation to run these auctions and if there are changes to be made away from the current methodology either in the prices for the auctions or the payable prices as a result of any required change, there will likely be systems implications.

4. *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?*

National Grid believes that Proposal 0621 is compliant with TAR and other relevant EU codes in place. We note all the proposers (and we include National Grid as the proposer of 0621) consider their proposals to be compliant.

We do not consider any proposal that has a commodity based Transmission charge at IPs for the purposes of managing revenue recovery of Transmission Services is compliant with TAR.

Ultimately, it is for Ofgem to perform their own assessment of the compliance of any proposals as part of their assessments and ultimately the option it decides upon for implementation.

5. *In what way do you consider the reference price methodologies proposed (Capacity Weighted Distance (CWD), CWD using square root of distance and Postage Stamp) to be cost reflective and meet the criteria in Article 7 of TAR?*

National Grid notes that TAR Article 7 presents five criteria in selecting a reference price methodology.

- (a) Enabling network users to reproduce the calculation of reference prices and their accurate forecast;
- (b) Taking into account the actual costs incurred for the provision of transmission services considering the level of complexity of the transmission network;
- (c) Ensuring non-discrimination and prevent undue cross-subsidisation including by taking into account the cost allocation assessments set out in Article 5;
- (d) Ensuring that significant volume risk related particularly to transports across an entry-exit system is not assigned to final customers within that entry-exit system;
- (e) Ensuring that the resulting reference prices do not distort cross-border trade.

In respect of these criteria:

- (a) National Grid is committed to transparency and irrespective of the modification approved, there will be a calculation model to allow any User the ability to replicate the charges. This is demonstrated in the transparent illustrative models developed and published for 0621 and all the Alternatives and the openness by which these have been developed.
- (b) The transmission tariffs are calculated to recover an allowed revenue. This allowed revenue is the permitted costs for the year in question. These are the revenues to be attributed via the revenue allocation or cost allocation steps in the RPM. The level of complexity in the methodology and the drivers required should suit the network. We do not believe Postage Stamp is suitable for GB. It does not take into account the cost drivers of capacity and distance on a point specific basis as a feature in determining the Reference Prices. A Postage Stamp regime does not lend itself to a meshed network like that in GB and is more suited to a much simpler network set up with limited optionality on entry and exit points to utilise. Therefore, we do not believe that 0621J meets the criteria under this point. All the other Proposals adopt CWD as the main feature of their capacity RPM's which is more suitable as it does use the cost drivers of capacity and distance to geographically allocate the revenues to be recovered from capacity. The use of CWD with a square root of distance dilutes the distance driver and is, we believe, less appropriate as it moves towards a more postalised charging regime.
- (c) The Proposals treat certain aspects differently and we believe not all limit non-discrimination.

It should be noted on the Cost Allocation Assessment (CAA) that it is not mandatory to fall below the 10% highlighted in TAR Article 5, it is only required that where this occurs that it can be justified. If the objectives of the RPM are sound and the principles adopted are correct then the resulting CAA can be explained. The CAA is a sensitive test and it can vary quite significantly. One way to consider this is to think of it as a relative measure of the average Intra-system price compared to the average Inter-system price. Ultimately the test takes a revenue and a denominator or capacity or commodity and combines to a value that is the CAA resulting percentage. A positive number means that the average price at Non-Interconnection Points is higher than at Interconnection Points and a negative value means that the average price is higher at Interconnection Points than at Non-Interconnection Points. If either outcome is the result and the drivers and calculations and adjustments are as intended, then the resulting percentage can be justified.

We note the range of values shown across all the Proposals. One observation that can be made is that the closer to Postage Stamp charging, the closer one gets to 0%. A value of 0% means the same average price exists at Interconnection and Non-Interconnection points. No Proposal does this in aggregate. The following table shows the CAA results based on the proposed methodology in setting capacity charges for 2019/20 and 2021/22 and using the default modelling assumptions for the FCC.

Table 1: comparison of CAA for each modification proposal

Proposal	621	0621A	0621B	0621C	0621D	0621E	0621F	0621J	0621H	0621K	0621L
Cost Allocation Assessment Result 2019/20	14%	8%	8%	8%	-1%	14%	69%	-13%	14%	8%	10%

Cost Allocation Assessment Result 2021/22	37%	36%	8%	36%	22%	40%	97%	1%	37%	36%	29%
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The CAA is sensitive to variations of the inputs as demonstrated in the range of numbers generated. The numbers are almost always positive showing that, using the assumptions above on what this demonstrates, that there is generally a higher average charge at Non-Interconnection Points than interconnections points.

Each proposal is put together on a set of principles and these are the resulting outcomes. If the intention of the respective methodology is as desired, then the CAA may not be the most appropriate measure but a useful guide to show the balance of revenues and use of cost drivers between Non-Interconnection Points and Interconnection Points.

On non-discrimination, 0621 has minimal discounted treatment and we believe has the most equitable treatment across all Users yet the CAA results in values of 14% and 37% highlighted above. The amount of capacity forecast at Interconnection Points and Non-Interconnection Points in setting the capacity reference prices will drive variations as will the target revenue for each.

The balance of accepting that discriminatory treatment is permissible providing it is approved by Ofgem, we believe that it must be considered that any monies not charged to, or recovered because of an alternative treatment, must still be recovered resulting in monies that are distributed across other users. Focusing on the RPMs as per the question, all three could be considered non-discriminatory as they all propose the same RPM for all points on the network.

- (d) We do not believe that any of the proposals are setting out to unduly levy charges for “transitory” flows to GB domestic users.
- (e) Looking at the CAA values, we do not believe any have a detrimental effect on cross border trade. In considering the principles of each proposal, some proposals potentially increase charges at Interconnection Points where Historical Contracts are excluded from revenue recovery charges. We believe that equitable charging provides choice on the network.

6. *The proposals have different combinations of specific capacity discounts for storage sites and bilateral interconnection points. In what way do you consider the different combinations facilitate effective competition between gas shippers and gas suppliers?*

TAR prescribes only certain alternative treatments. For example, for storage it provides for a minimum of 50% discount from the capacity charge. We do not believe the definition of an interconnection asset applies to GB. For LNG points this is permissible but not prescribed. We note that all Proposals include a 0% discount for LNG as it is not considered justified at this time and can be kept under review under the UNC change rules.

Any interconnection discount, for example as proposed under 0621F, will be a GB specific Proposal as we do not believe any Interconnection infrastructure for GB fits with the definition of “infrastructure ending isolation” under EU TAR article 9(2).

Any discounted treatment will mean monies must be recovered from other Users on the network. We believe this should be minimised and that all parties should pay for use of the NTS. Competition is effective when treatment for all parties is as equitable as

possible. Proposal 0621 advocates only a 50% discount for storage and exemptions from revenue recovery charges for historical storage capacity. We believe this to be the minimum redistribution of revenues that must be accommodated in GB. Where an indefinite full exemption from revenue recovery charges are proposed, this will mean that monies will be redistributed to other parties and result in higher charges which would distort the equitability of the charging regime. When considering storage and interconnection points, proposals 0621A, B, C, D, F, J, K all include higher levels of discounts in aggregate with differing levels of materiality as a consequence.

Are there any errors or omissions in this Modification Report that you think should be taken into account?

National Grid has not identified any such errors or omissions.

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

0621

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 assessment¹ 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 updated² in 2018. We believe the conclusions remain the same that the LRMC model is no longer suitable and should not be a proposed methodology to change the charging methodology on.

¹ <https://www.gasgovernance.co.uk/ntscmf/subglmodel>

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

Therefore, an alternative such as CWD or Postage 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 in 0621.

The additional regulatory change drivers are TAR and Ofgem's Gas Transmission Charging Review³ (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 key objectives 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; and
- 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;
- 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. This avoids excessive reliance on the non-cost reflective charges within the methodology (e.g. use of commodity or postalised charges).

With this principle in mind, National Grid is not able offer its to support 0621B on the basis that it proposes to prolong a principally flow-based revenue recovery regime which runs contrary to the key objectives of the new methodology identified above.

As noted in our Proposal, the proliferation of zero-priced interruptible/off-peak capacity has had the undesirable consequence of necessitating recovery a significant proportion of National Grid's allowed revenue via flow based (commodity) charging which is not the intention of the methodology. Conversely, it is more a consequence the changes to how various capacity products are used (largely the zero-priced interruptible/off peak products). 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 is that all parties must pay to utilise capacity in the National Grid system.

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

Capacity Reference Price Methodology (RPM)

National Grid views the RPM as the mechanism by which Capacity Reference Prices are set, aiming to recover Transmission revenues with minimal requirement for any revenue recovery charges. Following the transitional period proposed by National Grid (and most of the Alternatives) capacity charges are set in a manner whereby the capacity charges would recover

³ <https://www.ofgem.gov.uk/gas/transmission-networks/gas-transmission-charging-review>

the majority of the Transmission Revenue with varying degrees of reliance on additional charges to recover any anticipated shortfall.

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 GB, will deliver a regime that is more cost reflective than both LRMC and the alternative approach of a Postage Stamp model (as advocated by Proposal 0621J).

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 deliver a greater proportion of recovery of Transmission Services (in line with how the capacity charges are set to recover) from capacity charges.

GTCR and TAR reference capacity and distance as cost drivers. Capacity is suggested as technical or forecast capacity under TAR. NGG uses both in its proposal as do all of the alternatives except 0621B. 0621J only uses these as an aggregate number rather than entry / exit point specific. Using obligated (in the transitional period) gives some stability and the time to inform a forecasting approach for FCC to be used for the enduring set up. Using a 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, for example, and that forecast is right, as charges are levied on actual bookings, revenue recovery will be on target. Where these to diverge revenue under or over recovery will be seen.

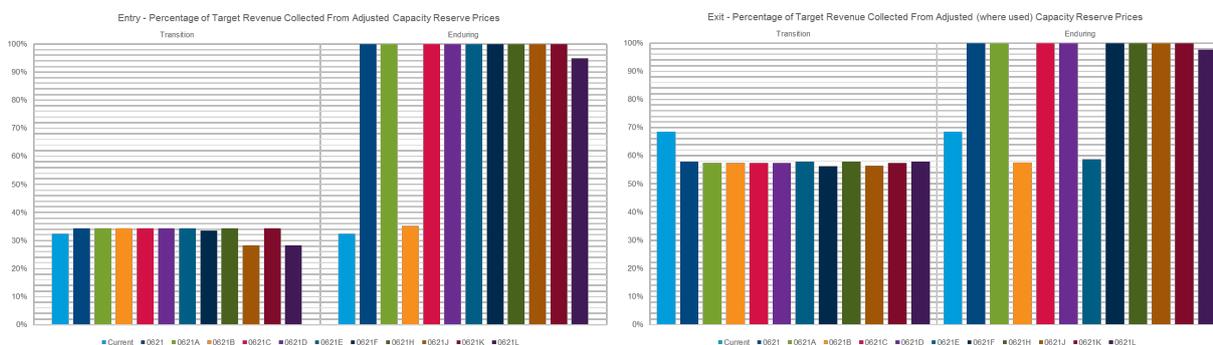
Geographical diversity is incorporating a distance driver, here the average shortest path between Entry and Exit points. This therefore considers that, by average, the system that is available for capacity from an Entry point or to an Exit point to use the network of these average shortest paths. This 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 GB 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 support a Postage Stamp RPM given the misalignment with costs 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. After the transitional period for example, CWD charges (under 0621/A/C/D/E/F/H/K) would be set to aim to recover 100% via the cost reflective capacity charges.

This is highlighted in the comparison analysis of the modifications. The two charts below show the Entry and Exit revenue percentages aiming to be set from the ex-ante capacity Entry and Exit charges for 2019/20 and 2021/22 using the proposals as per the modifications and a standardised set of assumptions for the FCC (obligated for 2019/20 and, where there is a transitional period for 2021/22 the enduring booking scenario as per the models).



It should be noted that for 0621E, in 2021/22 it has not moved out of the transitional period due to the extended transitional period for Exit whereas for Entry it has. By 2022/23 it would be at 100% for 0621E therefore for this purpose we are assuming 0621E would be at 100%.

0621B and 0621L would not set charges to recovery all of the target revenue. A shortfall is therefore a consequence of the proposed methodologies, significantly greater under 0621B than L as L does move to an updated FCC by the end of the transitional period. 0621, A, C, D, E (note comments above), F, H, K all have charges being set with the intention to recovery 100% of the allowed revenue. We believe this improves on the cost reflectivity of the charging arrangements by setting charges to be recovered through the cost reflective charges and the higher the recovery % from these the more the charges are using the cost drivers of the proposals. Whilst 0621J charges are also being set to recover 100% from 2021/22 we have reservations on the cost reflectivity of postalised charges as mentioned earlier in this response.

Forecasted Contracted Capacity (Transitional/Enduring)

National Grid supports the approach to aim to recover the Transmission Services Revenue recovery from cost reflective capacity charges. The use of the transitional period where the FCC will be based on Obligated and the retention of a commodity based revenue recovery charge for the purposes of managing revenue under recovery provides a period where data can be gathered to inform an update to the FCC for the enduring.

National Grid is developing an FCC approach and will be sharing this with industry to discuss and refine and measure to be able to use an updated FCC for setting capacity prices for October 2021. An updated FCC will be the only way to deliver a methodology that aims to recovery most, if not all, of the transmission services revenue from the RPM generated capacity prices.

If there was a move to an FCC to aim to recover all from capacity from 2019/20 then it places greater risk on the revenue recovery and the potential impacts on future charges needing to be adjusted to take account of this.

The use of obligated provides the use of an established, understood set of values, that we believe can be used for a short period whilst an updated FCC is delivered, incorporating the behavioural changes that are expected but difficult to predict without further evidence.

The retention of commodity in this transitional period assists the revenue recovery until an updated FCC can be produced and put in place.

Using commodity as the revenue recovery charge in combination with obligated as the FCC means that any variance in the anticipated bookings would only impact capacity charges. However, use of commodity allows another separate forecast to be used to mitigate revenue under or over recovery providing additional security to managing revenue recovery in the transitional period.

Using the current proposed approach for FCC outlined in 0621 and all the alternatives except 0621B the following sequence will play out:

- Once more confidence in the site-specific forecast bookings can be achieved, a move to using this for the input to the charging model will reduce the magnitude of the revenue recovery charge.
- At this point the degree of error in the selection of capacity or commodity as a recovery charge is expected to be small. The impact of bookings being incorrect is similar if using capacity or commodity if the recovery amount is relatively small.
- After a short transitional period, a move to capacity, using a capacity recovery charge places no more or less risk on revenue under or over recovery than a commodity therefore providing support to move to 100% capacity (through CWD plus recovery charge).
- Cost-reflective capacity charges recover the majority of the target transmission services revenue.

Prospective Application

Fixed prices for capacity are a feature of the current charging regime and remain in place until a modification is approved to change the UNC. Specifically, these are for long term Entry Capacity contracts predominantly allocated in the Quarterly System Entry Capacity (QSEC) auctions and possibly some in the Annual Monthly System Entry Capacity (AMSEC) auctions. Under the current regime, the price for the allocated capacity is fixed and will not change from the time it was allocated to the point at which the access rights become payable. For any capacity allocated in this way, it is proposed that revenue recovery charges will still apply (under some not all the modifications).

We created the term Historical Contracts for these fixed price contracts and honouring the fixed prices of some of these happens to be covered under Article 35 of the EU Tariff Code. We do not believe we are extending Article 35 to cover additional contracts beyond Existing Contracts (as defined in TAR). We believe we are honouring fixed price contracts, a feature of GB, through our proposals which are EU compliant as Existing Contracts form part of the Historical Contracts.

When considering treatment of fixed prices under the proposed regime, National Grid believes the capacity price for any such allocation should be honoured. Therefore, there is a need to create the additional category of 'Interim Contracts' to cover these long-term entry contracts allocated within this window post Entry into Force (EIF) of TAR, up to the effective date outlined in 0621 and the alternatives.

We believe this approach is compliant with TAR and for those contracts allocated before EIF can be seen as compliant with TAR Article 35.

Recognising the benefits to all stakeholders of avoiding retrospective regime change in terms of regime stability, National Grid has proposed to honour the fixed capacity charges to all fixed price entry capacity. These are the Historical Contracts which can be seen as Existing Contracts

under TAR and additionally incorporating capacity procured up until the point at which sufficient certainty regarding nature and timing of the new charging methodology is apparent (the proposed 'Interim Contract' category). We are of the view that limiting the impacts for the capacity reserve prices changes to capacity procured prospectively (only) better facilitates the relevant objective of the securing of effective competition between shippers (objective d) by not imposing changes with retrospective application.

We believe that no change to fixed prices and application of new charges to non-fixed priced capacity and application revenue recovery charges to all is the fairest approach from a competition perspective, acknowledging the need to honour fixed price commitments and not retrospectively changing contracted prices. Whilst levels and volumes for Historical Contracts (as defined in the Proposals) are material, it does not detract from the fixed price nature of these contracts under the current regime. Any allocated capacity, as highlighted, will be subject to the timing of any 0621 decision.

However, we believe this protection for Historical Fixed Price contracts (Interim Contracts and Existing Contracts) should be limited to the approximate costs the Shipper would have been exposed to under the prevailing methodology for the fixed price component (i.e. the capacity reserve price for the allocated capacity). On this basis, we believe that insulating capacity procured under such contracts from exposure to *any* Revenue Recovery charges (as proposed by 0621H) results in an inappropriate distribution of costs (i.e. such points accrue a disproportionately low level of cost liability). We propose that in the transitional period an exception is made for storage as it uniquely has a revenue recovery charge of zero under the current arrangements.

Discounts

Our proposal provides for application of discounts to Reference Prices to the extent required by TAR. This applies to both Storage 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 offpeak) capacity we applied the methodology prescribed in the TAR to determine a discount value. This was subject to a banding approach (whereby it was rounded up to the nearest 10%) which was adopted to seek to ensure that the discount value would not be subject to year on year (potentially non-material) change based on levels of interruption observed in the retrospective assessment period.

We recognise that a number of the alternative Proposals incorporate a higher level of discount for Storage Points and that a supporting assessment was submitted which sought to justify this increased discount level. We would observe that this assessment was concluded in the context of the *prevailing* regime whereas we would view it of more value to make such an assessment in the context of the *new* regime. On this basis, we believe it would be more appropriate to make an assessment as to whether a discount greater than 50% is justified once a new methodology is in place and has been operational for a reasonable period of time.

Although 0621 (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. There may be a need to review this 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 to the Multiplier 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 Term or Short Term or vice versa through the Transmission charging framework is less relevant where there is a lack of scarcity of capacity and not obvious need to preferentially encourage bookings long or short term.

Inefficient Bypass of the NTS

National Grid is supportive of a charging methodology that includes enduring arrangements to dis-incentivise inefficient bypass of the NTS for Exit Points that are sufficiently close to points of entry. However, consistent with aims of the original charge, bypass must be a realistic and commercially viable consideration (in terms of both construction and ongoing operation) for the relevant route.

These key objectives underpinned the development of the existing NTS Optional Commodity charge (NOCC) introduced in 1998 however, 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 limit it as a realistic and practical alternative to investment when, arguably the current design of the NOCC was to be attractive over short distances.

As a consequence, it is clear that the mechanism to deliver the dis-incentive via the charging framework requires a full review. The extent of access to the Optional charge under the current regime can be seen as an issue and may not be addressed via changes to the assumed pipeline costs alone, or to other changes that do little to limit access in a manner that limits access to those routes that are “short”.

The period of development afforded for Proposal 0621 (constrained by the TAR compliance date) was not sufficient to develop a mechanism which would address all the identified flaws in the current mechanism and give time to fully debate and develop a more appropriate and efficient way to incorporate into the charging methodology. Consequently, National Grid has proposed an ‘transitional measure’ to apply up to October 2021 which effectively utilises the existing Optional Charge construction with a number of additional features to limit the attractiveness of the charge and be more in keeping with the objectives of the product (as designed). This includes imposition of a 60km distance cap consistent with the aim of limiting application to cases where the route is genuinely ‘short’. Further, the cost base which is utilised to generate the parameters within the optional charge formula (which is fixed at 1998 costs in the NOCC) will be subject to indexation against the Retail Prices Index to ensure the assumed costs reflect inflation.

This will retain a transitional dis-incentive to bypass the NTS in the charging methodology pending the anticipated development of a robust enduring arrangement to take effect from October 2021.

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.

The following National Grid comments are limited to the identified aspects of each Alternative Proposal that differ from Proposal 0621.

0621A

Storage Discount

As described above, National Grid has concerns regarding the analysis used as the rationale for the proposed 86% discount for Storage Points, specifically in terms of the baseline used in the analysis. 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 which we do not believe is appropriate in absence of more robust analysis justifying a discount in excess of the minimum prescribed by TAR.

Revenue Recovery

This Alternative Proposal advocates an exemption from Revenue Recovery charges for Storage Points. National Grid is of the view that Users at Storage Points are nevertheless utilising the system and should therefore bear an appropriate level of system usage costs. Taking into account the proposed 86% discount for Storage, the exclusion from any other costs would therefore impose only 14% of the 'normal' capacity costs at such points (or 28% of the costs for Storage Points proposed in 0621) which in our view is not sufficient to be determined as a cost reflective charge.

0621B

Storage Discount

Comments as stated in respect of 0621A (above).

Forecasted Contracted Capacity (FCC) Determination

This Alternative Proposal principally advocates the application of the transitional period proposed by 0621 (and a number of the Alternative Proposals) on an enduring basis. In terms of FCC, this means retention of the use of 'obligated' capacity values specified in National Grid's Licence. National Grid is concerned that use of such values in the CWD calculation on an enduring basis would unnecessarily prolong the risk of determining prices which are not cost reflective.

Further, the failure to take into account market behaviours when determining FCC values (as opposed to the use of forecast FCC values which are more reflective of actual bookings) is likely to generate lower capacity charge rates and necessitate recovery of a material and significant proportion of revenue via Revenue Recovery arrangements. In this Alternative Proposal, such arrangements utilise flow-based commodity charges which are not consistent with the aims of the new Methodology and the TAR to establish a Capacity-based charging regime.

Optional Charge

A further implication of maintaining a regime which recovers a material proportion of costs via flow based charging is the proposed enduring application of the NTS Optional Charge. As expressed above, National Grid is supportive of the development of enduring arrangements to dis-incentivise inefficient bypass of the NTS. However, we recognise that the Optional Charge proposed in 0621 (which is an improvement compared to existing arrangements) may in the longer term prove to be sub-optimal, hence why 0621 only proposes this is retained for the first two years. Alternatively, retaining this Optional Charge in the enduring arrangements would embed a sub-optimal product in the regime and which would recover a significant proportion of revenue via flow-based commodity charges.

As a consequence of the above, we do not believe that this Alternative Proposal better facilitates relevant objectives (c) and (d) when compared to 0621 and current arrangements.

0621C

Storage Discount

Comments as stated in respect of 0621A (above).

Revenue Recovery

This Alternative Proposal specifies application of different Revenue Recovery rules dependent upon the timing of when capacity was procured by the User. In summary, capacity procured via Existing and Interim Contracts incur flow-based Commodity charges whereas 'new' capacity incurs capacity based charges. In our opinion this establishes an overly and unnecessarily complex regime for Revenue Recovery when compared to other Proposals. National Grid would question whether it is appropriate for a User to incur Revenue Recovery charges on a flow and capacity bases. Further, we do not believe that application of a flow-based revenue recovery charge on an enduring basis is consistent with TAR.

Optional Charge

An entirely new NTS optional charge (NOC) arrangement is advocated by this Alternative Proposal. Whilst we acknowledge the efforts of the Proposer to develop a capacity-based mechanism which is consistent with aspirations for a capacity-based charging regime, we believe that the specific rules proposed are insufficiently developed and are overly and unnecessarily complex. We believe there are insufficient constraints to limit availability of the charge to those routes where bypass is a realistic and commercially viable consideration. Our initial assessment of the proposed methodology has concluded that the Optional Charge is likely to be commercially advantageous, as a minimum, for routes of up to 270km which is not consistent with the stated aims of the Optional Charge of keeping it only desirable over short distances. This can be seen by reviewing the Weighted Average Distances in the Charging Models⁴ made available to industry stakeholders.

⁴ <https://www.gasgovernance.co.uk/0621/Models>

The 270km figure is calculated as the lower of the minimum Weighted Average Distance (WAD) for Entry (270km) or Exit (294km) based on that component of the Capacity Weighted Distance. Up to this level, it is reasonable to assume that it would result in a discount for both Entry and Exit capacity charges and therefore be preferable to nominate the NOC (as per 0621C). What would not be known is the level of update for this product as would be reasonable to assume that the use of the product could be markedly different to the current use of NOC. This would be down to individual behaviours and assessments if the selection of this product (along with the requirement per 0621C) for revenue recovery charges for Transmission Services would be preferable.

We believe that the Optional Charge principles identified would benefit from further development and could form the basis of an enduring solution where the design and objectives of any charge to better encourage use of the NTS over inefficient bypass investment can be developed together.

0621D

RPM

This Alternative Proposal represents a variation of the CWD RPM that utilises the square root of the weighted average distance within the Reference Price calculation. This has the effect of reducing the differential between prices which in our opinion reduces the cost reflectivity (as is dilutes the distance component driver) of the resultant charge rates compared to the methodology proposed in 0621 (albeit more cost reflective than the Postage Stamp model proposed in 0621J).

Storage Discount

Comments as stated in respect of 0621A (above).

Optional Charge

Alternative Proposal 0621D does not incorporate an Optional Charge and therefore, if implemented, there would be no mechanism in the charging regime, beyond the RPM and revenue recovery charges, to dis-incentivise inefficient bypass of the NTS. Given our stated support for such a mechanism, we are not able to support a Proposal that omits to make provision in this respect.

Revenue Forecasts

In respect of the proposed UNC obligations for National Grid to provide a quantity of reporting related to revenue forecasts it is worthy of note that we already provide information regarding our Revenue and Revenue collection via the NTS Charging Methodology Forum (CMF) and are responsive to requests to change the format and content of such reports. We are concerned that codification of such requirements may unnecessarily constrain the flexibility of future information provision in this area. In addition, we believe that the requirement for quarterly reporting may be too frequent because there may not be material changes if on a quarterly basis reducing the benefit of updating with little or no updates. Alternatively, we would view 6 monthly reporting as sufficient as this is the frequency with which National Grid currently reports via the NTS CMF.

National Grid would be happy to work collaboratively with the industry to make the most useful Revenue Forecast information available in a timeframe that works for all parties. These matters are currently under discussion within the NTS CMF.

0621E

Transitional Period Duration

This Alternative Proposal specifies different durations for the transitional period applying at Entry Points compared to that applied in respect of Exit Points. As a consequence, in gas year 2021/22 different regimes will apply Entry and Exit Points. National Grid would question the necessity of creating this dis-joint and believe that a methodology that creates the same methodology framework at Entry and Exit Points (to the extent permitted by the regulatory environment) is preferable.

Revenue Recovery

This Alternative Proposal specifies application of different Revenue Recovery rules dependent upon the timing of when capacity was procured by the User. In summary, capacity procured via Existing and Interim Contracts incur flow-based Commodity charges whereas 'new' capacity incurs capacity based charges. In our opinion this establishes an overly and unnecessarily complex regime for Revenue Recovery when compared to other Proposals. National Grid would question whether it is appropriate for a User to incur Revenue Recovery charges on a flow and capacity bases.

This Alternative Proposal also advocates an exemption from Revenue Recovery charges for Storage Points. National Grid is of the view that Users at Storage Points are nevertheless utilising the system and should therefore bear and appropriate level of system usage costs. We do not believe this will be the case if all Storage Points are insulated from Revenue Recovery charges.

0621F

Interconnection Point Discount

We note that the TAR does not mandate provision of a discount for Interconnection Points however, this is a feature of alternative Proposal 0621F which seeks a discount equivalent to that afforded to Storage Points. Given that this discount is provided on the basis of the benefits offered by Storage facilities to GB Security of Supply, we would question whether it is appropriate to afford a discount to exit capacity at an IP given that use of this this could in fact have a detrimental impact on GB's Security of Supply.

0621H

Revenue Recovery

This Alternative Proposal advocates an exemption from Revenue Recovery charges for all capacity procured via Existing and Interim Contracts. National Grid is of the view that it is inappropriate for all such capacity to be exempt from exposure to all Revenue Recovery costs. We believe that Users holding this capacity should bear an appropriate level of system usage costs in order for it to be determined as a cost reflective charge.

The lack of costs reflectivity of the proposed approach would be especially evident at Interconnection Points within the transitional period as the revenue recovery charges are expected to be material during this period. As the proportion of new capacity is small at such Points, this will result in a low amount of capacity incurring a disproportionate amount of revenue recovery liability.

National Grid acknowledges the specific case of capacity booked at the Bacton ASEP whereby the implementation of UNC Modification 0501 (in November 2015) split existing capacity held by Users at Bacton ASEP between two new points; 'Bacton IP' and 'Bacton UKCS'. This resulted in

a proportion of capacity initially procured for storage purposes at the Bacton ASEP being reallocated to the new Bacton IP which, under Modification 0621 would expose this reallocated capacity to Revenue Recovery charges. As a consequence, this Alternative Proposal effectively seeks extension of the insulation from Revenue Recovery for capacity procured via Interim and Existing Contracts at Storage Points only (as advocated by Modification Proposal 0621) to all Points.

It is worthy of note that National Grid has raised UNC Modification Proposal 0662⁵ which, if implemented, would effectively enable allow equitable treatment between shippers holding capacity at ASEPs listed as storage sites (within National Grid's Licence) and shippers holding capacity procured for the purpose of operating a storage site within an ASEP (i.e. an exemption from Revenue Recovery charges in both cases).

0621J

RPM

As stated above, National Grid believes that application of a single aggregated capacity cost driver which results in the same unit costs for all GB points is not cost reflective. This is on the basis that any bespoke cost drivers for transportation to individual points or groups of points is effectively ignored. In summary, the PS model too simplistic and is not sensitive to those elements which we believe influence National Grid's costs.

Storage Discount

Comments as stated in respect of 0621A (above).

0621K

Interruptible/off peak Discount

National Grid believes that the proposed 100% discount for interruptible exit capacity at storage is not compliant with the TAR as it does not consider the elements required to be taken into account by the TAR i.e. the likelihood of interruption. Further, allocating a zero Reserve Price for interruptible exit capacity at a single category of points is not consistent with the stated aim of the prospective methodology that all parties must pay to utilise capacity in the National Grid system.

In addition, implementation of this Proposal would create a mismatch in the approach for the derivation of interruptible Reserve Prices at Storage between entry and exit which we do not believe is justified.

Storage Discount

Comments as stated in respect of 0621A (above).

Revenue Recovery

Comments as stated in respect of 0621A (above).

⁵ "Revenue Recovery at Combined ASEPs" raised on 12th June 2018.

0621L

This Alternative Proposal specifies the inclusion of gross revenue (i.e. inclusion of the revenue for capacity procured via Existing and Interim Contracts) within the revenue element of the CWD calculation. National Grid notes that the consequence of including the gross revenue in this manner will generate Reserve Prices for such capacity which are in excess of the actual contracted prices for this capacity. This will result in the model effectively over-estimating the revenue that will be recovered from Existing and Interim Contracts and will increase the proportion of revenue that needs to be recovered via the Revenue Recovery mechanism as a consequence.

National Grid believes that this approach is flawed in this respect. As the regime evolves into the enduring arrangements, the aim of the methodology is to minimise the proportion of revenue recovered via the Revenue Recovery mechanism, however this Proposal is likely to create the opposite effect.