

UNC Modification		At what stage is this document in the process?
<h1>UNC 0636B:</h1> <h2>Updating the parameters for the NTS Optional Commodity Charge</h2>		<div style="display: flex; flex-direction: column; gap: 5px;"> <div style="border: 1px solid green; background-color: #00a651; color: white; padding: 5px; display: flex; align-items: center; justify-content: center;"> <span style="font-weight: bold; font-size: 1.2em;">01</span> Modification         </div> <div style="border: 1px solid #00a651; padding: 5px; display: flex; align-items: center; justify-content: center;"> <span style="font-weight: bold; font-size: 1.2em;">02</span> Workgroup Report         </div> <div style="border: 1px solid #00a651; padding: 5px; display: flex; align-items: center; justify-content: center;"> <span style="font-weight: bold; font-size: 1.2em;">03</span> Draft Modification Report         </div> <div style="border: 1px solid #00a651; padding: 5px; display: flex; align-items: center; justify-content: center;"> <span style="font-weight: bold; font-size: 1.2em;">04</span> Final Modification Report         </div> </div>
<p><b>Purpose of Modification:</b></p> <p>To update the parameters used in the derivation of the Optional Commodity Charge tariff with RPI.</p>		
	<p>The Proposer recommends that this modification should be:</p> <ul style="list-style-type: none"> <li>considered a material change and not subject to self-governance</li> <li>assessed by a Workgroup.</li> </ul> <p>This modification will be presented by the Proposer to the Panel on 15 February 2018. The Panel will consider the Proposer’s recommendation and determine the appropriate route.</p>	
	<p>High Impact:</p> <p>Users opting for the Optional Commodity Charge will no longer be able to benefit as much as the existing formula from the OCC following implementation. Note that it is expected that the tariff would still be available as an option to avoid inefficient bypass of the NTS.</p> <p>The Standard Commodity tariff would be consequentially reduced.</p>	
	<p>Medium Impact:</p>	
	<p>Low Impact:</p>	

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Timetable			Transporter: National Grid NTS
<b>The Proposer recommends the following timetable:</b>			Systems Provider: Xoserve
Initial consideration by Workgroup	19 January 2018		 <a href="mailto:commercial.enquiries@xoserve.com">commercial.enquiries@xoserve.com</a>
Workgroup Report presented to Panel	15 February 2018		
Draft Modification Report issued for consultation	[16 February 2018		Other:
Consultation Close-out for representations	01 March 2018		
Final Modification Report available for Panel	06 March 2018		
Modification Panel decision	15 March 2018]		

## 1 Summary

### What

The NTS Optional Commodity Charge (OCC) was introduced in 1998 and the tariff has not been updated for nearly 20 years. Therefore, it is proposed that the parameters within the NTS OCC formula need to be updated to be more reflective of its original intention to avoid inefficient bypass of the NTS.

### Why

The OCC was introduced in 1998 with the express intention of providing a mitigating option for shippers seeking short distance transportation, and was justified on the basis of avoiding inefficient bypass of the NTS. Given that the tariff has not been updated in nearly 20 years whilst standard commodity charges have risen significantly over the same period, the OCC has become a very attractive option even for exit points that are increasingly distant from an associated entry point.

National Grid NTS have advised the NTSCMF<sup>1</sup> that Users opting to avail of the OCC during the current Gas Year (17/18) will pay an estimated £48.5 million in optional commodity charges but, in doing so, will avoid paying up to £195 million in standard commodity charges.

### How

It is proposed to give effect to this modification by way of a single change to the UNC TPD, Section Y paragraph 3.5 “NTS Optional Commodity Rate” and the insertion of a methodology into the same Section Y.

Updating of the cost components of the NTS Optional Commodity Charge Rate formula by indexing to RPI.

It is proposed that the changes arising from this code modification be implemented by [01 April 2018.]

## 2 Governance

### Justification for Authority Direction

National Grid NTS have advised the NTSCMF<sup>2</sup> that Users opting to avail of the OCC during the current Gas Year (17/18) will pay an estimated £48.5 million in optional commodity charges but, in doing so, will avoid paying nearly £198 million in standard commodity charges. It is proposed that the changes arising from this code modification be implemented once sufficiently developed and it will increase the OCC contribution to £61m.

This Modification should be considered likely to have a material on competition in, or commercial activities related to, the shipping, transportation or supply of gas. It therefore should be sent to the Authority for decision.

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<sup>1</sup> NTSCMF 26 September 2017

<sup>2</sup> NTSCMF 26 September 2017

## Requested Next Steps

This modification should:

- be considered a material change and not subject to self-governance; and
- be assessed by a Workgroup.

## 3 Why Change?

The parameters within the NTS Optional Commodity Charge (OCC) formula need to be updated to better reflect the original intention of the Charge to avoid inefficient bypass of the NTS.

The OCC is available as an alternative (instead of the Standard Commodity Charges) to Users nominating a “point to point” path for transportation from an NTS entry point to an NTS offtake point. If a User elects for the OCC, all NTS Entry and Exit (SO & TO) Commodity Charges are avoided. The NTS OCC is derived from the estimated cost of laying and operating a dedicated pipeline of NTS specification. This is defined in UNC TPD Section Y. The OCC was introduced in 1998 with the express intention of providing a mitigating option for shippers seeking short distance transportation, and was justified on the basis of avoiding inefficient bypass of the NTS. Given that the tariff has not been updated in nearly 20 years it is appropriate to adjust the cost components to ensure compliance with the Relevant Charging Methodology Objectives.

National Grid NTS have advised the NTSCMF<sup>3</sup> that Users opting to avail of the OCC during the current Gas Year (17/18) will pay an estimated £48.5 million in optional commodity charges but, in doing so, will avoid paying nearly £198 million in standard commodity charges.

1. The proposal requires a change to the OCC charging formula contained within Section Y of the UNC).
2. If the change is not made there will be up to £220 million in charges transferred to Users unable to benefit from the OCC (largely within the Distribution Networks) in the interim period between April 2018 and October 2019 before Modification 0621 could be expected to address the issue.

The proposer is aware that National Grid is planning to address this transfer of costs from October 2019 as part of Modification 0621 (For further information please see <https://www.gasgovernance.co.uk/0621> ). This proposal is intended to be an interim solution to remedy the ongoing transfer of costs during the period up to the adoption of the enduring solution, prescribed in Mod 621, or its alternates.

## 4 Code Specific Matters

### Reference Documents

The Statement of Gas Transmission Transportation Charges  
<https://www.gasgovernance.co.uk/sites/default/files/ggf/book/2017-09/Transportation%20statement%20October%202017%20.pdf>

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<sup>3</sup> NTSCMF 26 September 2017

## Knowledge/Skills

Understanding of the NTS charging methodology in respect of the Optional Commodity Charge.

## 5 Solution

The proposal requires a change to the charging formula contained within Section Y (3.5 NTS Optional Commodity Rate).

The parameters of the NTS Optional Commodity charge formula are derived from flow rates, pipeline distances and underlying costs. The **current** formula is as follows:

$$p/kWh = 1203 \times M^{-0.834} \times D + 363 \times M^{-0.654}$$

Where:

D is the direct distance of the site or non-National Grid NTS Pipeline to the elected Entry Terminal

M is the Maximum NTS Exit Point Offtake Rate (MNEPOR) at the site, converted into kWh/day

^ means 'to the power of.'

The method of determining the NTS Optional Charge for the relevant years will be to follow the following formula structure and indexation approach to provide an updated formula to be applicable in the relevant year. The formula is designed to take into account the estimated costs of laying and operating a dedicated pipeline of an appropriate specification and also takes into account a range of flow rates and pipeline distances.

The **proposed change** to the formula is as follows:

$$p/kWh = w \times (M^x) \times D + y \times (M^z)$$

where:

w means a value derived from the estimated costs (of laying and operating a dedicated pipeline of NTS specification) between the relevant points and the latest indicative value for the 12 month period commencing 01 October 2018 is equal to 2077;

M means the Maximum NTS Exit Point Offtake Rate (MNEPOR) converted into kWh/day at the site as specified in the relevant Network Exit Agreement;

x means a value derived from the estimated costs (of laying and operating a dedicated pipeline of NTS specification) between the relevant points and the latest indicative value for the 12 month period commencing 01 October 2018 is equal to -0.835;

D means the direct ('as the crow flies') distance from the site or non-National Grid NTS pipeline to the Specified Entry Point in km;

y means a value derived from the estimated costs (of laying and operating a dedicated pipeline of NTS specification) between the relevant points and the latest indicative value for the 12 month period commencing 01 October 2018 is equal to 608;

z means a value derived from the estimated costs (of laying and operating a dedicated pipeline of NTS specification) between the relevant points and the latest indicative value for the 12 month period commencing 01 October 2018 is equal to -0.654;

and  $\wedge$  means to the power of Indexation.

For each year of application, the arithmetic average monthly RPI value for the previous formula year will be used to index the cost base used to derive these values. The values specified are based on RPI data available to date in the current formula year (April 2017 to January 2018).

### Indexation Approach

It is proposed that the estimated costs (of laying and operating a dedicated pipeline of NTS specification) which underpin the calculation that derives the values w, x, y and z above are subject to indexation to the Retail Prices Index (RPI) for the relevant charge period consistent with RIIO-T1 Licence RPI calculations. The cost base will be updated using publicly published RPI figures from the previous completed formula year (i.e. October 2019 will be updated using April 2018 to March 2019 data) and the formula for determine the RPI will be as follows:

$$RPI_t = RPI_{t-1} / RPI_{1998/99}$$

$RPI_t$  means the arithmetic average of the monthly Retail Price Index published or determined with respect to each of the twelve months from 1 April to 31 March in formula Year t.

It is proposed that the NTS Optional Charge rate (in place for an individual Supply Point Registration) will be subject to change annually (as a consequence of the indexation described above).

The methodology that supports the derivation of the above formula and its parameters will be included in a separate Methodology Statement.

Note: it is intended that the Methodology Statement will be presented to Panel at the same time as completion of the Draft Workgroup Report. This will provide transparency as required under EU regulation. Creation of a Methodology Statement is seen as a more pragmatic way of achieving transparency than insertion into the UNC given the significant legal interpretation required with the latter approach.

## 6 Impacts & Other Considerations

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

There is no impact on an SCR. There is no impact on the current charging review that is due for implementation in 2019 for compliance with the EU Tariff Code.

### Consumer Impacts

If implemented, the modification will reduce the overall level of Transportation Owner (TO) and System Operator (SO) commodity charges to be applied to non-OCC Users.

### Cross Code Impacts

There is no impact expected.

### EU Code Impacts

None – this change is for the interim period until the charging review is implemented in 2019 for compliance with the EU Tariff Network Code. The proposer anticipates that the wider charging review will include a more comprehensive update of the OCC.

### Central Systems Impacts

Changes to systems will be assessed as part of the Modification development.

## 7 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.	None
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.	None
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.	None

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;	None
aa) That, in so far as prices in respect of transportation arrangements are established by auction, either: <ul style="list-style-type: none"> <li>(i) no reserve price is applied, or</li> <li>(ii) that reserve price is set at a level -               <ul style="list-style-type: none"> <li>(I) best calculated to promote efficiency and avoid undue preference in the supply of transportation services; and</li> <li>(II) best calculated to promote competition between gas suppliers and between gas shippers;</li> </ul> </li> </ul>	None
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

An OCC rate that better reflects the underlying costs of appropriately sized alternative by-pass pipelines will better facilitate effective competition between shippers and suppliers – relevant objective (c).

Increasing take-up of the OCC over longer distances has led to a need to review the parameters within the OCC rate calculation – relevant objective (b). Similarly, the rate needs to avoid inefficient bypass of the NTS, failure to do so will increase costs to customers as allowed revenue will be recovered on a smaller charging base.

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.

Ensuring that a documented Methodology Statement is available for the UNC Panel before the modifications go to consultation will ensure that 621B better meets the transparency requirements of EU Regulation 715/2009 Article 13 than the other alternative modification proposals.

*“Tariffs, or the methodologies used to calculate them, applied by the transmission system operators and approved by the regulatory authorities pursuant to Article 41(6) of Directive 2009/73/EC, as well as tariffs published pursuant to Article 32(1) of that Directive, shall be transparent...”*

## 8 Implementation

- The usual date for charging changes is October or April in any year (but changes can be implemented at other dates subject to Ofgem approval). Ideally the proposer would like to implement the modification proposal as soon as possible.
- If decision to implement is received after 31 July 2018, implementation 2 calendar months following the decision to implement.

Should the proposal proceed, National Grid will be asked to give (on an “all reasonable endeavours” basis) 150 days’ indicative notice that the OCC rate may change at exit points availing of the OCC and if possible an indicative rate as per Standard Special Condition A4 of the National Grid NTS Gas Transporter Licence. Similarly, National Grid will be asked to give 2 months’ notice of the actual charges should the Modification be approved.

## 9 Legal Text

### Text Commentary

None

### Text

*(To be supplied by Transporter)*

## 10 Recommendations

### Proposer’s Recommendation to Panel

Panel is asked to:

- Agree that Authority Direction should apply; and
- Refer this proposal to a Workgroup for assessment.