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| **UNC Workgroup Report** | | At what stage is this document in the process? |
| UNC 0678/B/D/E/F:  Amendments to Gas Transmission Charging Regime  UNC 0678A/C:  Amendments to Gas Transmission Charging Regime (Postage Stamp)  UNC0678E:  Amendments to Gas Transmission Charging Regime – Treatment of Storage  UNC0678F:  Amendments to Gas Transmission Charging Regime – Treatment of Unprotected Entry Capacity Storage | |  |
| **Purpose of Modification:**  The purpose of these Modification proposals is to amend the Gas Transmission Charging regime in order to better meet the relevant charging objectives and customer/stakeholder provided objectives for Gas Transmission Transportation charges and to deliver compliance with relevant EU codes (notably the EU Tariff Code). | | |
| Description: Description: YES_GREEN | The Workgroup recommends that this modification should be:   * subject to Authority Direction.   In line with the Urgent timetable agreed with the Authority for Modification 0678, the Workgroup Report will be finalised at the last Workgroup on 06 March 2019.  The Draft Modification Report will be issued for consultation on 08 March, representations can then be made as usual, with consultation close out on 05 April 2019.  The Final Modification Report will be made available to UNC Modification Panel on 12 April 2019 for consideration at the scheduled UNC Modification Panel meeting on 18 April 2019.  The Final Modification Report with the UNC Modification Panel recommendation will then be issued to Ofgem for their ultimate consideration on 23 April 2019. | |
| Description: Description: High_Impact | High Impact:  All parties that pay NTS Transportation Charges and / or have a connection to the NTS, and National Grid NTS. | |
| Description: Description: Low_Impact | Medium Impact:  N/A | |
| Description: Description: Medium_Impact | Low Impact:  N/A | |

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| Contents  1 Report structure and how to use the report 3  2 Introduction 4  3 Comparison table: Differences between Modifications 0621 and 0678 7  4 Workgroup Impact Assessment 10  5 Relevant Objectives 31  6 Legal Text 38  7 Recommendations 39  Appendix 1: Impacts of Proposal on NTS Capacity Auctions 40  Timetable   |  |  | | --- | --- | |  | | | **The Proposer recommends the following timetable:** | | | Ofgem decision on urgency | 25 January 2019 | | Workgroup 1 - “Approach. Compliance” | 29 January 2019 | | Workgroup 2 - “Integration of RPM, FCC, Revenue Recovery and existing contracts” | 31 January 2019 | | Workgroup 3 - “Multipliers and Discounts. ‘Shorthaul’ approach” (part of NTSCMF) | 05 February 2019 | | Workgroup 4 - “Compliance. FCC” | 11 February 2019 | | Workgroup 5 - “Non-transmission charges. Final overview” | 13 February 2019 | | Workgroup 6 - “Workgroup Report” | 14 February 2019 | | Workgroup 7 - “Workgroup Report” | 18 February 2019 | | Workgroup 7a | 20 February 2019 | | Workgroup 8 - “Workgroup Report” | 25 February 2019 | | Workgroup 9 - “Workgroup Report” | 27 February 2019 | | Workgroup 9a | 28 February 2019 | | Workgroup 10 - “Workgroup Report. Compliance” | 04 March 2019 | | Workgroup 11 – “Finalise Workgroup Report” | 06 March 2019 | | Draft Modification Report issued for consultation | 08 March 2019 | | Consultation Close-out for representations | 05 April 2019 | | Final Modification Report available for Panel | 12 April 2019 | | Modification Panel decision | 18 April 2019 | | Final Modification Report issued to Ofgem | 23 April 2019 | | **Any questions?** |
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1. Report structure and how to use the report

Workgroups have been well attended with wide industry participation. Workgroup has met frequently to develop and discuss these proposals. Managing the number of Alternative Modifications (and amendments to these), combined with the timescales for delivery of the Workgroup Report to the Modification Panel, in line with the Urgent timetable agreed for Modification 0678 has constrained some aspects of debate.

It has therefore been necessary to produce this Workgroup Report in a different way to what is normally presented.

The Workgroup Report is divided into two parts. Part I is the overarching Workgroup Report containing all the key material relating to Modification 0678 and the x Alternative Modifications (0678A, 0678B, 0678C, 0678D, 0678E, 0678F xxx). The content for this section comprises the following:

* How to use the report, including navigation;
* Comparison Tables – an ‘at a glance’ comparison of the key elements of Modification 0678 and the Alternative Modifications and how they relate to Ofgem’s views on 0621;
* Key Issues – provides Workgroup analysis and views of the key regime changes and differences in the proposed approaches;
* Relevant Objectives – contains the Workgroup assessment on how the Modifications better facilitate the objectives;
* Workgroup Conclusions and Recommendations; and
* Definitions.



NOTE NEED 0678 version of this diagram above.

Part II provides an individual Workgroup Report for each Modification containing all the information specific to that Modification. The content of each Part II report comprises the following:

* Modification (including Solution)
* Proposer’s Analysis – Where provided by each proposer or National Grid to illustrate the impact of the Modification. Workgroup will review the additional information in these Part II reports wherever possible, noting time constraints inherent in the timetable.
* Relevant Objectives – As provided by each proposer in the final version of their Modification.
* Legal Text – This will be published as a separate document. Workgroup is keen to review the final legal text for all of the Modifications wherever possible.

1. Introduction

National Grid submitted Modification 0678 to the Authority on 17 January 2019 for consideration of Urgency; Ofgem published its decision granting Urgency and agreeing with the proposed timetable on 25 January 2019. The aim of the Modification was to design an amendment to the gas charging regime to better meet the relevant charging objectives and customer/stakeholder provided objectives and deliver compliance with the forthcoming EU Tariff Code (Regulation 2017/460).

Modification 0678 and all of its alternative Modifications 0678A, 0678B, 0678C, 0678D, 0678E, xxx, and 06xxx aim to replace the current charging methodology, which is based on Long Run Marginal Cost (LRMC).

Modification 0678 and xxx alternative Modifications 0678B, xxx and xxx all propose Capacity Weighted Distance (CWD) as the replacement methodology. Modifications 0678A and xxx proposes Postage Stamp (PS) instead.

Whilst the underlying methodology of CWD or PS is proposed across the Modifications, these proposals also include additional charges/aspects that make up the overall charging framework for GB Transportation Charges. These include those charges for managing revenue recovery. These changes may be significant. (For further information regarding System Changes see Section 7).

#### Definitions

Table 1 gives a definition of terms used in these Modifications.

Table 1: Definitions used in the Modification

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| **Term (Abbreviation)** | **Description** |
| **Capacity Weighted Distance (CWD) Model** | The CWD approach fundamentally requires three main inputs:   * A revenue value is required, which will be the target revenue required to be recovered from Transmission Services; * A distance matrix for the average connecting distances on the NTS; and * A capacity value for each Entry and Exit point that will be the Forecasted Contracted Capacity (FCC) (which is mentioned later in this section).   The CWD model produces the Transmission Services Reference Prices and with additional adjustments produces the Transmission Services Reserve Prices. |
| **Effective Date** | The later of:   * the last day of the month in which Ofgem issues its letter directing implementation of this Proposal; and * 31 May 2019 |
| **Existing Contracts (ECs) (for the purposes of this Modification)** | Arrangements relating to Long Term Entry capacity allocated before 06 April 2017 (Entry into Force of EU Tariff Code) |
| **Forecasted Contracted Capacity (FCC)** | The capacity input to the RPM that will be used in the Transmission Services capacity charges calculation that will be determined via a CWD methodology. An FCC value is required for every Entry and Exit point. |
| **Long Run Marginal Costs (LRMC) Model** | The current underlying RPM used in the calculation of the Entry and Exit Capacity Prices. Whilst there are different approaches in Entry and Exit as to how secondary adjustments are applied, the underlying LRMC principles are there in both. The LRMC approach is an investment focused methodology where the intention is to have strong locational signals to facilitate decision making. More information is available in TPD Section Y of the UNC. |
| **Multipliers** | The factor applied to the respective proportion (runtime) of the Base Reference Price in order to calculate the Reference Price for non-yearly standard capacity product |
| **Network Distances (for the purposes of modelling in the RPM)** | A matrix of distances used in the RPM that are the pipeline distances on the NTS. |
| **Non-Transmission Services** | The regulated services other than transmission services and other than services regulated by Regulation (EU) No 312/2014 that are provided by the transmission system operator; |
| **Non-Transmission Services Revenue** | The part of the allowed or target revenue which is recovered by non-transmission tariffs |
| **Reference Price** | Price for a capacity product for firm capacity with a duration of one year, which is applicable at entry and exit points and which is used to set capacity based transmission tariffs. This will produced in p/kWh/a (pence per kWh per annum). |
| **Reference Price Methodology (RPM)** | The methodology applied to the part of the transmission service revenue to be recovered from capacity based transmission tariffs with the aim of deriving Reference Prices. Applied to all entry and exit points in a system.  The RPM therefore is the framework to spread certain costs / revenues (relevant to the methodology in place) to the Entry and Exit points and thereby on to network users. |
| **Reserve Price** | **Reserve Price for Yearly standard capacity** = the Reference Price  **Reserve Price for Non- yearly standard capacity** is calculated by applying any Multipliers (if applicable).  This will be produced in p/kWh/d (pence per kWh per day). |
| **Target Revenue** | This is the revenue required to be recovered from a particular set of charges. |
| **Transmission Services** | The regulated services that are provided by the transmission system operator within the entry-exit system for the purpose of transmission. |
| **Transmission Services Revenue** | The part of the allowed or target revenue which is recovered by transmission tariffs. |
| **Transportation Statement** | The Transportation Statement containing the Gas Transmission Transportation Charges |

1. Comparison table: Differences between Modifications 0621 and 0678

The Comparison Table is published here: http://www.gasgovernance.co.uk/0678/Comparison

The following comparison table has been developed to show the differences between Modification Proposal 0621 (which was rejected for implementation by Ofgem in late 2018) and these Modification Proposals (0678/A/B/C/D/E). A rationale is provided for those elements where a different approach has been taken by any current Modification and extracts have been included from Ofgem's decision letter for 0621 which evidence the compliance concern. Blue cells show variation in treatment of that element from UNC Modification Proposal 0678. Workgroup thanked National Grid for its initial work to provide this useful table.

The comparison table has been used to aid in the formulation of the key issues section and the production of the legal text, especially where alternatives differ from the original National Grid UNC0678 proposal.

Note: The table is presented in two halves for legibility.



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1. Workgroup Impact Assessment

The table below sets out the key issues and differences as highlighted by the comparison table (4.1 to 4.8). Additional issues have also been identified through Workgroup discussions and these are added to the table (4.9 onwards). The Workgroup have provided an assessment of each of these issues in order to provide rationale for the approach taken. Where relevant the report also captures Workgroup participants’ views on the issues and any impacts on the Relevant Objectives.

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| **Issue Reference** | **Charging Regime Element** | **Issue Description** | **Commentary/dates** |
| 4.1 | **Approach** | * General * Ofgem input | done |
| 4.2 | **Integration of RPM, FCC Revenue Recovery and Existing Contracts** | * Use of Capacity Weighted Distance (CWD) and Postage Stamp over the current LRMC methodology * Revenue Recovery * Revenue Recovery and Existing Contracts | Done? |
| 4.3 | **Forecasted Contracted Capacity** | * Assessment of methodologies * Treatment of existing capacity * Methodology location * Methodology governance |  |
| 4.4 | **Multipliers** | * Multiplier of 1.0 (year 1) and approach to setting it in future years (stay as 1.0 or subject to consultation) |  |
| 4.5 | **Interruptible Discount** | * 10% (year 1) and approach to setting it in future years (stay as 10% or subject to consultation) and Exit interruptible at 100%. |  |
| 4.6 | **Specific Capacity Discounts** | * Storage Discount - 50% or 80% |  |
| 4.7 | **NTS Optional Charge** | * Assessment of methodology where applicable |  |
| 4.8 | **Legislative Compliance with EU TAR NC 2017/460[[1]](#footnote-1)** | * Applicability of Articles * Concerns raised on specific areas on compliance * Cost Allocation Assessment |  |
| 4.9 | **Topics raised in Ofgem rejection letter on 0621[[2]](#footnote-2)** | * Interim contracts (done) * Transition (done) * NTS Optional Charge (done) * Multipliers and zero prices? * Cost reflectivity * Location signals * Regulatory Impact Assessment * ‘PY extra titles’ |  |
| 4.10 | **Relevant Objectives** | * Standard Relevant Objectives * Charging Relevant Objectives | Nothing yet |
| 4.11 | **Periodic process to determine Parameters and information publication** | * No periodic consultation process outside of UNC change process proposed * All values under Article 26 of EU Commission regulation 2017/460 subject to UNC change process if or when considered necessary | Is this needed? |
| 4.12 | **General Non-Transmission Services Charges** | General Non-Transmission Services Charges are net of any:   * St Fergus Compression charge * DN Pensions Deficit charges * NTS Meter Maintenance charges * Shared Supply meter point administration charges * Interconnection Point Allocation charges * General Non-Transmission Services Charges - Flow based for non-IPs (except non-own-use at storage) Flow based for non-IPs (except non-own-use at storage) | done |
| 4.13 | **K Principles and adjusting revenues in subsequent years** | * Transmission Services K to be split between Entry and Exit   + Entry K to feed into Entry charges   + Exit K to feed into Exit charges * Non-Transmission K to be aggregate value – no split between Entry and Exit | Nothing yet |
| 4.14 | **Impact Analysis** | * Geographic distribution effects (see also section 4.17 DN Impacts). * User type effects * ‘Outlier’ charges? * Security of Supply and NBP impacts   Other TBC | How to populate this section? |
| 4.15 | **DN Impacts** | * Analysis, observations and concerns on potential charge changes. | Is this different to geographical distribution effects? If so need a DN User to help and supply material |
| 4.16 | **Implementation timings** | * Feasibility * Highlighting how the decision date may impact the charging arrangements for capacity, specifically for QSEC and AMSEC 2019. |  |
| 4.17 | **Independent Assurances on the development of any new Charging Models** | * Commentary on illustrative models is available and recognition of the need for assurances prior to using any charging model in setting actual charges. | Commentary to be supplied by NG and reviewed by WG |
| 4.18 | **Comparisons between the Modifications** | * Summary of comparisons between the Modifications on key areas and potential outcomes of the proposals. * Assumptions made. * Reference material for models and data. * Summary of outcomes. | Is this needed? |
| 4.20 | **Central Systems Impacts** | * Timings * Costs * Updates | Need material from Xoserve/National Grid project |
| 4.21 |  |  |  |
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## **Approach 29 January 2019**

Alternatives will be treated in accordance with the Modification rules 6.4.

Bearing in mind the timetable specified in the Ofgem decision letter for 0678, Alternatives will be sent to UNC Modification Panel for consideration as to whether they are a true Alternative to 0678.

Ofgem noted that potential Alternatives should be well formed, properly considered and brought forward in a timely manner; supporting evidence should be included. Ofgem urges Proposers to act responsibly in this regard in order to ensure GB compliance.

Timing of both analysis and Legal Text will have a critical impact on the ability of Workgroup to complete the Workgroup Report. Workgroup noted that the decision on 0621 highlighted that the Workgroup Report should *contain* sufficient analysis.

Workgroup noted that analysis for shorthaul relies on confidential data held by National Grid. National Grid invited potential proposers of Alternatives to discuss this with National Grid.

Reference table of current prices will be provided by National Grid. (Action?)

Workgroup participants noted that if proposers of Alternatives produce indicative charges generated for their Modification, it removes the objectivity which National Grid would potentially provide.

Workgroup participants noted final charges for all Modifications over the next 3-4 years would be helpful to be produced to put in the Workgroup Report.

Workgroup intended to review FCC methodology draft proposal on Thursday 31 January 2019 alongside a sensitivity model which can be used to replicate the prices. This was not available for discussion at the Workgroup meeting on 31 January 2019. The sensitivity model for 0678 (CWD) will be available w/c 4 February 2019.

Workgroup participants noted that impacts on customers will be covered in the Workgroup report and will not necessarily be provided by National Grid but is also expected to be covered by any Ofgem Impact Assessment.

Workgroup participants asked for clarification on the effect of transfer of title - traded historical capacity contracts (for capacity bought before April 2017) and whether they would attract revenue recovery charges (who is the liability holder)? (Action)

National Grid clarified on 05 February 2019 that if contracts were traded before entry into force of TAR NC (06 April 2017) then revenue recovery would continue; if contracts are traded after this date then the revenue recovery charge will apply.

**Approach update 05 February 2019**

Some Workgroup Participants noted that Modifications should be properly formulated and should not include blank spaces. This means that some Modification Proposals will need to wait until National Grid releases data. National Grid have indicated it will deliver both the model and FCC methodology by 08 February 2019. Some Workgroup participants indicated they would be waiting until after that date in order to formulate and submit an Alternative.

The Proposer of 0678A indicated that his Modification will be the same as 0678 in all respects except the use of the Postage Stamp.

**Input from Ofgem 29 January 2019**

Ofgem will be preparing for an impact assessment (IA) and will then consider at the point at which the FMR is received whether in fact an IA is required.

Ofgem will endeavour to give feedback to the Workgroup as it goes along, regarding the DMR and FMR.

Ofgem noted on the subject of implementation that in the 0678 decision letter, industry is required to ensure GB compliance with TAR NC and any other relevant legislation as soon as possible. (Implementation by 31 May 2019 or as soon as possible is the target). Some Workgroup Participants recognise this is likely to be after 31 May 2019, since Ofgem will likely need to come to a minded-to decision possibly involving an IA, given TAR NC requirements for 2 months consultation followed by 2 months for ACER feedback, followed by Ofgem’s final decision.

Workgroup noted that a notice period for advising of prices is required. Ofgem advised it will decide on this at a later point.

Some Workgroup participants asked if the date from which charges take effect could be 01 October 2020, noting that contracts tend to start at the start of a Gas Year.

Workgroup participants discussed Implementation date vs Effective date and some Workgroup participants noted the busiest time is March for the following Gas Year beginning 01 October. Some Workgroup participants stated, for the market to have confidence it seems sensible to have an effective date of 01 October 2020. Ofgem noted this observation.

Thus, on 29 January 2019, Workgroup 0678 requested a formal View (reference Modification Rules 12.8) from the Authority. The topics where a View was requested are:

* The feasibility of achieving 01 October 2019 implementation date
* The impact of not achieving this date, and
* The requirement to be compliant as soon as possible.

Some Workgroup Participants felt there is no clarity as to when charges from the new methodology will take effect. Will charges from the new methodology take effect ***within*** the Gas Year 2019/2020?

Some Workgroup Participants felt that while mid-year changes are allowed, it was important to have charges based on one given charging methodology for the duration of the Gas Year e.g. 01 October 2019 to 30 September 2020. This would avoid significant within-year changes in charges producing stability within the contract year and allows for the normal publication timings, giving 150 days’ notice. Note that this is indicative notice, 2 months is the usual notice for final charges and less is required for some auctions. (DH 31 Jan 2019) National Grid stated that mid-year changes to capacity charges would most likely require a derogation form the licence.

Other Workgroup Participants did not agree, noting that GB will not be compliant if GB does not have TAR NC compliant charges effective 01 October 2019.

A Workgroup participant noted that in the Netherlands, TAR NC has been implemented with charges taking effect from 01 January 2020. For the Netherlands this is the beginning of the Tariff year. According to Article 38 a compliant methodology shall apply from 31 May 2019.

National Grid referred to the words stated in the implementation section of its Modification 0678; this is also in 0678A.

Workgroup participants discussed financial implications of any potential infringement proceedings, which Ofgem indicated would be against GB. Ofgem noted the case of Frankovich v Italy for damage claims[[3]](#footnote-3).

From a systems perspective, Xoserve stated that implementation and effective dates are very important; any Alternatives must take this into account.

**Comparison of CWD and PS**

Workgroup noted that Ofgem said in its rejection letter of 0621 that:

*“… both Postage Stamp and CWD are better approaches to the recovery of network costs than the status quo. This is because all Users who benefit from access to a safe reliable flexible gas transmission network would more equally share the costs of the network in proportion to their ability to use it.”*

Table 2: CWD Key Elements and Issues

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| **CWD** |
| **Key Elements**   * CWD uses capacity and distance in combination which more closely reflects the TAR NC Article 8 counterfactual. * It allocated revenue on the above basis. * Three fundamentals are combined: Forecasted Contracted Capacity, Allowed Revenue and the average distance between Entry and Exit points. * Article 4.1 of TAR NC recognises that distance is a cost driver for transmission services alongside technical or forecasted contracted capacity. * The assumption is made that gas can from to/from every Entry Point to every Exit Point. * CWD retains a locational signal. * Distances are the average shortest network path between all Entry and Exit Points because it is not a flow-based model. |
| **Issues**   * Most points at the extremities of the network have higher charges than those in the relative centre (and those derived in the LRMC). This is due to the methodology which does not reflect proximity to the nearest entry point. * Ofgem have identified an issue for consumers in their 0621 rejection letter relating to higher costs for consumers located in more remote locations. * The locational signal may have behavioural consequences which are unlikely to provide any short term cost savings and could distort investment signals * Distances are averaged which does not reflect physical flows on the network. * Forward looking investment signals are not provided in CWD. |

Table 3: PS Key Elements and Issues

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| **PS** |
| **Key Elements**   * PS uses Forecasted Contracted Capacity and allocates Allowed Revenue on this basis. * All prices at Entry Points are uniform. * All prices at Exit Points are uniform. * PS does not produce a locational signal. * PS is not designed to be cost reflective, rather it is aimed at cost recovery. * PS is a simpler methodology than LRMC and CWD. * PS is broadly consistent with the ongoing Electricity TCR – only for the treatment of residual charges and the recovery of historical sunk costs[[4]](#footnote-4). |
| **Issues**   * Without locational signals, customers have no incentives as to where to locate efficiently, with respect to costs they would impose on the network, specifically power stations (taking into account Electricity Charging is locational and could be inconsistent)[[5]](#footnote-5). * PS is not designed to give locational signals. * Forward looking investment signals are not provided in PS. |

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| **Additional Elements/key variants** |
| **Key Elements**   * Optional charge |
| **Issues** |

**Consider Ofgem five principles as stated in 0621 rejection letter:**

* + - 1. Reproducibility – network users should know the methodology to derive tariffs and should be able to reproduce the tariff calculations;

1. Cost-reflectivity – tariffs should reflect the costs incurred by the TSO;
2. Non-discrimination – to the extent possible, NRAs should avoid cross-subsidies where some network users pay for others;

* All Entry Users pay the same price and all Exit Users pay the same price and therefore some Workgroup participants believe it can be argued that there is a degree of cross subsidy and discrimination because Users are not paying roughly in proportion to the costs they create on the gas network.

 Volume risk management – this is to ensure that significant volume risk is not assigned to final consumers;

 Non-distortion of cross border trade – the RPM should ensure non-distortive economic signals for cross-border trade.

**4.2 Integration of RPM, FCC, Revenue Recovery and Existing Contracts**

31 January 2019

20 Feb 2019

Some Workgroup participants questioned the need for such a complex method of calculating prices, referring to the second calculation run to adjust reference prices to cater for anticipated revenue under recovery arising from Storage and interruptible capacity discounts. Proposers of Modifications were asked to consider providing more clarity as to why their methods have been chosen. Some Workgroup participants challenged this CWD approach on distortion grounds, since they felt it was a revenue recovery reference price adjustment being recovered through geographically different charges rather than a flat (‘postalised’) approach, noting that this is done at Exit currently.

It was clarified that at this point all Modifications calculate an adjustment within the RPM for the anticipated shortfall of interruptible and storage discounts (and in the case of Modification 0678B, any anticipated under recovery from the application of the Optional Capacity Charge) which is calculated in the same manner. It was clarified that this is effectively re-scaling (Article 6.4c). However, the impact for CWD and PS methodologies is different.

The Workgroup considered the current arrangements, the principle drivers, tariff year modelling, allowed revenue and netting-off of allowed revenue for existing contracts,

Some Workgroup participants believed there would be some distortion in charges between contract prices and “new” capacity prices as a result of netting-off allowed revenue for existing contracts. It was noted that the TAR NC does not cover how to treat existing contracts within the RPM. Consideration needs to be given to the interaction between under recovery of costs and the revenue recovery approach.

Some additional considerations will be required, to understand the value for existing contracts (netting-off allowed revenue). Some Workgroup participants believed there was a need for a mechanism to allow more equitable revenue recovery via the revenue recovery charges.

Some Workgroup participants requested clarification from National Grid on their 0678 Modification Proposal as to the treatment of netting-off existing contracts volume and revenue, against Ofgem’s views in their Modification 0621 Decision Letter (appendix page 15 – price differentials).

A Workgroup participant noted that other EU TSOs do not net off within the FCC value. It was also noted that these TSOs do not offer fixed prices as is the case within GB. For estimated under recovery approaches can include or exclude existing contract revenue recovery. Itwas believed a commodity recovery charge would be consistent with TAR NC and was not explicitly ruled out in the Modification 0621 Decision.

One Workgroup participant believed that the Workgroup needs to consider the impact of including existing contracts in the weighting of cost step in the RPM calculation;

The Workgroup acknowledged there would be a price difference as a result of Article 35. Some Workgroup participants wanted to understand the materiality of this and where the residual charges would reside.

Some Workgroup participants clarified that under the current regime, existing capacity contractspay a commodity based Revenue Recovery Charge only if the capacity is utilised. Under Modification 0678, it is proposed that in the new regime a capacity based Revenue Recovery Charge will apply on existing contracts, with the exception of existing storage contracts, regardless if the existing capacity is utilised or not. There is concern that the proposal may not be compliant to TAR Article 35

Some Workgroup participants believed there was a need to review capacity hand-backs.

**0678A**

It was noted by the Workgroup that the intent of Alternative 0678A is for it be aligned with Modification 0678 apart from the weightings and distance.

**Revenue Recovery 31 January 2019**

A Workgroup participant noted that the Distribution Networks (DNs) are currently not exposed to a commodity charge but under Modification 0678 they would pick up a capacity recovery charge in the future, along with other Users.

The Workgroup considered the K Factor and the process of adjustments.

A Workgroup participant expressed concern about within year recovery and the volatility in tariffs. It was noted that National Grid have an incentive to forecast accurately and limit the use of K. It was challenged why the industry should be subject to the volatility of inaccurate information created by National Grid. It was recognised that National Grid should minimise the exposure as any forecasting error is pushed onto Shippers, and Users will see a change in prices for any error. The Workgroup considered the elements that factor into the forecast and the flexible sources, for example the long-term forecast will be dependent on production and the difficulty to derive charges.

National Grid drew the attention of the workgroup to its Licence obligation to set charges to not under or over recovery in any given formula year and it has the ability to set revenue recovery charges to help facilitate this.

Some Workgroup participants noted that the provisions in 3,28 and 3.29 were not clear enough. (26 February 2019).

**Revenue Recovery and Existing Contracts 31 January 2019**

One Workgroup participant believed that the Modification 0678’s Solution does not cover a revenue recovery charge for the storage solution.

The Workgroup considered abandoned storage capacity, and that Modification 0662 held the liability of capacity, and dependent on the qualification, charges were not attracted.

National Grid was not proposing to change the capacity process. The Workgroup considered if a Capacity Handback concept would be a valid Alternative or not.

Ofgem stressed that any Modification needs to be compliant with TAR NC.

National Grid recognised that abandoned capacity needs to be dealt with, however this was out of scope for this Modification and could be addressed after the implementation of changes. There was recognition that it was unfair treatment of capacity for this purpose, however this could be remedied at a later point.

The Workgroup considered the Storage Long Term entry capacity if traded before April 2017 and deduced it will not attract the top-up charge.

**Secondary Trade of Existing Capacity 20 February 2019**

Workgroup considered the effect on capacity which has been traded in a secondary manner. National Grid confirmed that tracing capacity trades will be a challenge for Gemini.

A Workgroup Participant suggested that since National Grid has tracked capacity for storage until 06 April 2017, asking whether the same process be applied to other capacity traded before 06 April 2017.

0678/A/B protect secondary traded capacity up to 06 April 2017 from the application of the revenue recovery charge for storage sites.

0678B protects secondary traded capacity up to 06 April 2017 from the application of the revenue recovery charge for all existing contracts.

0678/A/B does not protect secondary traded capacity for all existing capacity contracts made after 06 April 2017.

0678C provides protection for pre-existing storage capacity (prior to 06 April 2017) for all future secondary trading.

The mechanism for determining who is protected (prior to 06 April 2017) is the same for both Modifications 0678 and 0678B. (0678C confirmation?)

PY suggested justification and assumptions for FCC/RPM here (for Article 26)

0678C and Revenue Recovery

The Proposer of 0678C explained that the exclusion of revenue recovery charges at Storage points which has not been booked for “own use gas” purposes is consistent with the findings of Ofgem in its Gas Transmission Charging Review on the basis that flows to and from storage (or capacity booked at an entry to deliver gas to, or an exit point to ultimately offtake from) have already made a contribution to historical cost recovery.

The Proposer of 0678C explained further that this exclusion ensures the charging structure accommodates common practice of storage operators in relation to the acquisition and subsequent release of entry capacity to Users of their facilities. In a number of cases, entry capacity at storage facilities will have been acquired by a nominated shipper user, often to trigger National Grid investment to build and release the required volume of capacity. The sale of storage services by operators is often bundled with the transfer of entry capacity from the nominated shipper holder of entry capacity to the entity acquiring storage services. If a Revenue Recovery Charge is applied to Existing Capacity transferred at any time after the 7th April 2017 “cut-off date” then, in the case of UNC 0678, the acquiring User would be subject to a Revenue Recovery, on the basis that it is not the original holder of the Existing Capacity. This approach will result in the additional costs being incurred by the storage operator and is, quite clearly discriminatory. The charging arrangements should not differentiate between Users, using the same product, but acquiring indirectly via a third party. for example, the storage operator not being a UNC registered User.

Some Workgroup participants noted that 0678C, 0678E and 0678F do not provide protection for all storage facilities in particular they don’t provide for a) Rough (Easington) and existing entry capacity explicitly bought for Rough when it was a Storage facility and b) Abandoned Storage at Bacton and as such appear to discriminate between one class of Storage and other classes. Workgroup participants noted Modification 0662 has not yet been finished nor implemented and of course is separate to 0678.

Other Workgroup participants noted that Rough has now been defined as a production site.

The Proposer of 0678C explained further that Storage is exempt from Revenue Recovery charges in line with Ofgem’s GTCR position. All other contracts are exposed to revenue recovery charges including pre-April 2017 contracts. This is permitted because the separate revenue recovery charge is not a reserve price fixed at the time of booking. (This is similar to the existing charging regime where a fixed capacity price is paid and a floating commodity price applied to recovery all of the transporter’s allowed revenue.). Failure to apply a revenue recovery charge to these existing contracts will result in distortion and discrimination between existing contract holders and new entrants which will have a negative impact on competition, as noted in Ofgem’s 621 decision letter which identifies a large differential in pricing between them.

Workgroup participants noted that this means that for 0678C Storage is treated as a special class and requested clarification from National Grid as to whether this tagging of secondarily traded contracts is feasible and whether the business rules have been clarified for this.

#### 4.2 RPMs and Incremental Capacity

Workgroup participants noted that both the CWD and the PS approaches remove the LRMC approach from the UNC therefore they do not provide investment signals related to the transmission network. Both are cost allocation models and neither are cost reflective in regards to incremental capacity and any subsequent NTS investment required.

Workgroup participants noted that Ofgem’s rejection letter for 0621[[6]](#footnote-6):

*“Our current view is that the three RPMs proposed by the UNC621 modifications (other than the elements we have compliance concerns about) are better approaches to the recovery of network costs than the status quo. This is because all users who benefit from access to a safe, reliable, flexible gas transmission network would more equally share the costs of the network in proportion to their ability to use it.”*

#### 4.3 Forecasted Contracted Capacity

**31 January 2019**

The Workgroup noted that the initial Forecasted Contracted Capacity (FCC) was provided with the sensitivity tool on Friday 21 February, published on Monday 25 February 2019, with a single set of FCC values for each year along with the methodology to derive it.

Some Workgroup participants wished to have more clarity on the options available for how to incorporate PARCA Reservations and new sites, further noting that PARCA should be considered as enduring contracts within the proposed FCC methodology.

Some concern was expressed about the possible variations for the Principles. The Principles should be also be a fair and equitable distribution of costs for users. The Workgroup believes there were a number of options that could be considered, for example, what is booked, what is paid for and what is flowed against. The Workgroup wished for further clarity on the Principles and how these will be applied, within the methodology.

The Workgroup wanted to understand the timing for the provision of the methodology with some expressing the view that it should be set out in the UNC. Some participants expressed concern about the timing of the visibility of the FCC values to allow an appropriate impact assessment. National Grid expects the methodology to accompany the UNC consultation (which according to the timetable should begin on 08 March 2019), along with clarity on the approach.

Some Workgroup participants believed that further clarity was required on forecasting flows along with actual data to date to demonstrate accuracy of previous forecasts. The Workgroup recognised that there is opportunity for error. The Workgroup wanted to understand the size of the potential error/tolerance in historical forecasts of flows.

A Workgroup participant suggested Shipper inputs into flows should be required. Inputs and contributions were invited from any workgroup participant.

National Grid was concerned about the flexibility and change governance with tying wholly into the UNC, as it was anticipated yearly changes may be required to enable periodic reviews. Some Workgroup participants expressed concern with the level of control and visibility for change. It was noted by some that any forecast will have a degree of error and having a methodology statement may be preferable initially over an approach in the UNC.

Noting the existing governance for the methodology statements, Ofgem have had the view they wished to limit their involvement in changing these, with suitable justification for any required Ofgem involvement.

A participant expressed concern about not having the FCC methodology (as at 31 January 2019) and that this could hinder the development and assessment of potential Alternatives.

**11 February 2018**

A sensitivity tool (spreadsheet) for analysis of Modification 0678 from National Grid was published on Saturday 09 February 2019.

As at 11 February 2018, National Grid had not yet written the FCC Methodology therefore Workgroup discussed the information given which was an initial approach to the FCC methodology.

National Grid noted that the FCC is not defined in TAR NC. The values to be used are a hybrid of historical (preceding year) and forecasted values.

Workgroup Participants on 11 February 2019 had input into the following suggested assumptions/points for consideration for use in the FCC calculations:

* PARCAs reserved capacity and substitution consequences need to be added in.
* When assessing ‘maximum of…’, consideration must be given to the Obligated Capacity as adjusted for substitution.
* Clarification required as to how forecasted values relate to those values given in the various FES scenarios.
* Clarification of treatment of new entry and exit points (possible use of proxy) and points due for closure.
* Consider five-year historical data (for each day: maximum and minimum values to be discarded then average of the three remaining).
* DN 1 in 20 forecast capacity booking for each offtake point (this data is not currently publicly available; July refinement timing of this data may not be suitable).

Workgroup Participants noted Ofgem’s 0621 letter reflecting that the values being proposed must meet the criteria: actual utilisation and capacity bookings.

Workgroup agreed that the current plan is an improvement on using obligated capacity.

FCC data for 5 years from October 2018 (for each of entry and exit) can be found by unhiding the relevant sheets.

The forecast is a consolidated view of the FES forecasted scenarios (<http://fes.nationalgrid.com/fes-document/> ).

PARCA reservations (stage 2, full booked capacity) for forward looking years will (eventually) be included. (PARCA substitution?)

An average value for xxx is used as the forecast.

Three datasets: Peak, P90 and P50 have not been used. Average has been chosen.

Capacity sales – preceding single completed Gas Year.

Interruptible capacity will be taken into account for transmission services revenue recovery.

Some Workgroup Participants noted that as at 20 February 2019 there is no National Grid – developed FCC methodology available which severely limits the opportunity to develop an Alternative FCC solution and therefore it was requested that an extension be sought. Others did not agree.

Ofgem confirmed that there was no intention to adjust the timeline.

Some Workgroup participants asked for clarification on what would happen if Ofgem’s final decision is appealed or Judicial Review sought, would the decision stand whilst the appeal continues. Ofgem suggested Workgroup participants engage with their own legal Counsels on this question.

04 March 2019

Some Workgroup participants noted information supplied by Energy UK relating to Storage sites, Interconnector UK and BBL Interconnector that the forecast FCC values for storage sites, IUK And BBL are absent in the sensitivity tool. This does not seem to reflect that there are ex0ected to be Exit flows at these points during a year. Action 06 – 0403 NG to review the forecast elements of the FCC values for storage sites, IUK and BBL.

Workgroup participants noted information supplied by Energy UK relating to Closed sites (Avonmouth, Deeside, Glenmavis, Dynevor, Partington and there may be others). Workgroup noted that these sites have historic flows in 2017/18 so these keep rolling forward for the next 5 years and question whether this is the correct assumption to use. Workgroup sought clarity from National Grid as to how this issue of closed sites could be better handled within the FCC Methodology, noting the impact is that an ability to forecast charges for future years is somewhat limited. Energy UK suggested it may be better to only use the Y-2 values, or some kind of average across a number of years but this should be a moving average. Action 07 – 0403 NG to review a) the treatment of closed sites and b) the effect on the FCC Methodology and the potential for adaptation in treatment of these sites in the FCC Methodology.

Workgroup participants noted information supplied by Energy UK relating to sites with PARCA stage 2 reservations. These appear where the site is an existing site, if the site is new the values are absent. Reservations exist from 2020 or 2021. (Drax 65 GWh, Eggborough 102 GWh, Tilbury Marshes 21 GWh, Hirwuan 28 GWh, Ferry bridge 80 GWh, Keadby 2 41 GWh, there may be others). Total 337 GWh or around 6% of FCC in those years. Those sites are therefore unable to use the model to produce an estimate of their charges as per Article 7a, other sites’ charges will be higher than they should be. Workgroup participants noted that National Grid had indicated it would be accommodating these sites/PARCAs and expected to see these in the distance matrix from the relevant year. Confirm Action number.

**FCC not in UNC: (26 February 2019)**

Some Workgroup participants noted concerns over the potential for the FCC to be changed too frequently and there is a trade-off to be considered between certainty and flexibility**.**

[Some Workgroup participants noted that the lack of reference of the forecasted contracted capacity methodology within the UNC creates a governance void in respect of the statement. (26 February 2019)]

[Reference to consultation and Ofgem veto is missing in modification 0678 v2]

**FCC and treatment of closed sites (05 March 2019)**

(For example Theddlethorpe, Avonomouth, Dinevor Arms)

All Workgroup participants noted that the treatment of these sites should be addressed formally in the FCC Methodology; if they are left in at a non-zero FCC value there will be a distortion to the prices, albeit probably small. Workgroup requested that the FCC Methodology reflect the situation in reality as closely as possible.

Workgroup discussed whether National Grid should be given some discretion as to the treatment of closed sites in the FCC Methodology and concluded that clarity in the treatment and consistency going forward was required (noting that the FCC Methodology is expected to be in place indefinitely, with a periodic review).

Workgroup noted that as of 05 March 2019 the FCC Methodology Statement had not yet been put before Workgroup (and not therefore published by National Grid).

National Grid noted for Workgroup that as at 05 March 2019, the sites will be zero’ed out in the sensitivity model and the materiality of this will be noted; closed sites will not be removed from the model. A sense check / adaptation will be considered and may be included in the FCC Methodology Statement. Action 06-0403

**FCC values for values for Storage Sites Interconnector UK and BBL**

Workgroup participants noted that a zero value for these sites should not be correct and asked National Grid to review the forecast elements of the FCC values for Storage Sites Interconnector UK and BBL. National Grid clarified on 05 March 2019 that no forecast values exist for these and this will continue. This is because the forecast in the Ten Year Statement is zero for these sites (average daily value is used).

Some Workgroup participants noted that anticipated booking should be reflected in the FCC Methodology. Interconnector UK acknowledged that this is a difficult issue.

Action 05-0403

#### 4.4 Multipliers (Article 13 of EU TAR NC

The Workgroup recognised that the proposal to include provision for capacity product specific multipliers (applied to the Reference Price to determine Reserve Prices) was proposed in order to comply with Article 13 of Regulation 2017/460. The EU Tariff Code permits multipliers within ranges for different capacity products. These ranges have the potential to increase or decrease prices relative to the annual reference price.

National Grid stated that it has proposed to apply multipliers of one (1.0) for all capacity products on the basis that it had not identified a need to incentivise procurement of one capacity product over another (i.e. to incentivise long term over short term or vice versa) and therefore this aspect of the pricing methodology would not influence Users’ capacity procurement strategy if the payable price is ultimately the same. The Workgroup supported the proposed multipliers and noted that they were within the range permitted by Regulation 2017/460 Article 13(1). Modifications 0678 and 0678A have the same multipliers of one (1.0).

Whilst multipliers (as a definition with associated ranges) are only mandated at Interconnection Points under the EU Tariff Code, the proposals apply this approach to all Entry and Exit points. National Grid clarified that this was done with the aim of having one methodology for all points.

#### 4.5 Interruptible Discount

The Workgroup explored the impacts on pricing stability of historical zero priced interruptible capacity products. It also considered the requirements contained in Regulation 2017/460 (Article 16) in relation to the extent of the future discount which can be applied to determine Reserve Prices for Interruptible Capacity. The discount is a product of the predicted probability of interruption allows the economic value, of the interruptible capacity product, to be taken into consideration.  National Grid presented analysis (covering the previous ten years) to the Workgroup, to support the basis for the proposed discounts

National Grid recognised the views of some Workgroup participants, that attractiveness of the Interruptible capacity product is dependent upon it having a material discount to the equivalent Firm product. On this basis, National Grid put forward a banding approach such that the interruptible discount derived from the calculation prescribed by Regulation 2017/460 Article 16 was rounded up to the nearest 10%. This recognises the “economic value” aspect of Article 16. The outcome for Modification 0678 is that the discount will be 10%.

Workgroup participants noted that any income from sales of Interruptible capacity would contribute to Non-Transmission Services Charges. Workgroup expressed the view that, logically, that Interruptible capacity should be a Transmission Service charge and revenue should feed into the Transmission Owner price control but that this is constrained by the current price control arrangements. Some viewed this as a compliance issue.

Action Ofgem to clarify whether it would consider a change in licence to make interruptible revenue Transmission Services revenue (rather than Non-Transmission Services Revenue)

Some Workgroup participants suggested that National Grid should look carefully at its proposal in regard to Transmission and Non-Transmission Services revenues a Workgroup Participant believes that these are not the same as the TO and SO revenue streams mandated in the licence (in reference to the treatment of interruptible revenue streams).

Action National Grid to clarify licence vs UNC links.

Some Workgroup participants noted a simplified to pricing interruptible capacity and noted this could change in the future through a UNC Modification if required.

#### 4.6 Specific Capacity Discounts

**Storage**

The Workgroup recognised that the requirement for application of at least a 50% discount to the Reserve Price at Storage Connection Points was proposed in order to comply with Article 9 of EU Tariff Code.

Some Workgroup participants wished to query the implications of any Storage Discount for any new Storage facility, along with how any User Commitment would be derived.

Workgroup participants noted that User Commitment is not proposed to be changed by any of these Modifications.

**LNG**

The Workgroup recognised the proposal to include the potential provision for application of discount to the Reserve Price at LNG Connection Points. Article 9 of Regulation 2017/460 says this may be applied. All Modifications propose a 0% LNG discount.

Workgroup participants noted that this level can be changed in the future through a UNC Modification.

National Grid clarified that it does not recognise any of the GB assets as falling under the definition of “Infrastructure ending Isolation” (Article 9).

**Ireland Security Discount (0678I)**

The proposer of 0678I highlighted that analysis to support the 80% level of discount will be forthcoming, once a change has been made to the sensitivity tool to accommodate the Ireland Security Discount. Action 03-0403 due ASAP.

Some Workgroup participants noted that analysis to support this Modification, published on 28 February 2019, should have been included within the Modification itself.

Other Workgroup participants noted that this Modification would not normally be considered a ‘late’ Alternative; it is the Urgent timetable for 0678 which makes the timings difficult.

Some Workgroup participants noted that there are no plans for equivalent discounts on the Irish side relating to infrastructure ending isolation. This implies the GNI and the CRU do not consider Moffat Interconnector to be ‘infrastructure ending isolation’ relating to Article 9.

Other Workgroup participants noted that in relation to the RPM for Ireland the CRU process under TAR NC in 2015 and 2018 developed a matrix LRMC RPM with the goal that any new entry should be efficient compared with Moffat. This recognises that Moffat is and continues to be (until further notice) the marginal source of gas and price setter for Irish gas consumers.

Some Workgroup participants that the Corrib field is declining and there is little progress on LNG import facilities in Ireland, therefore the Moffat Interconnector continues to be infrastructure that ends isolation, both historically and in future.

Some Workgroup participants noted the Moffat Interconnector should rightly be considered important in that it links to three other jurisdictions (Northern Ireland, Republic of Ireland and the Isle of Man). There are intergovernmental treaties relating to it.

Some Workgroup participants confirmed that the Moffat Interconnector was not included in the Projects of Common Interest. However work that was carried out in recent years to twin/double the onshore section of pipeline in Scotland was.

#### 4.7 ‘Shorthaul’ approach 05 February 2019

Some Workgroup Participants noted that Modifications should be properly formulated and should not include blank spaces. This means that some Modification Proposals will need to wait until National Grid releases data. National Grid have indicated it will deliver both the model and FCC methodology by 08 February 2019. Some Workgroup participants indicated they would be waiting until after that date to submit an Alternative proposal.

Modification 0678 contains no provision for avoidance of inefficient bypass of the NTS, aimed at being a compliant Modification, with any proposal for this aspect in Modification 0670R.

Some Workgroup Participants noted that this could be construed as tacit acceptance that a shorthaul concept is required, which in turn highlights this Modification 0678 could be seen as being incomplete. This leads to a fragmented approach. Compliance with EU Regulation is essential, and the Workgroup must also consider Proposals as measured against all Relevant Objectives.

National Grid clarified it believed the Modification 0678 was complete. RWE clarified that 0678A was also complete.

Other Workgroup participants did not agree that a shorthaul concept is an essential part of compliance with TAR NC.

Action National Grid cessation of shorthaul – impact? Action 02-0502 expected 27 February 2019.

Some Workgroup participants believed that both the CWD and PS approaches without an optional charge approach face significant challenges with respect to cost reflectivity because of some relatively high exit charges at points close to entry points. 26 February 2019.

Some Workgroup participants expressed concern about deviating from current requirements for notice periods and potentially significant impacts on the market, in particular those customers currently using the NTS Optional Commodity Rate. It was noted that Ofgem has previously requested information about the potential impacts of Modification 0636 - Updating the parameters for the NTS Optional Commodity Charge[[7]](#footnote-7) and the information received was referenced in Ofgem’s decision to reject implementation of Modification 0636[[8]](#footnote-8). Some Workgroup participants therefore had an expectation that a similar exercise would be undertaken by Ofgem noting the commercial confidentiality issues associated with including such information in consultation responses.

Some Workgroup participants expressed concern at the nature of the cessation of the NTS OCR and the potential risks around this aspect.

Workgroup participants sought clarification whether within 0678B, the purpose of the optional capacity charge is to avoid inefficient bypass of the NTS. The proposer of 0678B confirmed there will be a number of benefits derived from the Optional Capacity Charge, one of which will be the avoidance of inefficient bypass of the NTS whether by alternative onshore or offshore pipelines or indeed non-GB delivery of LNG.

Workgroup participants sought clarification as to whether the optional Capacity Charge in 0678B was a discount to the standard capacity charge. The proposer of 0678B confirmed that it was an optional charge derived with reference to the reserve prices established for the relevant entry and exit points.

In Modification 0678B the Optional Capacity Charge is regarded as an integral part of the RPM.

#### 4.8 Compliance

Key points are drawn out in Appendix 2 – **comparison table** and **compliance table**. Proposers of potential Alternatives are asked to ensure that this is updated with each potential new Alternative.

Workgroup agreed that compliance can only be assessed to the best of the ability of the Workgroup .

The Joint Office suggested a compliance table based on going through article by article of TAR NC.

A comparison table format suggested by National Grid places the onus on Proposers to note which parts of TAR NC are applicable for their proposal. National Grid envisages this table will become part their Modification in the Relevant Objectives.

Workgroup Participants discussed the best route to assess compliance: either article by article or articles as applicable to each Modification.

e.g. Article 7a requires some information coming from National Grid.

**Interim Contracts 29 January 2019**

Interim Contracts as a concept proposed under Modification 0621 are not now being used in 0678 and not in 0678A and are therefore not going to be recognised. This means that any long-term entry capacity allocated after entry into force of TAR NC (06 April 2017) will float, in terms of pricing.

Workgroup participants noted Article 35 and explored compliance of top up charges (revenue recovery) on legacy contracts.

**Issue**:

**How is the principle of levying a top-up charge on legacy contracts compatible with Article 35?**

National Grid clarified that the mechanism of Revenue Recovery will be subject to change, as with the current framework. Currently it is commodity based; under 0678 and 0678A it will be capacity based.

**Action 01-2901 update expected on 11th Feb**

National Grid stated that historical storage capacity under 0678 and 0678A would not attract transmission services entry revenue recovery charges.

Q. What is the effect/materiality of this change from commodity to capacity?

Q. Is there an option to sell back unused capacity?

Q. Treatment for Combined ASEPs: the issue remains unclear in terms of discrimination against certain storage facilities.

Some Workgroup participants agreed that principles being developed under Modification 0662 should be incorporated into 0678 and 0678a. Workgroup sought clarification from National Grid on how this works for storage capacity at combined ASEPs. NG to supply some relevant wording here:

If the ASEP is not defined as a storage in the licence…

**18 February 2019**

The Workgroup observed that in terms of compliance the following should be noted for all Modifications:

There was a difference in opinion in relation to the application of transmission services revenue recovery charges to existing contracts. The Workgroup were not able to provide a legal opinion on the merits of legal compliance in relation to the TAR NC Article 35 issue in relation to protecting existing contracts.

Not having a transition period the methodology required needs to avoid large stepped changes in charges, which may be inconsistent with Article 17.1C.

The proposed reference price methodologies show no consideration of relevant flow scenarios for Article 8.1.

The proposed CWD methodology is a variant of the CWD Proposal in TAR NC.

The Workgroup considered the risk of interruption and the discount to be applied if incremental capacity is more than 20% and that the Modification may not be compliant with Article 12.3.

In relation to Article 16 the Workgroup considered that the probability of interruption under such a scenario would be very low. One Workgroup participant expressed concern for IP connection points and all domestic points and the probability of interruption. The Workgroup recognised that when purchasing interruptible capacity there is a risk.

By exception the Workgroup observed in terms of the Proposer’s provided compliance assessment against TAR NC that: *WG to consider comments for inclusion in the Workgroup Report*

#### 0678

#### 0678A

The Workgroup…. Postage Stamp Methodology distance

#### 0678B, 0678G, 0678H and 0678I

The Workgroup clarified that the Modification 0678B, 0678G and 0678H do not inhibit any Shipper User from accessing the Optional Capacity Charge. The Workgroup clarified that the Modification 0678I, does not inhibit any Shipper User from accessing the Wheeling Charge.

Some Workgroup participants questioned whether the Optional charges proposed in 0678B, 0678G and 0678H are available at all Entry and Exit Points. This is asked in the context of compliance with Article 6.3, 6.4 and Article 9.

Some Workgroup participants noted that the same RPM is applied to all points; the optional charge forms part of the overall methodology, as does the wheeling charge for 0678I. DN points are excluded[[9]](#footnote-9) as they are not single offtakes, they are part of a combination or collection of offtakes where gas is offtaken for final delivery to the end consumer. The gas hasn’t left the NBP when it enters the DN network.

Some Workgroup participants noted that from a Shipper point of view, all exit points do not include DN Points.

DN participants were asked to clarify their understanding of the above Action 02-0403

Some Workgroup participants strongly disagreed with the notion above. If you are using’ shorthaul’ you are bypassing the NBP and more so, this is a point to point service which is not allowed under 2009/715 (Third energy package).

Some Workgroup participants noted that there are point to point services in Europe (Germany, The Netherlands and Belgium) so they are compliant with 2009/715 (Third energy package). These cover a variety of points and routes.

Some Workgroup participants strongly disagreed with the notion that using’ shorthaul’ is bypassing the NBP – and felt it was factually incorrect.

Some Workgroup participants note that the DNs book exit capacity at various exit points interfacing with the NTS. Shippers are supplying gas to customers within those DNs do not nominate gas flows against individual NTS/DN offtakes. In the case of the OCC, there is a linkage between the booking of capacity and the supply of gas to the customer.

Some Workgroup participants noted that within 0678B, 0678G and 0678H their OCC proposals are is not considered a discount.

Other Workgroup participants questioned whether the OCC is a discount and whether the Wheeling charge is a discount.

Some Workgroup participants noted that the overriding principle for the use of the OCC is there needs to be a linkage between a capacity booking and a nomination for the supply of gas. On this basis DNs are excluded and Interconnectors are included. In relation to Storage, the Tariff Code recognises that they are unique points on the network and worthy of individual treatment as detailed in Article 9.

Some Workgroup participants noted that the issue is a matter of principle – same price for the same service. This is not the same as the practical level.

#### 0678C

Article 35 compliance for 0678C regarding capacity contracts for storage.

National Grid noted that it does not have any visibility of who does what in terms of owners of contracts which have been secondarily traded. Workgroup participants noted that trades through Gemini are visible.

Workgroup participants noted that secondary trades (of all contracts, not just storage) are not mentioned under TAR NC and therefore it could be argued to not be a compliance issue.

One Workgroup participant suggested an alternative future solution (a suggestion for another future Modification) which was to have an aggregate over-run for entry which gets around the issue of a shipper buying a certain capacity which is then traded on (similar to aggregate overrun for exit).

**Cost Allocation Assessment (TAR NC Art. 5)**

Workgroup participants noted the output of this CAA is required in the Article 26 consultation; this needs to use data supplied by the NRA or TSO.

Workgroup discussed at length who should provide the data to produce the Cost Allocation Assessment. Some Workgroup Participants put forward the view that the NRA or TSO provides independence.

Other Workgroup Participants noted the wording “**the** final consultation referred to in Article 26” implying the CAA is to be assessed when there is only one Proposal left standing. Other Workgroup Participants noted that Article 7 requires the assessment to be done, potentially for each Proposal.

The Proposer of 0678A stated that RWE would not be able to supply the Cost Allocation Assessment.

Other Workgroup Participants agreed that it would not be appropriate for Proposers to perform this assessment.

Under 0621 National Grid carried out the Cost Allocation Assessment.

20 Feb 2019

Ofgem intends to carry out the final consultation for Article 26 itself, National Grid will be asked to carry out the interim Article 26 consultation beginning shortly after the UNC consultation begins, with the same end date as the UNC consultation (05 April 2019). The CAA will be done by National Grid to be used in the final consultation by Ofgem. A letter from Ofgem is expected within the next week. CAA results will be available during the UNC consultation.

Workgroup participants noted that it would be unable to carry out a full compliance assessment if the results of the CAA are not available whilst the Workgroup is still ‘live’.

Ofgem confirmed it expected the CAA for all proposals would be done by National Grid with assistance from all Proposers.

Workgroup participants expressed concern on the opportunity to examine the accuracy of the CAA results for each Proposal.

Workgroup participants expressed concern about the timelines for the interim Article 26 consultation with the crossover of the two consultations effectively reducing the time for respondents to respond to each consultation.

25 February 2019

Workgroup participants note that a CAA calculation is available for 0678 in the v2 spreadsheet model published 25 February 2019.

Workgroup participants noted that the calculation envisaged under TAR NC is a “vanilla” version of such a calculation and as such probably did not envisage the level of existing contracts in the GB system. Existing contracts would have an undue influence on the results of such a calculation.

Workgroup participants expressed the hope that Ofgem would strongly recommend bring out the above point in their Article 26 consultation documentation.

25 February 2019 Ofgem clarified that the final Article 26 consultation would likely be done on a minded to proposal (as against all of the Modification proposals under consideration).

**0678 compliance with Article 6 25 February 2019**

Some Workgroup Participants noted that the definition of the RPM and how the adjustments are applied can be interpreted in different ways. Either the reference price is created from the first run of the model and then adjusted in a manner different from that specified in Article 6(4). Or the RPM is considered as the entire process with the adjustment process embedded within it. Workgroup participants suggested that this latter case is in fact the process contained within 0678.

**0678F compliance with Article 6 26 February 2019**

Workgroup Participants discussed the potential impact of the Unprotected Entry Capacity from the two QSEC auctions in 2018 (the effect on FCC of surrender followed by re-purchase and the effect on revenue).

Workgroup Participants noted that TAR NC is silent on Unprotected Entry Capacity (it is a construct outside of TAR NC, applicable to GB).

Workgroup Participants noted that 0678F requires an initial run of the model to enable the surrender process as described in 0678F to determine whether the initial prices differ from the 2018 QSEC auction prices by an amount greater than the trigger. For the avoidance of doubt this run of the model is not part of the RPM and therefore is not considered a compliance issue with Article 6.

**All Modifications compliance with Article 7 25 and 26 February 2019**

Workgroup participants thanked National Grid for the model it has created for 0678. This 0678 sensitivity tool allows Users to reproduce prices using the data given.

Workgroup participants highlighted that any modification implemented would require development and publication of a suitable model for generation of final prices. Some Workgroup participants representing DN Users noted that the accuracy of this final model is critical. See Workgroup’s comments on Quality Assurance and accuracy section ABC.

**0678 and 0678F compliance with Article 7 25 and 26 February 2019**

Some Workgroup Participants noted that current Licence obligation (on cost reflectivity) appear to be a major contributor to the choice of CWD as the RPM; rather than a TAR NC compliance issue.

Other Workgroup participants noted that high exit charges close to entry points are not intuitively cost reflective.

**0678, 0678F and 0678G compliance with Article 8 25 and 26 February 2019**

Some Workgroup participants discussed whether assuming the GB system to be an unconstrained network (without relevant flow scenarios) is appropriate and may raise issues of compliance. Opposing views were held within the Workgroup.

Workgroup noted that 0678G as an approach builds on the CWD methodology to better reflect flows between proximate entry and exit points.

**0678E and 0678F compliance with Article 9 26 February 2019**

Workgroup participants noted that a Storage discount between 50 -100% is deemed compliant with TAR NC Article 9.

**0678 and 0678F compliance with Article 12 25 and 26 February 2019**

GB tariff year and Gas Year are the same. Some Workgroup participants expressed strong concerns at the potential for charges to take effect from a non-01 October date and expected charges to apply for the whole Gas Year starting 01 October, as suggested by Article 12(2).

**0678 and 0678F compliance with Article 17 25 and 26 February 2019**

Workgroup participants noted that the sensitivity model has not yet been fully assessed and reviewed by Workgroup as at 25 February 2019, neither has the robustness or otherwise of the FCC. Workgroup participants noted that the intent is to achieve compliance with this Article 17.

**All Modifications compliance with Article 27 25 and 26 February 2019**

Workgroup participants noted that compliance with Article 27 is the responsibility of the NRA (Ofgem).

**All Modifications compliance with Articles 29 and 30 25 and 26 February 2019**

Workgroup participants discussed whether all Modifications should include the publications timetables explicitly.

Workgroup participants noted that compliance with Articles 29 and 30 are expected to be provided for with the UNC process and that there were overlaps with the RIIO process. There was some concern that the information for Article 30 is available in many disparate places and suggested that periodic updates could be given at the monthly NTSCMF UNC Workgroup.

Some Workgroup participants noted that the information to satisfy Article 29 and 30 should be in the RPM introduced as part of the UNC Modification 0678.

**All Modifications compliance with Article 35, 25, 26 and 27 February 2019**

Some Workgroup participants noted a number of possible interpretations of Article 35, noting the breadth of Alternatives covering this aspect.

Some Workgroup Participants noted that it was impossible to meet compliance with TAR NC **and** all Relevant Objectives simultaneously. Modification 0678D is proposed with a focus on protection for Existing Capacity Contracts with a minimum 50% Storage Discount within a CWD RPM.

Workgroup participants noted 0678D Proposer Eni’s legal view on TAR compliance (and thanked Eni for allowing publication) which outlines how Article 35 is fully complied with by shielding Existing Contracts. This is published at: <http://www.gasgovernance.co.uk/0678>

**All Modifications compliance with Article 38 25 and 26 February 2019**

A Workgroup participant noted that under Article 38 implementation should be from 31 May 2019. A Workgroup participant noted it is expected to be effective for the beginning of the tariff year.

Other Workgroup participants noted that TAR NC is silent on the effective date.

Some Workgroup participants noted some Modifications recommend a later effective date.

**4.8 Topics raised in Ofgem’s 0621 Rejection Decision Letter**

The Workgroup considered the 3 issues relevant to the Modifications: Interim Contracts (none), Transition Period (none), NTS Optional Charges, and an assessment of relevant elements in the appendix: Postage Stamp, Optional Charge

1. **Interim Contracts**

Modifications 0678, 0678A & 0678B do not propose interim contracts. The Workgroup agreed this consideration mitigated the concerns raised by Ofgem in their decision letter.

1. **Transition Period**

Modifications 0678, 0678A & 0678B do not propose transition periods. The Workgroup agreed this consideration mitigated the concerns raised by Ofgem in their decision letter.

1. **NTS Optional Charge**

Modifications 0678 & 0678A does not propose an optional charge. National Grid’s view is there is not a need for an optional charge for Modification 0678. Request 0670R is progressing indepemdently through NTSCMF and is envisaged to provide a product to avoid the inefficient bypass of the NTS.

Modifications 0678B, 0678G and 0678H have proposed an optional charge, solely applying to firm capacity entitlements, that is capacity based and does not impose an artificial distance cap. Ofgem’s decision letter in the view of the Proposer was primarily concerned with the use of commodity charges within the some of the 0621 solutions and also stated the distance cap should be fully justified.

Cost Reflectivity in relation to Capacity Weighted Distance (CWD) approach (0678B and 0678G) and the Postage Stamp (PS) approach (0678H) is enhanced by the inclusion of the optional charge solution.

**Transition 29 January 2019**

There is no phased delivery proposed under Modification 0678 0678A nor 0678B. The FCC approach is thus brought forward to day 1; a methodology outlined in a Methodology Statement will be developed.

**Assessment of Appendix**

Workgroup noted that Ofgem provided non-binding views within its Modification 0621 Decision Letter, some of which are addressed by the Proposers in their Modifications.

*Location of Red Text to be considered and potentially moved*

**Assessment of relevant elements in the Appendix relevant to the Modifications:**

**Cost Reflectivity**

Workgroup noted Ofgem’s view in the 0621 Modification decision letter relating to Cost Reflectivity (Pg14).

Workgroup noted that National Grid have a Licence obligation to provide cost reflective prices.

**Locational Signal**

The Workgroup had mixed views on whether locational signals should be a feature of the RPM which reflected a lack of consensus if Ofgem’s 0621 decision letter.

Some members noted thatLocational Signals may provide incentives to connect or increase connections or flows at certain points. The ability for some entry parties to respond to location signals is limited and therefore the non- inclusion of location signals is not necessarily out of line with the Code objectives.

The Workgroup considered Location Signals and in relation to Postage Stamp (need to consider and expand) [without a form of location signals it could lead to high and unnecessary costs on the NTS].

Postage Stamp:

Provide a simple description of Postage Stamp and Locational Signals…..

The Workgroup noted Ofgem’s views on both Postage Stamp and CWD (page 13 quote) better approaches……

Locational Signals had a degree of importance however it was unclear…

One Workgroup participant noted that

The Workgroup considered Location Signals and in relation to CWD (need to consider and expand)

The Workgroup considered the unintended consequences (need to consider and expand)

The Workgroup considered Revenue Collection and costs to consumers (need to consider and expand)

PY suggestion:

* P7: The use of an “inflated” FCC value has a material impact on the capacity prices determined via the RPM
* • P8: Regarding FCC **– “…** concerned with the undefined nature of the solution and governance of the process.”
* • P6 : TAR NC makes no provision (explicit or otherwise) for a transition period as proposed by the UNC621 modifications: it will apply with full effect from 31 May 2019. That is not to say that a methodology could not be introduced incrementally where necessary;
  1. • Annex : Regard for the principles used in the TCR o Reducing harmful distortions
  2. o Fairness to end consumers
  3. o Proportionality and practical considerations

**Modifications proposing Postage Stamp (0678A, 0678C and 0678H)**

**Promoting Efficiency and Economic principles associated with network charging**

The Proposer of 0678C explained that there are a number of economic principles which are typically associated with the appropriate determination of network charges. These are largely focused on ensuring efficient market outcomes. First, it is typically argued that network charges should be cost reflective. This means that they should reflect the (forward looking) costs which users impose on the network through a change in their use. This is important to achieve an economically efficient outcome: if charges are cost reflective, users will internalise the network costs which they cause when making a decision about how to use the network. This, in turn, will ensure that overall value chain costs are optimised.

The fact that it is forward looking costs which should be reflected is important. If there is an historic cost which exists, but cannot be changed in any way going forward by different use of the network by shippers, there is no value in terms of economic efficiency in sending a signal to shippers about that cost. Cost reflectivity should therefore only relate to new costs which would be created in the future or existing costs which can be avoided in the future as a result of a particular change in use.

This argument points to network prices being set predominantly according to forward looking marginal costs, as these are the costs incurred or avoided by incremental use.

However, it is important that marginal cost as a concept is interpreted correctly. First, when there is an excess of capacity as a result of reduction in network use over time, then the marginal cost of use may be close to or at zero. Second, it is obviously important that network companies can recover their allowed revenue. It is also clear that efficient cost reflective charges, as defined above, may not recover all costs which have been incurred. Therefore, additional charges are required to recover the full range of permissible costs.

It is typically argued that such charges should have as an objective creating minimal changes in behaviour relative to a set of efficient charges. This is because, as previously established, there is no efficiency related reason to target historic costs at a particular set of users. By definition, they cannot be “un-incurred” and so there is no point in targeting them at a certain set of users as to do so will change behaviour in a way which reduces efficiency.

Ofgem state in their 621 decision letter that the RPM methodology “*has the effect of combining both revenue recovery charges and forward-looking signals into a single capacity-based charge. Given low levels of anticipated new investment in gas network capacity in the near term, we anticipate this type of capacity charge would serve a predominantly revenue recovery function. We also note that in this context, the value of forward-looking signals is likely to be of lesser importance*”.

Ofgem also states in their Targeted Charging Review (TCR) document in electricity, <https://www.ofgem.gov.uk/system/files/docs/2017/03/tcr-consultation-final-13-march-2017.pdf>

that: “*Cost-reflectivity is less directly relevant for residual charges; however, it is important that residual charges do not unduly distort the signals provided by the forward-looking charges which are intended to be cost-reflective… residual charges do not relate to specific costs that any user imposes*”.

In the TCR debate, Ofgem is similarly clear that cost reflectivity is not a valid objective when considering charges which recover residual revenue. Instead, Ofgem proposes three different principles for assessing approaches to residual charging: “*reducing distortions, fairness and proportionality and practicality considerations”*.

Therefore in a network where there is spare capacity and low levels of investment, incremental signals are not required and the network costs can be treated as sunk revenue to be recovered in the least distortive way. Postage stamp capacity charges achieve this.

**Modifications proposing CWD[[10]](#footnote-10) (0678, 0678B, 0678D, 0678E, 0678F, 0678G and 0678I)**

Material from GJ

#### Regulatory Impact Assessment

Some Workgroup Participants noted that it was felt the RIA was a statutory requirement for an issue as important as this and as such if this process step was not carried out it would expose the Authority to Judicial Review. Workgroup sought urgent clarification on whether the RIA would be carried out.

(Small Business, Enterprise and Employment Act 2015.)

<http://www.legislation.gov.uk/ukpga/2015/26/pdfs/ukpga_20150026_en.pdf>

**0678A Compliance Assessment 14 February 2019 (This maybe removed – see comment 32 in summary.**

The Workgroup considered the compliance assessment for Modification 0678A.

Article 4 - Transmission and non-transmission services and tariffs. It was viewed that the cost drivers were met, the cost drivers in relation to distance is not relevant. The Workgroup considered if this assessment for dealing the Reference Price Methodology was in the right place. Following consideration of the views provided for Article 4. It was believed that the Postage Stamp method would be compliant with TAR NC for Article 4.

Article 6 - Reference price methodology application. The Workgroup considered the adjustment element of the RPM. There was a challenge that x…….

Article 7 - Choice of a reference price methodology. The Workgroup considered historical sunk costs and recovery a residual in a non-distortive manner.

Article 8 - Capacity weighted distance reference price methodology. The Workgroup considered the NRA/ TSO requirements and to provide the relevant obligations for the inputs. It was recognised this would be a requirement when considering the Legal Text. For the relevant elements to be calculated the relevant tariffs would need to be within the methodology. The Proposer believed that the counterfactual needed to be within the UNC. Some Workgroup participants believed that….

Article 9 - Adjustments of tariffs at entry points from and exit points to storage facilities and at entry points from LNG facilities and infrastructure ending isolation. The Workgroup

Article 12 - General provisions. The Workgroup considered Article 12.3.a and 12.3.b the recalculation of interruptible products, the probability of interruption and the recalculation will be required if more than 20%. The Proposer believed that the Legal Text would need to capture this probability and that the modification needs to address this within the solution. National Grid were asked to consider this also for Modification 0678.

Article 18 – Under and Over Recovery. The Workgroup considered the K value and that further clarity was required within the Modifications.

Article 31 - Form of publication. The Workgroup considered whether the platform needed to be referred to in the UNC. National Grid believed that this element would not be required in the UNC in order for it to apply. National Grid explained that not every element of the TAR NC needs to be incorporated in the UNC in order for TAR NC to apply, similar to the EU legislation. The Workgroup considered the setting of tariffs and methodology.

1. Relevant Objectives

Table 4: Impact of the Modification on the Relevant Objectives

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

Demonstration of how the Relevant Objectives are furthered:

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

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

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

The proposed changes to TPD B and EID B (where applicable) support the implementation of the new charging methodology and arrangements. To the extent that the application of a new Reference Price Methodology is expected to provide a more stable and predictable price setting regime, Shippers will have a greater level of confidence in their forecasts of prospective use of network costs and therefore set their own service costs more accurately (potentially with a lower risk margin) thereby enhancing effective competition.

**g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.**

The proposed changes to TPD B and EID B (where applicable) support the implementation of the new charging methodology and arrangements including those elements required to comply with the EU Tariff Code. The decision to reject UNC0621 and its Alternatives highlighted three areas of compliance that needed to be addressed (Interim Contracts, Transition Period and Shorthaul). This Modification proposes changes that will address these. Appendix 2 gives a comparison between Modification 0621 and this new Modification 0678, highlighting steps taken to address compliance in line with Ofgem’s 0621 Rejection Letter. In order to provide a compliant proposal to address these areas, National Grid is proposing:

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

Some Workgroup participants noted that within Modification 0678 there is a table included below table 4 which highlights National Grid’s responses to compliance with TAR NC. Some Workgroup participants noted that the comments included therein is limited and more detail is contained within the compliance assessment and the workgroup commentary on that (see section 4.x 4.8?).

Table 5: Impact of the Modification on the Relevant Charging Methodology Objectives

|  |  |
| --- | --- |
| Impact of the Modification on the Relevant Charging Methodology Objectives: | |
| Relevant Objective | Identified impact |
| a) Save in so far as paragraphs (aa) or (d) apply, that compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its transportation business; | Positive |
| aa) That, in so far as prices in respect of transportation arrangements are established by auction, either:   1. no reserve price is applied, or 2. that reserve price is set at a level -   (I) best calculated to promote efficiency and avoid undue preference in the supply of transportation services; and  (II) best calculated to promote competition between gas suppliers and between gas shippers; | Positive |
| b) That, so far as is consistent with sub-paragraph (a), the charging methodology properly takes account of developments in the transportation business; | Positive |
| c) That, so far as is consistent with sub-paragraphs (a) and (b), compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers; and | Positive |
| d) That the charging methodology reflects any Alternative arrangements put in place in accordance with a determination made by the Secretary of State under paragraph 2A(a) of Standard Special Condition A27 (Disposal of Assets). | None |
| e) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators. | Positive |

This Modification proposal does not conflict with:

1. *Paragraphs 8, 9, 10 and 11 of Standard Condition 4B of the Transporter's Licence; or*
2. *Paragraphs 2, 2A and 3 of Standard Special Condition A4 of the Transporter's Licence;*

as the charges will be changed at the required times and to the required notice periods.

Demonstration of how the Relevant Objectives are furthered:

**a) Save in so far as paragraphs (aa) or (d) apply, that compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its transportation business;**

**aa) That, in so far as prices in respect of transportation arrangements are established by auction, either:**

**(i) no reserve price is applied, or**

**(ii) that reserve price is set at a level -**

**(I) best calculated to promote efficiency and avoid undue preference in the supply of transportation services; and**

**(II) best calculated to promote competition between gas suppliers and between gas shippers; and**

**c) That, so far as is consistent with sub-paragraphs (a) and (b), compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers**

National Grid believes that the proposed utilisation of a new Reference Price Methodology which re-distributes National Grid’s costs on a geographical basis, weighted by capacity will enhance cost reflectivity and competition between gas suppliers and between gas shippers when compared to the current application of a Long Run Marginal Cost Methodology (LRMC). The proposed model is better suited to the current and expected future usage of the NTS and the current model is more suitable for an expanding network requiring an investment-based RPM.

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

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

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

**e) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.**

The EU Tariff Code compliance is taken into account in this Modification proposal. Accordingly, implementation of this Proposal would ensure that the GB arrangements are compliant with the EU Tariff Code. The decision to reject UNC0621 and its Alternatives highlighted three areas of compliance that needed to be addressed (Interim Contracts, Transition Period and ‘Shorthaul’). This Modification proposes changes that will address these. In order to provide a compliant proposal to address these areas, National Grid is proposing:

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

Please see also Appendix 2 for a comparison table between Modification Proposal 0621 (which was rejected by Ofgem) and this Modification Proposal (0678).

#### 4.15 Impact Analysis

Consistent presentation of analysis (formatting) is important for comparison purposes (Action 04-2901 Richard Fairholme). National Grid to facilitate the numbers into some consistent output for comparison purposes – update expected with sensitivity tool on Monday 11 February, (tool to come Friday 8th February) National Grid clarified that areas of the proposal which are not covered by 0678 this must be discussed with National Grid. National Grid will provide this ONLY where the numbers required are not publicly available.

11 February 2019: Workgroup Participants expressed concern that National Grid does not have the required resources to satisfy Ofgem’s requirements for adequate workgroup development and analysis required to produce a well thought-through and robust Workgroup Report.

Workgroup requested that this is noted at the extraordinary UNC Modification Panel on 12 February 2019.

UNC Panel noted the concern and have asked for an update at the next Modification Panel meeting on 21 February 2019.

Workgroup requested clarification from National Grid as to what analysis it should expect to see for Modification 0678. National Grid clarified that it was expecting to produce five year’s worth of prices as charts against current prices and revenue distributions as outlined in the two summary tabs within the sensitivity tool. (as at 04 March 2019, this analysis from National Grid had not yet been presented to Workgroup).

04 March 2019

Comparison of baseline with CWD and PS is needed – Workgroup expecting this to come from National Grid since the data for this is theirs. Action 05-0403

Workgroup participants thanked the proposer of 0678A for analysis received by Workgroup on 04 March 2019 showing Revenue Recovery, highlighting the differences for Entry and Exit Points (distributional analysis). (link)

Workgroup participants noted the difference from a CWD vs PS stance relating to the distributional impact for 2019/20. Workgroup participants note that it would be ideal to extend this analysis into subsequent years.

Postage stamp reduces charges at the periphery of the system and increases them towards the centre.

This paper link has considered the potential difference in revenue recovery across different categories of user and for specific entry and exit points that occur through the application of the 0678A Postage stamp RPM when compared with the 0678 CWD RPM (the GB counterfactual).

5.2. It should be noted that the removal of “distance” as a weighting factor has the effect of reducing revenue recovery from entry and exit points that are at the periphery of the NTS. This is consistent with the observations expressed in the Ofgem 0621 decision letter 4 which noted that:

* • ““*distance-based allocation of revenue recovery charges (i.e. CWD methodology and variants on CWD) would attribute a greater proportion of network costs to points on the network associated with longer average distances to other points on the network. Our current view is that there are several potential weaknesses with using distance as a factor for setting the reference price”.*

26 February 2019 Workgroup participants noted that most of the revenue (over ~66%) is derived from the DNs; power stations represent the next largest segment.

Some Workgroup participants discussed whether the analysis in Figure 1 (Exit Revenue 19/20) represents what might actually happen. Calculation of prices using the FCC then allows calculation of revenue utilising the FCC again; this assumes the flows equal to capacity indicated in FCC. National Grid further explained that the outputs from the sensitivity tool are provided in good faith and provide an illustration limited by the inputs. Individual shippers should understand and use the model at their own risk.

Some Workgroup participants noted that the revenue distribution charts are useful however they were based on a premise that shippers flow to the same booking under which FCC was calculated. In reality historical flows would be a better indicator of longer term bookings over the five years. Going forward users will optimise their capacity bookings to more accurately reflect utilisation.

Some Workgroup participants did not agree that historical flows would be a better indicator because of the risk of substitution.

Workgroup participants pointed out that the FCC approach utilises five different numbers, one of which is supply and demand.

Some Workgroup participants noted that DNs will be booking to meet their full 1 in 20 peak day levels and that booking is likely to be flat across the year. DN Workgroup participants confirmed this is required.

Some Workgroup participants noted that use of the ***greatest*** of the five data sets in FCC requires justification which has not yet been seen by Workgroup.

Existing Contracts 17% or Revenue

7% IPs

75% Beach Terminals

Storage negligible ~1%

Workgroup participants

#### Consumer Impacts

There will be impact on different consumer groups but the allowed revenue collected by National Grid NTS will not change.

|  |  |  |
| --- | --- | --- |
| Consumer Impact Assessment(Workgroup assessment of proposer initial view or subsequent information) | | |
| Criteria | Extent of Impact | |
| Which Consumer groups are affected? | Please consider each group and delete if not applicable.  * Domestic Consumers * Small non-domestic Consumers * Large non-domestic Consumers * Very Large Consumers | |
| What costs or benefits will pass through to them? | *Please explain what costs will ultimately flow through to each Consumer group. If no costs pass through to Consumers, please explain why. Use the General Market Assumptions approved by Panel to express as ‘cost per consumer’.*  Insert text here | |
| When will these costs/benefits impact upon consumers? | *Unless this is ‘immediately on implementation’, please explain any deferred impact.*  Insert text here | |
| Are there any other Consumer Impacts? | *Prompts:*  *Are there any impacts on switching?*  *Is the provision of information affected?*  *Are Product Classes affected?*  Insert text here | |
| ***General Market Assumptions as at December 2016*** *(to underpin the Costs analysis)* | | |
| *Number of Domestic consumers* | | *21 million* |
| *Number of non-domestic consumers <73,200 kWh/annum* | | *500,000* |
| *Number of consumers between 73,200 and 732,000 kWh/annum* | | *250,000* |
| *Number of very large consumers >732,000 kWh/annum* | | *26,000* |

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

N/A

#### Cross Code Impacts

None

#### 4.16 DN analysis

This will be provided with the model forthcoming by close of play on 08 February 2019.

#### 4.17 Implementation timings

Implementation of any of these Modifications is proposed to be in line with an Ofgem decision.

Modifications 0678 and 0678A and 0678B xx and yy propose that implementation should be by 31 May 2019 or as soon as possible after this date.

Modification 0678 and its resulting methodology change will take effect for prices from 01 October 2019 or any other date in line with the Ofgem decision, in order to achieve compliance with the EU Tariff Code (or the relevant Statutory Instrument) as soon as possible.

Modifications 0678B x and yy recommend that their changes will take effect for process from 01 October 2020 or any other date in line with the Ofgem decision. The proposer of 0678B confirmed that this is to enable a properly managed transition to the new charges including adequate notice periods. In addition, there are several processes subsequent to the UNC process. Noting that industry tend to construct commercial deals on a Gas Year basis, having some reasonable foreknowledge as to what the transmission charges and methodologies are likely to be.

Workgroup participants explored the effects on consumers. Without this certainty, suppliers may be forced to include risk premiums to manage the risk of charges changing which may not be in consumers best interests. Mid-year changes would cause significant issues from a retail trading point of view (e.g. break clauses)

Some Workgroup participants strongly supported the charge change dates of October 2020. An October – only implementation is exceptionally important. Charging methodology changes outside of an October timeframe are believed to be unprecedented in the last 15 years.

Some Workgroup participants did not support an October 2020 charge change date because this suite of Modifications is aimed at compliance with TAR NC which says a methodology should be in place by 31 May 2019 in effect for charges for October 2019 (xx Article number from DH).

National Grid stated the information contained in its Modification, confirming Ofgem’s decision will dictate the relevant date.

Many Workgroup participants sought to highlight that it is not feasible to implement this suite of Modifications by October 2019 and therefore questioned why Urgency was sought by National Grid. Issues include opportunity to develop Alternatives, impact assessments by Ofgem, requirement for Article 26 consultation and notice given to industry for potentially significant/unknown changes to prices.

National Grid noted the Modification 0678 aims to deliver compliant implementation “by October 2019 or as soon as possible after implementation”. The aim is to get the FMR to Ofgem as soon as possible and by 23 April 2019 (in line with the Urgency timetable) in order to enable Ofgem to begin work on this as soon as possible, aiming at new prices being effective for October 2019. Modifications coming out of 0670R and Modification 0662 have a dependency on the outcome of Modification 0678 or its Alternatives.

Some Workgroup participants noted the uncertainty around Brexit and its effect on these dates; if there is ‘No Deal’, GB’s obligation to comply with TAR NC ceases. Given how difficult it is acknowledged to be to meet the October 2019 deadline, some Workgroup participants suggested that Ofgem is best able to determine an appropriate date for new charges.

Workgroup participants noted that the processes required subsequent to submission of the FMR to Ofgem on 23 April 2019 will take up time and are highly likely to take the Ofgem decision past 31 May 2019. Workgroup noted that gas storage auctions take place in April, in line with storage licences and this will be too late for customers to bid for storage capacity with certainty. This will have adverse consequences for storage businesses which would be averted if charge changes were to take place from October 2020.

Exit capacity can be purchased or surrendered in the July capacity auction application windows; shippers will need to know charges in advance of this date in order to be able to respond to prices. Similarly, in July interconnector PRISMA auctions also take place with similar response concerns.

27 February 2019

Some Workgroup participants noted that an implementation date other than 01 October would create a cross subsidy between IPs and non-IPs and also a difference of methodology between IPs and non-IPs, which is believed to not be compliant with TAR NC Article 6.3 in the view of Workgroup participants. This was noted whilst considering the Legal Text on 27 February 2019 which would be created to enable a mid-year effective date (e.g. Transition Document Paragraph 25.5). If there were to be an effective date other than 01 October there would be a different application of the methodology at IPs and non-IPs which is not believed to be compliant with Article 6.3, which would also create a cross subsidy between those points. Other Workgroup participants wished to review this aspect of TAR NC again before agreeing with the Workgroup.

Some Workgroup participants noted that in 0678B, there is a recommendation for 01 October 2020 effective date, however the Proposer does not feel they can provide a solution for a mid year change, since such a change is contingent on decisions over which the Proposer does not have control, e.g. licence changes/derogations.

**Interaction with other Modifications**

Modification 0678B does not rely on any output from the 0670R review group in respect of replacing the Optional Commodity Charge with a new solution. The non-application of the transmission services revenue recovery charge to all existing contracts means that the solutions being developed under Modification 0662 are not required.

#### 4.18 Independent Assurances on the development of any new Charging Models

Text

#### 4.12 General Non-Transmission Charges

Text

#### 4.13 K Principles and adjusting revenues in subsequent years

Text

#### 4.20 Central Systems Impacts

There will be impacts on Gemini and UK Link invoicing systems. These impacts are being assessed. The CDSP, Xoserve, has been consulted on all stages of development of this project and National Grid will continue to ensure this is the case.

#### (Cost estimate and issues update statement from National Grid ) Action 01-2602

#### …Some aspects will be challenging to deliver depending on the complexity of the Alternatives yet to be received… as example of this is tagging of secondary trades…

Some Workgroup participants expressed concern about the lack of clarity about the required changes to UNC TPD Section S Invoicing and Payment) and further concern about Users’ ability to accommodate those changes within their own systems. Further, the timescales for change if implementation is in October 2019 are extremely challenging.

1. Legal Text

#### Workgroup Text Commentary

#### On 27 February 2019 Workgroup reviewed the Legal Text prepared for Modification 0678 including

* Modification 0678 - Annex A Draft Legal Text TPD B (63512674\_1)
* [Modification 0678 - Annex B Draft Legal Text - TPD Y Part I-A (58815157\_3)](https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/book/2019-02/Modification%200678%20-%20Annex%20B%20Draft%20Legal%20Text%20-%20TPD%20Y%20Part%20I-A%2858815157_3%29.pdf" \o "" \t "_blank)
* [Modification 0678 - Annex C Draft Legal Text - TDIIC (63512687\_1)](https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/book/2019-02/Modification%200678%20-%20Annex%20C%20Draft%20Legal%20Text%20-%20TDIIC%2863512687_1%29.pdf" \o "" \t "_blank)
* [Modification 0678 - Annex C Draft Legal Text - TDIIC (63512687\_1 Marked Up)](https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/book/2019-02/63512687_1.pdf" \o "" \t "_blank)
* [Modification 0678 - Draft Legal Text (63537862\_1)](https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/book/2019-02/Modification%200678%20-%20Draft%20Legal%20Text%2863537862_1%29.pdf" \o "" \t "_blank)

#### Some changes were noted and were envisaged to be required. A key discussion was on the xxx #

Workgroup participants expressed deep concern that the timelines do not allow Workgroup to review any further Legal Text; noting that several of the Alternatives include drastically different elements. Industry will therefore have very little if any opportunity to examine such Legal Text. Such legal text will then only have been reviewed by those drafting it, the Transporter responsible for drafting and the Proposer. Workgroup participants were concerned at the lack of opportunity to review the legal text given the significant variations in some of the many Alternatives.

Workgroup participants requested that the UNC Modification Panel consider on 01 March 2019 how the provision of Legal Text is properly reviewed, noting that the full complement of Legal Text will be provided during the consultation period. For example, how much before the end of the consultation period could legal text be provided in order to enable consultation responses to be amended once the legal text is available for reviewing. Workgroup participants asked Panel to note that some of the Alternatives contain significant variations from 0678.

#### Text Commentary

Insert text here

#### Text

Insert text here

1. Recommendations

#### Workgroup’s Recommendation

The Workgroup Report has been completed in line with the recommended timetable and will now proceed to consultation.

Appendix 1: Impacts of Proposal on NTS Capacity Auctions



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

   [↑](#footnote-ref-1)
2. https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/page/2018-12/Ofgem%20Decision%20Letter%200621.pdf [↑](#footnote-ref-2)
3. [↑](#footnote-ref-3)
4. Allowed revenue comprises past and future cost. [↑](#footnote-ref-4)
5. Workgroup noted that consideration of any similarities or otherwise with the Electricity Charging regime is a consideration of Ofgem, though it is not a UNC Relevant Objective. [↑](#footnote-ref-5)
6. <https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/page/2018-12/Ofgem%20Decision%20Letter%200621.pdf> [↑](#footnote-ref-6)
7. https://www.ofgem.gov.uk/system/files/docs/2018/06/unc636\_request\_for\_evidence.pdf [↑](#footnote-ref-7)
8. http://www.gasgovernance.co.uk/0636 [↑](#footnote-ref-8)
9. Some Workgroup participants noted that the Wheeling Charge in 0678I may need to be examined in the same light, in respect of DN points; this has not yet been completed (04 March 2019). [↑](#footnote-ref-9)
10. Workgroup participants noted that the CWD version proposed here is a GB market version of CWD. [↑](#footnote-ref-10)