Relevant Objectives

Approach for Workgroup Assessment of the Relevant Objectives

For every Relevant Objective an assessment has been made by the relevant proposer stating whether the impact of the Modification Solution is negative, neutral (“none”) or positive. The text provided by the proposer should explain the Impacts of their Modification. It is not enough for the Proposer to simply state that, for instance, a Modification has a positive impact on competition between shippers (Objective d); a full rationale of specifically how competition is furthered must be demonstrated.

The Workgroup must also provide an assessment against all the Relevant Objectives. Modification 0678 and each Alternative Modification will be assessed against each Relevant Objective in turn to determine if the Workgroup agrees or disagrees that the Modification demonstrates that the Relevant Objectives are furthered as set out in the Modification Proposal(s).

Where this is the case, the Workgroup Report has changed the status to indicate that the Relevant Objective is ‘impacted’. Where the Workgroup has differing views to that proposed in the Modification, the Workgroup Report captures a statement of the summary of the reasons why the Workgroup consider the impact to be different (positive or none or negative).

Where supporting evidence is provided, this has been cross-referenced to the analysis of the impacts against the Relevant Objectives. This approach does not preclude Workgroup 0678 participants from providing additional views and evidence as part of the consultation process.

National Grid advised the Workgroup that they would be issuing an amended Modification (v3) during the afternoon of Tuesday 05 March 2019. Workgroup participants noted that Proposers of Alternative Modifications should be given time to update their Alternative Modifications or not as they choose in order to be given fair and equal treatment .

Workgroup participants highlighted their concerns relating to the late arrival of the amended 0678 Modification noting that it was due previously. Workgroup participants were mindful that they had a deadline for completion of the Workgroup Report by 5pm on Wednesday 06 March 2019. Therefore, Workgroup participants put forward the approach that the assessment of the Relevant Objectives would be done against all 0678 Modifications as received by Joint Office at 1pm 05 March 2019 and without sight of final Legal Text for Modification 0678 and its Alternatives. Workgroup participants noted especially the issue of mid-year changes as being significant, particularly around competition.

The table below provides a summary for information only of the Proposer’s assessment against each Relevant Objective. It also includes details of the version of the Modification (and the Relevant Objectives contained within it) which has been considered as part of the Workgroup’s assessment of the Relevant Objectives.

**Note: correct as at 1pm 05 March 2019**

Table 1: Summary of Proposer's assessment against each Standard Relevant Objectives

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Relevant Objective** | **0678** | **0678A** | **0678B** | **0678C** | **0678DD** | **0678EE** | **0678F** | **0678G** | **0678H** | **0678I** |  |
| **National Grid**  **V2** | **RWE**  **V2** | **Centrica**  **V2** | **SSE**  **V3** | **ENI**  **V1** | **Gateway Energy**  **V1** | **Storengy**  **V1** | **Vitol**  **V1** | **EP UK**  **V1** | **Gazprom**  **V1** |  |
| a) Efficient and economic operation of the pipe-line system. | None | None | Positive | Positive | None | Positive | Positive | Positive | Positive | Positive |  |
| b) Co-ordinated, efficient, and economic operation of | None | None | None | Positive | None | Positive | Positive | None | None | None |  |
| (i) the combined pipe-line system, and/ or |
| (ii) the pipe-line system of one or more other relevant gas transporters. |
| c) Efficient discharge of the licensee's obligations. | Positive | Positive | Positive | Positive | Positive | Positive | Positive | Positive | Positive | Positive |  |
| d) Securing of effective competition: | Positive | Positive | Positive | Positive | Positive | Positive | Positive | Positive | Positive | Positive |  |
| (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. |
| 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 | None | None | None | None | None | None | None | None | None |  |
| f) Promotion of efficiency in the implementation and administration of the Code. | None | None | None | None | None | None | None | None | None | Positive |  |
| 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 | Positive | Positive | Positive | Positive | Positive | Positive | Positive | Positive | Positive |  |

Workgroup Assessment of Impacts 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 – 0678/A/D  Positive – 0678B/C/E/F/G/H/I |
| 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 – 0678/A/B/D/G/H/I  Positive – 0678C/E/F |
| c) Efficient discharge of the licensee's obligations. | Positive – 0678/A/B/C/D/E/F/G/H/I |
| 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 – 0678/A/B/C/D/E/F/G/H/I |
| 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 – 0678/A/B/C/D/E/F/G/H/I |
| f) Promotion of efficiency in the implementation and administration of the Code. | None – 0678/A/B/C/D/E/F/G/H  Positive – 0678I |
| 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 – 0678/A/B/C/D/E/F/G/H/I |

**E**

|  |  |
| --- | --- |
| 1. **Efficient and economic operation of the pipe-line system** | |
|  | **Workgroup comments** |
| **All CWD Modifications**  **(0678, 0678B, 0678D, 0678E, 0678F, 0678G, 0678I)** | National Grid clarified that it did not expect to see any operational benefits or detriments as a result of the proposals in 0678.  Some Workgroup participants noted that there may be behavioural changes as a result of locational signals (or lack of) and changes in booking behaviours compared to the FCC.  Some Workgroup participants highlighted their view that the distorted locational signals from CWD may negatively impact on the efficient and economic operation of the pipe-line system. |
| **All PS Modifications**  **(0678A, 0678C, 0678H)** | Some Workgroup participants noted that Postage Stamp Modifications do not propose their Modifications positively impact this Relevant Objective because the aim is recovery of historical sunk costs and the aim is not to provide signals to Users in relation to operation of the network.  Some Workgroup participants highlighted their view that compared with the current arrangements, the absence of locational signals from PS may negatively impact on the efficient and economic operation of the pipe-line system. |
| **0678** | See above |
| **0678A** | See above |
| **0678B** | Some Workgroup participants noted that Modifications that include an Optional Charge potentially facilitate this better than those that do not because of the incentive of where to locate and flow on the network. An example is that if, at St Fergus, gas transported to Peterhead power station (approx. 400m) on a private pipeline would result in change of compressor use on the NTS and therefore impact system operation.  A Workgroup Participant noted that this Relevant Objective is unlikely to be positively impacted because it is referring to system operation which is unlikely to be affected by a ‘shorthaul’ type charge. |
| **0678C** | Workgroup participants noted that the Storage Discount proposed enables the NTS as System Operator to benefit from the counter injection and withdrawal in relation to storage. Without the Storage Discount these facilities would be detrimentally impacted which in turn would have a negative impact the operation of the NTS and this Relevant Objective a).  Other Workgroup participants noted that the minimum 50% Storage Discount should be sufficient to ensure efficient operation of the NTS in relation to Storage.  Workgroup participants noted that Ofgem (in its 0621 rejection letter) had observed that :  *“Therefore, under a number of the UNC621 modifications (ie those which propose a storage discount less than 86%), some storage facilities may encounter challenges in continuing operations in the medium to longer-run.“*  Workgroup participants noted that if this transpired, it could have a potentially detrimental impact on the operation of the system. |
| **0678D** | See above |
| **0678E** | See above |
| **0678F** | See above |
| **0678G** | Some Workgroup participants noted that Modifications that include an Optional type Charge potentially facilitate this better than those that do not because of the incentive of where to locate and flow on the network. An example is that if, at St Fergus, gas transported to Peterhead power station (approx. 400m) on a private pipeline would result in change of compressor use on the NTS and therefore impact system operation.  A Workgroup Participant noted that this Relevant Objective is unlikely to be positively impacted because it is referring to system operation which is unlikely to be affected by a ‘shorthaul’ type charge. |
| **0678H** | Some Workgroup participants noted that Modifications that include an Optional type Charge potentially facilitate this better than those that do not because of the incentive of where to locate and flow on the network. An example is that if, at St Fergus, gas transported to Peterhead power station (approx. 400m) on a private pipeline would result in change of compressor use on the NTS and therefore impact system operation.  A Workgroup Participant noted that this Relevant Objective is unlikely to be positively impacted because it is referring to system operation which is unlikely to be affected by a ‘shorthaul’ type charge. |
| **0678I** | Workgroup participants noted that the Modification is not sufficiently defined to fully understand the impact of this Modification 0678I. |

**0678E**

|  |  |
| --- | --- |
| 1. **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.** | |
|  | **Workgroup comments** |
| **All PS Modifications**  **(0678A, 0678C, 0678H)** | Workgroup participants noted that Postage Stamp Modifications do not propose their Modifications positively impact this Relevant Objective because the aim is recovery of historical sunk costs and the aim is not to provide signals to Users in relation to operation of the network.  Some Workgroup participants noted PS delivers no locational signals in that the charges do not reflect any investment or operation of the network. This approach results in all Users will be paying the same price, this could be argued to be undue cross subsidy and undue discrimination wherein Users flowing gas for short distances are subsidising those who flow across long distances. Compressors are used to transport gas across long distances and therefore this is more accurately reflected in the CWD methodology.  Some Workgroup participants noted that under a PS methodology there could be no added incentive to bring gas onto the network at a particular Entry Point. For example bringing gas onto the network at a distance far from where it is intended to be consumed is not conducive to operational efficiency, since it would be require significant Capex and Opex investment in NTS compression to move the gas around the network. (This would also have a negative environmental impact).  Some Workgroup participants noted that lack of materiality of compression costs must be taken into account.  Some Workgroup participants noted that PS delivers a higher price at some points than CWD does. |
| **All CWD Modifications**  **(0678, 0678B, 0678D, 0678E, 0678F, 0678G, 0678I)** | Some Workgroup Participants noted CWD is detrimental in relation to Relevant Objective b) in relation to operation of the network because the locational signals given are essentially given by the distance matrix rather than investment or operation of the network. Any behavioural responses to these signals will potentially be unhelpful and detrimental to the network.  Some Workgroup participants noted that under CWD higher prices at the extremes of the network may have a negative effect on security of supply which is an operational efficiency issue (Ofgem’s rejection letter on 0621 p 13 and 14). |
| **0678** | No comments received from Workgroup participants. |
| **0678A** | No comments received from Workgroup participants. |
| **0678B** | No comments received from Workgroup participants. |
| **0678C** | Some Workgroup participants noted that storage provides support to the entire network. Proximity to demand and flow response to changes in aggregate demand ensures that overall system pressures are supported. The 80% Storage Discount (compared with a 50% discount) is designed to ensure that storage facilities should continue to provide services to the NTS. |
| **0678D** | No comments received from Workgroup participants. |
| **0678E** | Some Workgroup participants noted that storage provides support to the entire network. Proximity to demand and flow response to changes in aggregate demand ensures that overall system pressures are supported. The 80% Storage Discount (compared with a 50% discount) is designed to ensure that storage facilities should continue to provide services to the NTS. |
| **0678F** | Some Workgroup participants noted that storage provides support to the entire network. Proximity to demand and flow response to changes in aggregate demand ensures that overall system pressures are supported. The 80% Storage Discount (compared with a 50% discount) is designed to ensure that storage facilities should continue to provide services to the NTS. |
| **0678G** | No comments received from Workgroup participants. |
| **0678H** | No comments received from Workgroup participants. |
| **0678I** | No comments received from Workgroup participants. |

|  |  |
| --- | --- |
| 1. **Efficient discharge of the licensee's obligations** | |
|  | **Workgroup comments** |
| **All Modifications** | Some Workgroup participants noted that the removal of existing contract volume and revenue before calculating the reference prices leads to a greater distortion between the prices paid by existing contract holders and those making new capacity purchases. Whilst this has been a feature of the regime for some time due to entry capacity purchases made on a fixed price basis not being indexed in any way, the situation becomes extreme which is inconsistent with the licensee’s obligations to avoid undue preference in the supply of transportation services. It is acknowledged that existing contracts have been purchased in monthly or quarterly blocks which cannot be changed whilst new purchases can be profiled more closely to meet expected flows. This may not be sufficient to offset the price disparity. Some Workgroup participants expect Ofgem to consider this in its Impact Assessment, along with whether this creates a barrier to entry. |
| **0678** | Workgroup participants were satisfied with National Grid‘s explanation. |
| **0678A** | Workgroup participants were satisfied with RWE‘s explanation which was based entirely on National Grid’s. |
| **0678B** | Some Workgroup participants agree, believing that 0678B is a complete charging solution which has a ‘shorthaul’ type charge delivered at the same time as the other changes and therefore it better facilitates achievement of this relevant objective c)  Other Workgroup participants noted that having a ‘shorthaul’ type charge was not a requirement of TAR NC; a method of managing inefficient bypass can be made via a separate Modification (e.g. UNC0670R noting though that this is only a Review).  Some Workgroup participants noted that licensees’ obligations include cost reflectivity, clearing allocation and undue preference.  Some Workgroup participants suggested that 0678B with CWD **and** the optional charge goes some way to compensate for the CWD effect of higher charges at exit points close to entry points and thus improves its cost reflectivity better than if the optional charge were not included.  Some Workgroup participants noted that the removal of existing contract volume and revenue before calculating the reference prices leads to a greater distortion between the prices paid by existing contract holders and those making new capacity purchases. Whilst this has been a feature of the regime for some time due to entry capacity purchases made on a fixed price basis not being indexed in any way, the situation becomes extreme which is inconsistent with the licensee’s obligations to avoid undue preference in the supply of transportation services. It is acknowledged that existing contracts have been purchased in monthly or quarterly blocks which cannot be changed whilst new purchases can be profiled more closely to meet expected flows. This may not be sufficient to offset the price disparity. Some Workgroup participants expect Ofgem to consider this in its Impact Assessment, along with whether this creates a barrier to entry. |
| **0678C** | Workgroup participants were satisfied with SSE‘s explanation which was based entirely on National Grid’s. |
| **0678D** | No additional comments received from Workgroup participants. |
| **0678E** | No additional comments received from Workgroup participants. |
| **0678F** | No additional comments received from Workgroup participants. |
| **0678G** | No additional comments received from Workgroup participants. |
| **0678H** | No additional comments received from Workgroup participants. |
| **0678I** | No additional comments received from Workgroup participants. |

|  |  |
| --- | --- |
| 1. **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**. | |
|  | **Workgroup comments** |
| **All Modifications** | **All** Some Workgroup participants noted that all CWD based modifications are broadly cost reflective because they use the TAR NC drivers of capacity and distance.  Other Workgroup participants noted that for a network that is no longer expanding and has excess capacity, then locational signals are not relevant in which case, the recovery of sunk costs is best achieved using a uniform non-discriminatory charge which is achieved using Postage Stamp Model.  One Workgroup participant noted that the use of the system is changing and indeed in respect of Milford Haven there is an expectation that incremental capacity will be provided.  Some Workgroup participants suggested gas destined for Milford Haven is unlikely to go to a different terminal.  Competition effects of Existing contracts being in/out (price distinction) 06 March 2019 |
| **All PS Modifications** | 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. PS does not recognise any differentiation of costs for different Users by definition.  Other Workgroup participants noted that the methodology does not discriminate and does not create cross subsidy because it is based on allocation of historical sunk costs by capacity. |
| **All CWD Modifications** | Entry Users and Exit Users pay a price weighted by distance and FCC 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.  Other Workgroup participants noted that the methodology does not discriminate and does not create cross subsidy because it is based on allocation of historical sunk costs by distance and capacity. |
| **0678** | Workgroup participants expressed concern about the FCC Methodology where it sits outside of the UNC and the governance arrangements around it. This is felt to have a negative impact on competition.  Some Workgroup participants noted that the current methodology on establishing the TO commodity charges is undertaken by National Grid without the same UNC governance.  Some Workgroup participants noted that if the FCC Methodology is not in the UNC, it could be changed at National Grid’s discretion and could result in volatile unpredictable tariffs which could negatively impact competition.  Others disagreed.  Workgroup participants expressed concern about the sources of data for the FCC. Workgroup participants expressed concern that without further clarification it cannot be certain that these will comply with Article 29 and 30. Having these within the UNC will ensure publication to interested parties in a timely and efficient manner thereby improving competition. At present Modification 0678 does not do this. |
| **0678A** | Some Workgroup participants noted that for 0678A the FCC methodology sits under the UNC, which should provide greater regulatory oversight and more stability in relation to the FCC. This should be better for competition.  Some Workgroup participants noted the lack of clarity as to how this would function in practice, given that Legal text has not yet been drafted. |
| **0678B** | Some Workgroup Participants noted that effective competition relates to cost reflective charges.  Some Workgroup Participants noted that CWD and a suitable Optional charge is an improvement over CWD and no optional charge as it addresses the high non-cost-reflective charges at proximate Entry and Exit Points. Overall CWD and an optional charge is an improvement over CWD and no optional charge and is thus better for competition because it is considered due discrimination that is fully justified.  Other Workgroup participants expressed the view that an Optional type charge maintains undue discriminatory treatment for certain Users. This will have a detrimental impact on competition.  Some Workgroup Participants noted the CMA ruling of 2007 which referred to a test for discrimination as to whether two parties are relevantly similar which may justify different treatment.  Some Workgroup participants noted that for 0678B the FCC methodology is defined in the UNC, which should provide greater regulatory oversight and more stability in relation to the FCC. This should be better for competition.  Some Workgroup participants considered that this approach best facilitated competition compared with other Modifications because it gives the greatest degree of certainty to Users of the network. |
| **0678C** | Some Workgroup participants noted that for 0678C the FCC methodology is defined in the UNC, which should provide greater regulatory oversight and more stability in relation to the FCC. This should be better for competition.  Some Workgroup participants considered that this approach best facilitated competition compared with other Modifications because it gives the greatest degree of certainty to Users of the network.  Some Workgroup participants noted that under 0678C Revenue Recovery Charges are applied to Existing Entry Contracts and new entrants which will minimise price distortion; this is better for competition.  Some Workgroup participants noted that the under 0678C the non-application of Revenue Recovery Charges associated with Existing contracts at Storage sites compared to non-Storage sites may be considered undue discrimination.  Some Workgroup participants highlighted in Ofgem’s GTCR final decision letter they acknowledged that gas parked in storage has already paid revenue recovery charges to enter the NTS and then exit the NTS and to charge Revenue Recovery Charges on storage flows again would be double counting.  Some Workgroup participants highlighted that not all Storage facilities are captured within this proposal, which may negatively impact competition by treating the same class of Users in a different way.  The Proposer’s view is that the Rough facility referred to above is no longer a storage site and is therefore not treating the same class of Users in a different way.  Some Workgroup participants highlighted the existing capacity at Easington and Abandoned Storage Capacity at Bacton was procured for the sole purpose of providing access to storage and therefore ought to be given the same treatment as other Storage sites.  Workgroup participants noted that with respect to an 80% discount rather than a 50% discount for storage, there is a ~1% -2 % increase to all other Users charges using the National Grid sensitivity tool for 2019/20 and 2020/21 (from Vermilion’s analysis material).  Workgroup participants noted Ofgem’s comments that Storage facilities may be detrimentally impacted if the minimum (50%) discount is provided. The Workgroup noted that two storage facilities had closed within the last year due to adverse market conditions. This may impact on both competition within the storage market (due to concentration of market power) and within the market for (gas supply) flexibility, security of supply and network investment. Some Workgroup participants expect Ofgem to assess (through its RIA) whether the increased cost (1-2% for all other Users) is justified in this case.  Some Workgroup participants agreed that it is due discrimination.  Workgroup participants noted the existence of the GSOG/WWA report justifying the 80% Storage discount, but had not had time to review this. |
| **0678D** | Workgroup participants expressed concern about the FCC Methodology where it sits outside of the UNC and the governance arrangements around it. This is felt to have a negative impact on competition.  Some Workgroup participants noted that the current methodology on establishing the TO commodity charges is undertaken by National Grid without the same UNC governance.  Some Workgroup participants noted that if the FCC Methodology is not in the UNC, it could be changed at National Grid’s discretion and could result in volatile unpredictable tariffs which could negatively impact competition.  Others disagreed.  Workgroup participants expressed concern about the sources of data for the FCC. Workgroup participants expressed concern that without further clarification it cannot be certain that these will comply with Article 29 and 30. Having these within the UNC will ensure publication to interested parties in a timely and efficient manner thereby improving competition. At present Modification 0678D does not do this. |
| **0678E** | Workgroup participants noted that with respect to an 80% discount rather than a 50% discount for storage, there is a ~1% -2 % increase to all other Users charges using the National Grid sensitivity tool for 2019/20 and 2020/21 (from Vermilion’s analysis material).  Workgroup participants noted Ofgem’s comments that Storage facilities may be detrimentally impacted if the minimum (50%) discount is provided. The Workgroup noted that two storage facilities had closed within the last year due to adverse market conditions. This may impact on both competition within the storage market (due to concentration of market power) and within the market for (gas supply) flexibility, security of supply and network investment. Some Workgroup participants expect Ofgem to assess (through its RIA) whether the increased cost (1-2% for all other Users) is justified in this case.  Some Workgroup participants agreed that it is due discrimination.  Workgroup participants noted the existence of the GSOG/WWA report justifying the 80% Storage discount, but had not had time to review this. |
| **0678F** | Some Workgroup participants noted 0678F has the addition of a capacity hand back type scheme which may introduce an amount of volatility to future charges, which may be detrimental to competition. The effect of hand back would be an increase in tariffs for all Entry Users.  Other Workgroup participants noted that without the hand back Users could hold capacity that they are no longer wish to use.  Workgroup participants noted that with respect to an 80% discount rather than a 50% discount for storage, there is a ~1% -2 % increase to all other Users charges using the National Grid sensitivity tool for 2019/20 and 2020/21 (from Vermilion’s analysis material).  Workgroup participants noted Ofgem’s comments that Storage facilities may be detrimentally impacted if the minimum (50%) discount is provided. The Workgroup noted that two storage facilities had closed within the last year due to adverse market conditions. This may impact on both competition within the storage market (due to concentration of market power) and within the market for (gas supply) flexibility, security of supply and network investment. Some Workgroup participants expect Ofgem to assess (through its RIA) whether the increased cost (1-2% for all other Users) is justified in this case.  Some Workgroup participants agreed that it is due discrimination.  Workgroup participants noted the existence of the GSOG/WWA report justifying the 80% Storage discount, but had not had time to review this. |
| **0678G** | Some Workgroup Participants noted that effective competition relates to cost reflective charges.  Some Workgroup Participants noted that CWD and a suitable Optional charge is an improvement over CWD and no optional charge as it addresses the high non-cost-reflective charges at proximate Entry and Exit Points. Overall CWD and an optional charge is an improvement over CWD and no optional charge and is thus better for competition because it is considered due discrimination that is fully justified.  Other Workgroup participants expressed the view that an Optional type charge maintains undue discriminatory treatment for certain Users. This will have a detrimental impact on competition.  Some Workgroup Participants noted the CMA ruling of 2007 which referred to a test for discrimination as to whether two parties are relevantly similar which may justify different treatment. |
| **0678H** | Some Workgroup Participants noted that effective competition relates to cost reflective charges.  Some Workgroup Participants noted that PS and a suitable Optional charge is an improvement over PS and no optional charge as it addresses the high non-cost-reflective charges at proximate Entry and Exit Points. Overall PS and an optional charge is an improvement over PS and no optional charge and is thus better for competition because it is considered due discrimination that is fully justified.  Other Workgroup participants expressed the view that an Optional type charge maintains undue discriminatory treatment for certain Users. This will have a detrimental impact on competition.  Some Workgroup Participants noted the CMA ruling of 2007 which referred to a test for discrimination as to whether two parties are relevantly similar which may justify different treatment. |
| **0678I** | Workgroup participants noted that the Modification is not sufficiently defined to fully understand the impact of this Modification 0678I. |

|  |  |  |
| --- | --- | --- |
| 1. **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.** | | |
|  | **Proposers comments** | **Workgroup comments** |
| **0678** |  |  |
| **0678A** |  |  |
| **0678B** |  |  |
| **0678C** |  |  |

|  |  |
| --- | --- |
| 1. **Promotion of efficiency in the implementation and administration of the Code.** | |
|  | **Workgroup comments** |
| **All Modifications** | Workgroup participants agreed this was not relevant. |

**E/**

|  |  |
| --- | --- |
| **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.** | |
|  | **Workgroup comments** |
| **All Modifications** | Workgroup participants noted that all 0678 Modifications under consideration as at 04 March 2019 are an improvement over the current charging methodology, i.e. they positively impact this Relevant Objective g).  Workgroup participants noted the compliance commentary captured in sections 4.7 of the report above.  (signposting of problematic areas?)  Some Workgroup participants noted there are some areas of concern identified with the section 4.7 referred to.  Workgroup participants noted that it could be argued that 0678 and 0678A provide two foundational Modifications with what could be argued as a minimum approach implementation of TAR NC. Other Modifications add in additional areas felt to be of importance to their Proposers which can be justified separately under TAR NC whilst it should be noted that UNC 0670R could be argued to be doing this too. |
| **0678** |  |
| **0678A** |  |
| **0678B** | Action 01-1802 and Action 02-1802 |
| **0678C** |  |
| **0678D** |  |
| **0678E** |  |
| **0678F** |  |
| **0678G** |  |
| **0678H** |  |
| **0678I** |  |

**Table two - A summary of each Modification and the Proposer’s assessment against each Charging Methodology Relevant Objectives.**

The table below which provides a summary of the Proposer’s assessment against each Charging Methodology Relevant Objective. It also includes details of the version of the Modification (and the Relevant Objectives contained within it) have been considered as part of the Workgroup’s assessment of the Charging Methodology Relevant Objectives.

Table 2: Summary of Proposer's assessment against each Charging Methodology Relevant Objectives

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Relevant Objective** | **0678** | **0678A** | **0678B** | **0678C** | **0678DD** | **0678EE** | **0678F** | **0678G** | **0678H** | **0678I** |  |
| **National Grid**  **V2** | **RWE**  **V2** | **Centrica**  **V2** | **SSE**  **V3** | **ENI**  **V1** | **Gateway Energy**  **V1** | **Storengy**  **V1** | **Vitol**  **V1** | **EP UK**  **V1** | **Gazprom**  **V1** |  |
| 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 | None | Positive | Positive | Positive | Positive | Positive | Positive | Positive | Positive |  |
| aa) That, in so far as prices in respect of transportation arrangements are established by auction, either:  no reserve price is applied, or  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 | None | Positive | None | Positive | Positive | Positive | Positive | Positive | 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 | Positive | Positive | Positive | Positive | Positive | Positive | Positive | Positive | 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 | None | Positive | Positive | Positive | Positive | Positive | Positive | Positive | 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 | None | None | None | None | None | None | None | None | 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 | Positive | Positive | Positive | Positive | Positive | Positive | Positive | Positive | Positive |  |

Workgroup Assessment of Impacts 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 – 0678/B/C/D/E/F/G/H/I  None – 0678A |
| 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 – 0678/B/D/E/F/G/H/I  None – 0678A/C |
| b) That, so far as is consistent with sub-paragraph (a), the charging methodology properly takes account of developments in the transportation business; | Positive – 0678/A/B/C/D/E/F/G/H/I |
| c) That, so far as is consistent with sub-paragraphs (a) and (b), complianc  e with the charging methodology facilitates effective competition between gas shippers and between gas suppliers; and | Positive – 0678/B/C/D/E/F/G/H/I  None – 0678A |
| 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 - 0678/A/B/C/D/E/F/G/H/I |
| 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 – 0678/A/B/C/D/E/F/G/H/I |

|  |  |  |
| --- | --- | --- |
| 1. **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;** | | |
|  | **Proposers comments** | **Workgroup comments** |
|  |  | **All Modifications**  Some Workgroup participants noted that there may be a difference between ‘costs incurred’ as defined in TAR NC and the allowed revenue as defined by National Grid’s license.  Some workgroup participants noted that any of the methodologies propose a method of distribution of revenue across the network (operation under revenue control).  Some Workgroup participants noted that use of CWD cost drivers (a combination of capacity and distance) better reflect the cost drivers of investment in the network compared with PS. PS is not designed to reflect any drivers of cost. |
| **0678** |  |  |
| **0678A** |  | Workgroup noted the material in Annex 1: “0678A Some thoughts on Cost Recovery associated with 0678A Postage Stamp RPM” This can be found at the end of the Analaysis prepared by RWE focusing on 0678A:  <http://www.gasgovernance.co.uk/0678/Analysis> |
| **0678B** | The Capacity Weighted Distance (CWD) basis for allocating costs and setting reference prices is expected to provide a platform for more stable and predictable capacity reserve prices compared with the current Long Run Marginal Cost methodology. Some shortcomings with the CWD approach have been identified, in particular the production of some relatively high exit capacity prices close to some entry points. However, the inclusion of Optional Capacity arrangements in this Modification provide a means of correcting such anomalies and provide a more intuitively correct outcome when considering the cost-reflectivity of the charges.  The current Long Run Marginal Cost (LRMC) reference price methodology was designed to provide economic signals indicating where it would be economic for customers to acquire capacity on the NTS, i.e. it provided locational price signals. This approach was relevant during the period when the network was expected to expand so that informed and efficient network usage would be encouraged. Today, however, expansion of the network is likely to be limited and gas demand has been following a generally downward trend in most recent years. Therefore, an LRMC approach is not best suited to the current usage and requirements of the NTS and will not provide such a relevant, cost-reflective approach to charging as it has in the past.  A new approach to paying for these costs, reflecting how the NTS is now used, is therefore required; a methodology that more fairly distributes costs among the Users of the system and that recognises that historical decisions on how the network was developed over many years should not in future unduly dictate how charges are set in future.  A Postage Stamp methodology has its appeal – it’s simple and generally equalises entry and exit charges for users. However, a Postage Stamp method is not in any way cost-reflective: capital costs employed to support the current NTS infrastructure (e.g. for maintenance and replacement) or for maintaining gas pressures and delivering gas throughout the gas network (e.g. compressors) intuitively have a distance-related component to them. In light of this, a Capacity Weighted Distance (CWD) method is much more sensible.  A CWD reference price methodology has therefore been adopted in this proposal to provide a balanced cost-allocation approach, one which recognises the changing use of the NTS yet one that retains some locational price signals. It is the view of the Proposer that CWD provides a more reasonable basis for setting cost-reflective reference prices during this phase of the NTS’ life but it requires and relies on the addition of an Optional Capacity charge solution to make it even more reasonable.  The inclusion of a workable Optional Capacity charge solution is critical to enhancing the cost-reflectivity of the methodology. CWD would produce counter-intuitive capacity charges for some combinations of entry and exit points, e.g. high entry and exit charges when the exit point is in close proximity to the entry point, such as St Fergus and Peterhead power station or Bacton UKCS and the Interconnector UK exit point. It is therefore essential to incorporate a meaningful and enduring Optional Capacity charge solution to resolve such anomalies in order to provide a holistic solution that results in better charging outcomes | Some Workgroup participants suggested that 0678B with CWD **and** the optional charge goes some way to compensate for the CWD effect of higher charges at exit points close to entry points and thus improves its cost reflectivity better than if the optional charge were not included. |
| **0678C** | The Proposer believes that the proposal better reflects the costs incurred by the licensee. In particular, in relation to gas storage the application of an [80%] better facilitates this objective. The requirement for a minimum 50% discount for storage related capacity in the EU Tariff Code insulates storage users from double charging and nothing more, however, given that storage facilities are embedded in the network its application fails to appreciate the relative costs of delivering gas directly to offtakes compared to those incurred by routing gas via storage.  As set out in the WWA paper the fact that flows to and from offtakes located close to storage facilities are cheaper, in terms of transportation costs, than the cost of flowing gas to the same offtakes, but via storage (including a 50% discount), suggests that a 50% discount is not cost reflective. The application of an [80%] discount ensures that the costs incurred under these two flow scenarios are equivalent, and that the costs of transporting gas to and from storage are as cost reflective as the costs of transporting gas directly between non-storage entry points and non-storage exit points.  Further, the application of an [80%] discount ensures that the benefits, or negative costs which are delivered by storage in terms of investment savings attributable to the transmission owner are to some degree represented in the cost of using storage.  The fact that the benefits of embedded entry points located within DN networks receive discounted DN transportation costs, or even credits, suggests that a discount which is set to singularly to remove double charging is inconsistent with the approach taken in other pipeline networks. The additional level of discount provides a mechanism for recognising the benefits afforded by embedded entry points (and exit points) and is in line with the cost reflective charging methodologies approved and employed at the DN level. |  |
| **0678D** |  |  |
| **0678E** |  |  |
| **0678F** |  |  |
| **0678G** |  |  |
| **0678H** | The inclusion of a workable NTS Optional Capacity charge solution is critical to enhancing the cost-reflectivity of the methodology. PS would produce counter-intuitive capacity charges for some combinations of entry and exit points, e.g. high entry and exit charges when the exit point is in close proximity to the entry point In particular, as the derivation of the NTS Optional Capacity charge is based on the cost of National Grid building and maintaining a bypass pipeline of an equivalent distance, Users of the NTS Optional Capacity charge will pay cost reflective charges. Further, the annual indexation of the Charge, based on CPI will ensure that the Charge is updated, maintaining cost reflectivity. The use of CPI is consistent with Ofgem’s RIIO-2 Framework Decision[[1]](#footnote-1) where it states: “*An accurate measure of inflation is important to ensure an accurate price control settlement. RPI is upwardly biased and has lost its credibility as an accurate measure of inflation”.* |  |
| **0678I** | The failures of the current Long Rung Marginal Cost reference price methodology have been addressed by Ofgem and Modification 0621 discussions. Postage Stamp methodology has its appeal – it’s simple and generally equalises entry and exit charges for users. However, a Postage Stamp method is not in any way cost-reflective: capital costs employed to support the current NTS infrastructure (e.g. for maintenance and replacement) or for maintaining gas pressures and delivering gas throughout the gas network (e.g. compressors) intuitively have a distance-related component to them. As shown below in Figure 6 the topology of the GB network is complex and expansive, initially designed to transport volumes from the north east of the country to the south, with additional extensive supply routes travelling from the west.  It is therefore not cost reflective to use a postage stamp methodology as this would lead to undue cross subsidisation. The CWD method is a more considered and cost-reflective approach.  The inclusion of the Wheeling tariff is critical in enhancing the cost-reflectivity of the methodology, particularly for combinations of entry and exit points that are in close proximity, e.g. high entry and exit charges when the exit point is in close proximity to the entry point, such as St Fergus and Peterhead power station or Bacton UKCS and the Interconnector UK exit point. It is, therefore, essential to incorporate a consistent and enduring ‘shorthaul’ solution to resolve such anomalies. |  |

**0678A Some thoughts on Cost Recovery associated with 0678A Postage Stamp RPM**

The 0678A Modification proposal sets out that the postage stamp approach is not designed to reflect current and future expectations related to investment in or the “use” or operation of the NTS and does not seek to influence NTS investment or its use or operation (driven through market behaviour).

In developing a postage stamp approach the following Ofgem views are relevant[[2]](#footnote-2)

* **“***cost-reflectivity is more relevant to forward-looking charges than revenue recovery charges*”;
* **“***the following principles are relevant for assessing revenue recovery charges: i) reducing harmful distortions, ii) fairness to end consumers and iii) proportionality and practical considerations*”
* “*In making a decision on gas network charges, we will keep these principles in mind, taking account of differences in gas and electricity charging and systems*”;
* 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*”.
* “*Only a limited proportion of the costs of a meshed network are directly attributable to particular points, and therefore a substantial proportion of NGGT’s revenue requirement cannot be unambiguously attributed to individual entry and exit points*.”
* “*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:*

* Setting higher charges to those bringing gas onto and taking gas off the system at points which are located further away would increase incentives on those users to reduce their usage of the network, for which there are unlikely to be any short to medium term associated cost savings.*

* The distances used in the CWD methodologies are typically averaged across all points for the purposes of setting prices, and the actual costs of a particular entry point to a particular exit point might not be “real” (i.e. such physical flows may never occur). Shippers book entry and exit capacity independently and nominate flows without specifying specific routes and therefore it is very difficult to allocate flows to specific assets. This type of treatment of distance is therefore unlikely to generate prices that are accurately cost-reflective of the physical transportation routes actually used. Although as we consider the charges resulting from the RPMs to be largely functioning as revenue recovery charges, cost-reflectivity is less relevant in any case.*

* Using distance in setting transmission entry and exit charges would mean those consumers who are located in more remote locations would pay higher transmission charges for entry and exit (other things being equal). This may not be considered a fair outcome as those consumers are not driving significant additional costs from their use of a shared network that is already built and that has spare capacity availab*le.”

* “*Incentives for a party to choose a particular location to benefit from lower transmission charges are likely to be lower under all proposals compared to the status quo, but higher under the CWD options compared to the PS option, which has no locational incentives*”

The Compliance Statement for 0678A it was noted that distance is not a “cost driver” for GB transmission services where these relate to historic sunk costs. The TAR Network Code arrangements combine both revenue recovery and locational signals in a single capacity based charging methodology. If a methodology was purely designed to produce locational signals then these should be included in cost reflective locational tariffs that relate to the marginal costs of investment in the transmission network. It is clear that is not envisaged for the TAR Reference Price Methodology which relates to “cost drivers” rather than “cost reflective tariffs”.

Under the postage stamp approach, it seem relevant that there is no basis for “correlating” historical sunk costs of the transmission system operator with distance. 0678A notes that “*there are several potential weaknesses with using distance as a factor for setting the reference price*” (Ofgem decision letter UNC0621[[3]](#footnote-3)). These include potential for

* + distortive locational signals;
  + that the simple “distance” in the methodology does not reflect “real” flows on the gas network; and
  + outcomes of a reference price methodology using distance may not be “fair” particularly in relation to users in more remote locations pay higher charges but do not drive significant additional costs from their use of a shared network that is already built and that has spare capacity (as set out in UNC0621 decision letter)

|  |  |  |
| --- | --- | --- |
| **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 -** 3. **best calculated to promote efficiency and avoid undue preference in the supply of transportation services; and** 4. **best calculated to promote competition between gas suppliers and between gas shippers;** | | |
|  | **Proposers comments** | **Workgroup comments** |
|  |  | **All Modifications**  Some Workgroup participants noted that multipliers set to 1 mean that short and long term purchases are on the same footing.  Some Workgroup participants noted that competition is best facilitated when supported by cost reflective charges. Economic principles say that cost reflective charges should reflect the forward-looking marginal costs with residuals recovered uniformly (in a flat non-distortive manner). [link to frontier economics report]  One of the main principles in the electricity TCR is reduction of harmful distortions by separating charges into forward looking and residual charges. It can be argued that for the gas network the focus could be on the residual charges |
| **0678** |  |  |
| **0678A** |  |  |
| **0678B** | **(iii) best calculated to promote competition between gas suppliers and between gas shippers**  The proposed changes to the balance of reserve prices among capacity products of different durations will ensure that a much fairer price is paid by shippers generally compared with the current situation where short-term entry and exit capacity can be readily purchased free of charge. This will help to significantly reduce the situation where parties that choose, or for business reasons are required, to purchase capacity on a long-term basis are disadvantaged and who, because of revenue under-recovery provisions such as has been witnessed with TO commodity charges, end up paying well in excess of their fair share of transmission costs. This rebalancing of charges and fairer allocation of costs is conducive to better promoting competition between gas suppliers and between gas shippers. | Some Workgroup participants agreed that 0678B helped to level the playing field in terms of short term and long term contracts compared with the current arrangements. |
| **0678C** |  |  |
| **0678D** | The Capacity Weighted Distance (CWD) basis for allocating costs and setting reference prices, proposed in this Modification, is expected to provide a platform for more stable and predictable capacity reserve prices compared with the current Long Run Marginal Cost methodology. Additionally, a CWD reference price methodology provides a balanced cost-allocation approach, one which recognises the changing use of the NTS yet one that retains some locational price signals. In the view of the Proposer a Postage Stamp methodology – though having its appeal being very simple - is not sufficiently cost-reflective: e.g. capital costs employed to support the current NTS infrastructure (e.g. for maintenance and replacement) or for maintaining gas pressures and delivering gas throughout the gas network (e.g. compressors) intuitively have a distance-related component to them.  Moreover, the proposed changes to the balance of reserve prices among capacity products of different durations will ensure that a much fairer price is paid by shippers generally compared with the current situation where short-term entry and exit capacity can be readily purchased free of charge. This will help to significantly reduce the situation where parties that choose, or for business reasons are required, to purchase capacity on a long-term basis are disadvantaged and who, because of revenue under-recovery provisions such as has been witnessed with TO commodity charges, end up paying well in excess of their fair share of transmission costs. This rebalancing of charges and fairer allocation of costs is conducive to better promoting competition between gas suppliers and between gas shippers. |  |
| **0678E** |  |  |
| **0678F** |  |  |
| **0678G** |  |  |
| **0678H** |  |  |
| **0678I** | The proposed changes to the balance of reserve prices among capacity products of different durations will ensure that a much fairer price is paid by shippers generally compared with the current situation where short-term entry and exit capacity can be readily purchased free of charge. This will help to significantly reduce the situation where parties that choose, or for business reasons are required, to purchase capacity on a long-term basis are disadvantaged and who, because of revenue under-recovery provisions such as has been witnessed with TO commodity charges, end up paying well in excess of their fair share of transmission costs. This rebalancing of charges and fairer allocation of costs is conducive to better promoting competition between gas suppliers and between gas shippers. |  |

|  |  |  |
| --- | --- | --- |
| 1. **That, so far as is consistent with sub-paragraph (a), the charging methodology properly takes account of developments in the transportation business;** | | |
|  | **Proposers comments** | **Workgroup comments** |
|  |  | **All Modifications**  Some Workgroup participants noted compliance with TAR NC can be considered a development in the transportation business. |
| **0678** | 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. |  |
| **0678A** | 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. |  |
| **0678B** | From a legal and regulatory perspective, the new methodology will ensure that the requirements of EU network codes can be fully adhered to, thus ensuring that the required transportation developments, especially, at Interconnection Points, are realised. From an operational perspective, the transportation business will need to change to meet changing demand patterns and changing sources of gas supply, presenting it with a challenge for the long-term transportation of gas to consumers and with a need to provide more flexibility to meet more unpredictable within-day changes to supply and demand patterns. The new charging approach under this Modification provides a significantly more balanced suite of capacity purchase options that will lead to more predictable costs for shippers and more appropriate payments in respect of the use of the day to day and within-day use of the system. |  |
| **0678C** | 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. |  |
| **0678D** |  |  |
| **0678E** |  |  |
| **0678F** |  |  |
| **0678G** |  |  |
| **0678H** | 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, , however, the challenges of operating the system are becoming more acute. Where it is the case that gas supplies from non-UK sources are required to satisfy demand, as is becoming increasing the case, it is essential that transportation charges are cost reflective for offtakes close to entry points. Inefficient NTS bypasses and/or inflated transportation charges could result in supplies being diverted to alternative markets, or gas prices being set at artificially high levels. |  |
| **0678I** | From a legal and regulatory perspective, the new methodology will ensure that the requirements of EU network codes can be fully adhered to, thus ensuring that the required transportation developments, especially, at Interconnection Points, are realised. From an operational perspective, the transportation business will need to change to meet changing demand patterns and changing sources of gas supply, presenting it with a challenge for the long-term transportation of gas to consumers and with a need to provide more flexibility to meet more unpredictable within-day changes to supply and demand patterns. The new charging approach under this Modification provides a significantly more balanced suite of capacity purchase options that will lead to more predictable costs for shippers and more appropriate payments in respect of the use of the day to day and within-day use of the system. |  |

|  |  |  |
| --- | --- | --- |
| 1. **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** | | |
|  | **Proposers comments** | **Workgroup comments** |
|  |  | **All Modifications**  Some Workgroup participants noted that all CWD based modifications are broadly cost reflective because they use the TAR NC drivers of capacity and distance.  Other Workgroup participants noted that for a network that is no longer expanding and has excess capacity, then locational signals are not relevant in which case, the recovery of sunk costs is best achieved using a uniform non-discriminatory charge which is achieved using Postage Stamp Model.  One Workgroup participant noted that the use of the system is changing and indeed in respect of Milford Haven there is an expectation that incremental capacity will be provided.  Some Workgroup participants suggested gas destined for Milford Haven is unlikely to go to a different terminal. |
| **0678** | 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. |  |
| **0678A** | The proposer believes that the proposed utilisation of a new Reference Price Methodology which re-distributes National Grid’s costs on a capacity basis will enhance cost recovery. The proposed model is better suited to the recovery of the historic sunk costs of the NTS and better relates to the expected future contracting usage of the existing NTS. The current Long Run Marginal Cost Methodology (LRMC 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 postage stamp costs would better facilitate these objectives. |  |
| **0678B** | The expected greater predictability and stability of charges will help gas shippers to better plan their future deliveries of gas to the market, will lead to less uncertainty for new entrants and generally provide a better basis for promoting competition in gas shipping and gas supply. | Some Workgroup Participants noted that effective competition relates to cost reflective charges.  Some Workgroup Participants noted that CWD and an optional charge is an improvement over CWD and no optional charge. |
| **0678C** |  |  |
| **0678D** | 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.  Moreover, the expected greater predictability and stability of charges will help gas shippers to better plan their future deliveries of gas to the market, will lead to less uncertainty for new entrants and generally provide a better basis for promoting competition in gas shipping and gas supply. |  |
| **0678E** |  |  |
| **0678F** |  |  |
| **0678G** |  |  |
| **0678H** | The proposer believes that the proposed utilisation of a new Reference Price Methodology which re-distributes National Grid’s costs on a capacity basis will enhance cost recovery. The proposed model is better suited to the recovery of the historic sunk costs of the NTS and better relates to the expected future contracting usage of the existing NTS. The current Long Run Marginal Cost Methodology (LRMC model) is more suitable for an expanding network requiring an investment-based RPM.  The PS methodology generates charges which will result in a number of customers building private pipelines to bypass the NTS. This is due to the reasons identified in Charging Objective (a) above. Where a cost reflective NTS Optional Capacity charge is established, bypass pipelines are less likely to be built, minimising the unit costs of transportation for all Users of the NTS while eliminating cross-subsidies. In this case, competition is better facilitated |  |
| **0678I** | The expected greater predictability and stability of charges will help gas shippers to better plan their future deliveries of gas to the market, will lead to less uncertainty for new entrants and generally provide a better basis for promoting competition in gas shipping and gas supply. |  |

|  |  |  |
| --- | --- | --- |
| 1. **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).** | | |
|  | **Proposers comments** | **Workgroup comments** |
| **All Modifications** |  | Workgroup participants agreed this was not relevant. |

|  |  |  |
| --- | --- | --- |
| 1. **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.** | | |
|  | **Proposers comments** | **Workgroup comments** |
| **All Modifications** |  | Workgroup participants noted that all 0678 Modifications under consideration as at 04 March 2019 are an improvement over the current charging methodology, i.e. they positively impact this Relevant Objective e).  Workgroup participants noted the compliance commentary captured in sections 4.7 of the report above.  (signposting of problematic areas?)  Some Workgroup participants noted there are some areas of concern identified with the section 4.7 referred to.  Workgroup participants noted that it could be argued that 0678 and 0678A provide two foundational Modifications with what could be argued as a minimum approach implementation of TAR NC. Other Modifications add in additional areas felt to be of importance to their Proposers which can be justified separately under TAR NC whilst it should be noted that UNC 0670R could be argued to be doing this too. |
| **0678** | 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). |  |
| **0678A** | 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, the Modification 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). |  |
| **0678B** | 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 commodity-based ‘Short-haul’). This proposal addresses these by:   * Not proposing the creation of Interim Contracts as defined in the 0621 proposals; * Not having a transition period for the introduction of the methodology changes; and   Creating a capacity-based charge to manage avoidance of inefficient bypass and to promote further market benefits. | Action 01-1802 and Action 02-1802 |
| **0678C** | 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, the Modification 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). Due to  lack of time in the 678 process, once a  compliant solution has been developed it is  envisaged that a modification will be raised to  re-instate a charge to avoid inefficient bypass  of the NTS.  Appropriate treatment of storage with a discount of 80% more properly reflects the contribution to system flexibility and security of supply of such infrastructure. It should be noted that in other Member States; Belgium will apply a discount of 50% on capacity held at storage Entry points and a 100% discount on associated Exit capacity; Germany will apply a 75% discount on all storage related capacity products and France currently applies a discount at an average level of 85% |  |
| **0678D** |  |  |
| **0678E** |  |  |
| **0678F** |  |  |
| **0678G** |  |  |
| **0678H** | 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 UNC Modification 0621 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, the Proposer is proposing:   * Not to propose the creation of Interim Contracts; * Not to use a transition period for the introduction of the methodology changes; and * To establish a cost reflective NTS Optional Capacity charge.   Please see also the comparison table between UNC Modification Proposal 0621 (which was rejected by Ofgem) and this UNC Modification Proposal (0678H) located here: <http://www.gasgovernance.co.uk/0678/> |  |
| **0678I** | 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 commodity-based ‘Short-haul’). This proposal addresses these by:   * Not proposing the creation of Interim Contracts as defined in the 0621 proposals; * Not having a transition period for the introduction of the methodology changes; and * Creating a compliant shorthaul service that encourages efficient use of the network that takes into account the conditions of the capacity product, as required under Article 4.2 and demonstrated in other EU Member States.   This Proposal additionally allows a discounted capacity charge for elected flows via the Moffat Interconnector as this interconnector ends the isolation of Ireland. |  |

1. <https://www.ofgem.gov.uk/system/files/docs/2018/07/riio-2_july_decision_document_final_300718.pdf#page62> [↑](#footnote-ref-1)
2. See <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. Ofgem decision letter on Modification Proposal UNC0621 can be found at: https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/page/2018-12/Ofgem%20Decision%20Letter%200621.pdf [↑](#footnote-ref-3)