

UNC Modification	At what stage is this document in the process?
<h1>UNC 0679:</h1> <h2>Amendments to Gas Charging Regime (Postage Stamp)</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; margin-right: 5px;">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; margin-right: 5px;">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; margin-right: 5px;">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; margin-right: 5px;">04</span> Final Modification Report         </div> </div>
<p><b>Purpose of Modification:</b></p> <p>The purpose of this Modification proposal is to amend the Gas Transmission Charging regime in order to better meet the relevant charging objectives and customer/stakeholder provided objectives for Gas Transmission Transportation charges and to deliver compliance with relevant EU codes (notably the EU Tariff Code). The Modification proposes the implementation of Postage Stamp charging methodology.</p>	
	<p>The Proposer recommends that this Modification should be treated as urgent and should proceed as such under a timetable agreed with the Authority.</p>
	<p><b>High Impact:</b> All parties that pay NTS Transportation Charges and/or have a connection to the NTS, and National Grid NTS</p>
	<p><b>Medium Impact:</b> N/A</p>
	<p><b>Low Impact:</b> N/A</p>

Contents	
<b>1 Summary</b>	<b>4</b>
<b>2 Governance</b>	<b>5</b>
<b>3 Why Change?</b>	<b>6</b>
<b>4 Code Specific Matters</b>	<b>13</b>
<b>5 Solution</b>	<b>13</b>
<b>6 Impacts &amp; Other Considerations</b>	<b>14</b>
<b>7 Relevant Objectives</b>	<b>23</b>
<b>8 Implementation</b>	<b>26</b>
<b>9 Legal Text</b>	<b>26</b>
<b>10 Recommendations</b>	<b>26</b>
Timetable	
<b>The Proposer recommends the following timetable (same as UNC0678 as far as possible):</b>	
Ofgem decision on urgency	25 January 2019
Workgroup 1 - "Approach. Compliance"	29 January 2019
Workgroup 2 - "Integration of RPM, FCC, Revenue Recovery and existing contracts"	31 January 2019
Workgroup 3 - "Multipliers and Discounts. 'Shorthaul' approach" (part of NTSCMF)	05 February 2019
Workgroup 4 - "Compliance. FCC"	11 February 2019
Workgroup 5 - "Non-transmission charges. Final overview"	13 February 2019
Workgroup 6 - "Workgroup Report"	14 February 2019
Workgroup 7 - "Workgroup Report"	18 February 2019
Workgroup 8 - "Workgroup Report"	25 February 2019
Workgroup 9 - "Workgroup Report"	27 February 2019
Workgroup 10 - "Workgroup Report. Compliance"	04 March 2019
Workgroup 11 - "Finalise Workgroup Report"	06 March 2019
Draft Modification Report issued for consultation	08 March 2019
Consultation Close-out for representations	05 April 2019
Final Modification Report available for Panel	12 April 2019
Modification Panel recommendation	18 April 2019
Final Modification Report issued to Ofgem	23 April 2019

 Any questions?

Contact:  
**Joint Office of Gas Transporters**

 [enquiries@gasgovernance.co.uk](mailto:enquiries@gasgovernance.co.uk)

 0121 288 2107

Proposer:  
**Bill Reed**

 [Bill.Reed@rwe.com](mailto:Bill.Reed@rwe.com)

 07795 355310

Transporter:  
**RWE Supply & Trading GmbH**



Systems Provider:  
**Xoserve**

 [commercial.enquiries@xoserve.com](mailto:commercial.enquiries@xoserve.com)

Other: None



## List of Figures

Figure 1: Proposed Postage Stamp Model for calculation of Entry and Exit Capacity Base Reference Prices .	15
Figure 2: Entry Point Reference Prices calculation model.....	16
Figure 3: Exit Point Reference Prices calculation model .....	16
Figure 4: Reserve Price derivation .....	18
Figure 5: Transmission Services Revenue Recovery Mechanism.....	19
Figure 6: Publication dates for Transportation Charges .....	22

## List of Tables

Table 1: Key steps in the CWD calculations.....	15
Table 2: Impact of the Modification on the Relevant Objectives .....	23
Table 3: Impact of the Modification on the Relevant Charging Methodology Objectives .....	25

## 1 Summary

### What

This Modification proposes to introduce a new Gas Transmission Charging regime that produces stable and predictable transportation charging and is compliant with the forthcoming EU Tariff Code (Regulation 2017/460). This Modification also takes into account the decision to reject UNC0621<sup>1</sup> and its Alternatives citing areas of non-compliance. This Proposal addresses the areas of compliance identified in this decision. The Modification proposes the implementation of Postage Stamp charging methodology, rather than Capacity Weighted Distance as proposed in UNC0678.

### Why

The Transportation Charging Methodology currently in place for the calculation of Gas Transmission charges, and the methodology to recover Transmission Owner (TO) and System Operator (SO) revenue through Entry and Exit charges, have been in place for a number of years. Whilst there have been some changes in the last ten years, the basic approach to calculating Entry and Exit Capacity charges and the approach to revenue recovery has not substantially changed.

A critique of the current Long Run Marginal Cost (LRMC) methodology (undertaken by the NTSCMF – concluding in January 2017<sup>2</sup> – with updated analysis presented during development of UNC Modification Proposal 0621 in April 2018<sup>3</sup>) identified that it is too volatile, unpredictable and does not provide stability of charges for Users.

### How

This Modification proposes to introduce changes to the charging framework by way of making changes to UNC TPD Section Y. It will also be necessary to make changes to other sections of the UNC TPD (Sections B, E and G) and EID Section B).

At its core, this Modification proposes to move from a Reference Price Methodology (RPM) that calculates the capacity prices using the Long Run Marginal Cost (LRMC) method to one that is based on a Postage Stamp approach. It also proposes an updated approach with changes to capacity pricing multipliers, capacity discounts and interruptible pricing review to better meet the required objectives.

It introduces some terminology from the EU Tariff Code, specifically 'Transmission Services Revenue' and 'Non-Transmission Services Revenue'. The revenues will map across to TO and SO revenues thereby not changing the total revenue to be collected through Transportation charges. The more material change will be the amendments to the charging methodologies in calculating the charges that will be applied to recover the allowed revenues from NTS network Users through the Transportation charges.

---

<sup>1</sup> See <https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/page/2018-12/Ofgem%20Decision%20Letter%200621.pdf>

<sup>2</sup> Material at <https://www.gasgovernance.co.uk/ntscmf/subg1page>

<sup>3</sup> Material at <https://www.gasgovernance.co.uk/0621/200418>

This proposal also introduces, for some aspects of this methodology change, mechanisms to review and refine components of the charging framework, notably the Forecasted Contracted Capacity (FCC), capacity pricing multipliers and interruptible pricing, over time so they continue to better facilitate the relevant methodology objectives<sup>4</sup> and support the evolution of the GB charging regime.

## 2 Governance

### Justification for Urgency

This Modification should be treated as urgent and considered alongside UNC0678. The Modification should proceed under a timetable approved by the Authority. The proposed timeline for UNC0678 is presented under the timetable of this Modification.

Urgent status is sought on the basis that need for material elements of this Proposal are driven by an imminent date related issue, this being the requirement in Article 38(3) of Regulation 2017/460 ('the Regulation') for the relevant Chapters of the Regulation (II, III and IV) to take effect from 31 May 2019. In terms of Transportation charge rates, the consequential changes are therefore required to take effect for the following Gas Year commencing 01 October 2019.

In broad terms, the relevant Chapters of the Regulation include the need to apply a different Reference Price Methodology (Chapter II), rules regarding the derivation of Reserve Prices (Chapter III) and rules regarding the reconciliation of revenue (Chapter IV).

If this not urgently addressed, this may cause UNC parties to be in breach of relevant legal requirements detailed within the Regulation as the prevailing NTS Charging Methodology (contained in UNC TPD Section Y Part A) will not be compliant with the Regulation.

Whilst EU regulations are likely to be no longer directly applicable in GB with effect from 29 March 2019, the principle approach specified in the European Union (Withdrawal) Act 2018 is to incorporate EU law (existing immediately prior to UK exit from the EU in March 2019) into UK law (effective from March 2019). Accordingly, the principles enshrined in the Regulation will, as far as possible, be alternatively mandated by a UK Statutory Instrument (specifically Schedule 5 of The Gas (Security of Supply and Network Codes) (Amendment) (EU Exit) Regulations 2019).

On this basis, the legal requirement will be specified in either the Regulation or within the reflective Statutory Instrument.

This Modification will change the charging framework and methodology to recover National Grid's regulated revenues via Transportation Charges. This Modification, to meet compliance with the Regulation and to deliver the changes outlined to the charging arrangements, will impact all parties that pay Transportation Charges and / or have a connection to the NTS, and National Grid NTS. As a result, this poses a significant commercial impact on all parties mentioned and will, in turn, have impacts for the reciprocal charges levied to customers and for interested stakeholders of NTS customers and how they in turn recover costs and charge for their recovery.

---

<sup>4</sup> As described in Standard Special Condition A5: 'Obligations as Regard Charging Methodology' of the NTS Licence, paragraph 5.

This Modification also takes into account the decision on UNC0621 and its Alternatives<sup>5</sup>. This Proposal addresses the areas of compliance identified in this decision. The requirement for this Modification and the Ofgem decision on UNC0621 and its Alternatives was discussed at NTSCMF on 10 January 2019.

## Justification for Authority Decision

This Modification proposal is recommended to be sent to the Authority for direction as it is likely to have a material effect on commercial activities relating to the shipping, transportation and supply of gas because, if implemented, it is likely to have a material impact on the allocation of charges across NTS networks Users.

## Requested Next Steps

This Modification should:

- be treated as urgent and should proceed as such under a timetable agreed with the Authority alongside UNC0678.

## 3 Why Change?

### Drivers

3.1. The methodology which is currently in place for the calculation of Gas Transmission Transportation charges, and the methodology to recover TO and SO revenue through Entry and Exit charges, has been in place for a number of years. Whilst there have been some changes in the last ten years, the basic approach to calculating NTS Entry and Exit Capacity charges and the approach to revenue recovery arrangements have not substantially changed. What has been seen is change in the patterns of capacity booking behaviours, and the impact on the charges as a result due to the interactivity inherent within the methodology, which were not anticipated. Additional regulatory drivers for changes to the charging framework are:

3.1.1. **The EU Tariff Code**<sup>6</sup>;

3.1.2. Ofgem's Gas Transmission Charging Review<sup>7</sup> and decision on UNC0621 and its Alternatives<sup>8</sup>. In addressing the decision letter to reject UNC0621 and its Alternatives the Modification proposes changes that ensures compliance with the TAR Network Code and through the postage stamp approach ensures that the historic sunk costs of the NTS are recovered from Users in manner that is fair, proportionate and non-distortive.

3.2. As a result of changing behaviours, such as increased uptake in short term zero-priced capacity, there is an increase in reliance on commodity charges to recover TO revenue. Zero priced capacity has

---

<sup>5</sup> See <https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/page/2018-12/Ofgem%20Decision%20Letter%200621.pdf>

<sup>6</sup> [http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L\\_.2017.072.01.0029.01.ENG&toc=OJ:L:2017:072:FULL](http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2017.072.01.0029.01.ENG&toc=OJ:L:2017:072:FULL)

<sup>7</sup> <https://www.ofgem.gov.uk/gas/transmission-networks/gas-transmission-charging-review>

<sup>8</sup> <https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/page/2018-12/Ofgem%20Decision%20Letter%200621.pdf>

arguably resulted in overbooking of capacity, surplus to User's requirements. The high TO commodity charges, driven largely by the zero priced capacity can also result in unstable and unpredictable charges. Other charges, such as the NTS Optional Commodity charge (also referred to as "Shorthaul"), have also seen a significant increase in its use which has impacted on other charges in a way that was not originally envisaged.

### **Mapping Revenues**

- 3.3. Within the collection of revenue there are some changes to the terminology used to assign the revenue for the purposes of ultimately calculating charges. These changes are required by the EU Tariff Code. This relates to mapping TO Revenue and SO Revenue to Transmission Services Revenue and Non-Transmission Services Revenue. This does not affect the actual allowed revenue National Grid will be required to recover through the charges.
- 3.4. There are a number of targeted charges in the current methodology and it is necessary to consider which revenue they will contribute towards:
  - 3.4.1. The Distribution Network (DN) Pensions Deficit Charge and NTS Meter Maintenance Charge, under the EU Tariff Code (Article 4), do not fall into the specific criteria for Transmission Services. This Modification proposes that these will be classified as Non-Transmission Services charges thereby contributing towards Non-Transmission Services Revenue.
  - 3.4.2. The St. Fergus Compression charge will be a Non-Transmission Services charge.
  - 3.4.3. The methodologies to calculate these charges (DN Pensions Deficit, NTS Meter Maintenance and St. Fergus Compression) are not proposed to be reviewed at this time. Whilst these could be considered as either Transmission Services or Non-Transmission Services, providing it is approved by the National Regulatory Authority (NRA), it is proposed this is a pragmatic way to charge for these items.

### **Pricing Methodology**

- 3.5. The current RPM (including the adjustments applied in order to calculate capacity charges) produces charges that are volatile and unpredictable. This causes challenges for investment decisions and in predicting operational costs for connected parties year on year and as such, is a key area to be addressed.
- 3.6. Through an assessment of RPMs<sup>9</sup>, the main Alternative considered from the current method was the CWD model. By design this approach is generally more predictable, less volatile and more stable in nature and is more suited to a system that is about use and revenue recovery associated to use rather than linked to investment (marginal pricing). However, the CWD model uses both distance and capacity to allocate the historic sunk costs of the NTS.

---

<sup>9</sup> See <https://www.gasgovernance.co.uk/ntscmf/subg1model>

3.7. The proposed use of a postage stamp methodology (with the CWD model as a counterfactual<sup>10</sup>) in the RPM resolves this issue by narrowing the range of prices and as such making them more predictable. This makes the RPM more relevant to how the NTS allowed revenue is recovered from Users of the network. It is also a fair, proportionate and non-discriminatory approach to the recovery of the allowed revenue and it is consistent with the approach adopted for the recovery of historic sunk network costs adopted in the Ofgem minded to decision in the Targeted Charging Review for the electricity market<sup>11</sup>. The postage stamp approach is not designed to reflect current and future expectations related to the “use” of the NTS and does not seek to influence its use (driven through market behaviour). In developing a postage stamp approach the following Ofgem views are relevant<sup>12</sup>

- *“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:*

---

<sup>10</sup> The CWD model results in market distortions driven by entirely fictitious “use” of the system derived from the distance element of the CWD model. The CWD approach results in locational diversity in charges which distort market signals and could result in inefficient market entry and exit.

<sup>11</sup> See <https://www.ofgem.gov.uk/publications-and-updates/targeted-charging-review-minded-decision-and-draft-impact-assessment>

<sup>12</sup> See <https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/page/2018-12/Ofgem%20Decision%20Letter%200621.pdf>

- *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 available.”*

- *“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”*

- 3.8. As a result of changing the RPM, any adjustments, discounts and other charges must be reviewed in order to avoid unintended consequences and to ensure that a clear impact assessment (including any Ofgem Impact Assessment) can be carried out on the total impact of these adjustments, discounts and other charges to NTS customers and to the end consumer.
- 3.9. This Proposal considers EU compliance with the EU Tariff Code which has a deadline to implement the changes of 31 May 2019. Price changes would apply from 01 October 2019 or as soon as possible after this date in line with a decision to implement.
- 3.10. This Proposal also seeks to establish a framework for review and update of key inputs to the newly established RPM which will further the objectives of the RPM.
- 3.11. This Proposal aims to simplify the charging methodology, limiting aspects of the methodology whereby some charges can materially impact other charges and also eliminating the influence between Transmission and Non-Transmission Services.

### **Forecasted Contracted Capacity (FCC)**

- 3.12. The proposed changes to the charging regime may result in changes to commercial behaviours in the procurement of capacity rights. The proposal for a forecast of contractual capacity (FCC) will be a key input into the reference price calculation.
- 3.13. The FCC will be a forecast of capacity bookings at each Entry and Exit Point. The value will be determined in accordance with a methodology statement that will be referenced in the UNC and will not form part of Section Y of the UNC. The methodology is proposed to be linked to a forecast of GB demand on the NTS for the tariff year for which reference prices are being produced. It will also review the historical capacity bookings where capacity has been allocated at a price greater than zero at each Entry and Exit Point, and forecast flow levels, to determine a value that will inform the proportion of capacity bookings for each specific Entry and Exit Point. The initial methodology will be discussed as part of the workgroups and NTSCMF.
- 3.14. The FCC will be reviewed annually and updates considered in line with a methodology, and updated in the appropriate transportation charging statement and charging models. This review of FCC values will, at an appropriate point, take account of any behavioural changes in capacity procurement observed under the revised charging regime with the aim of aligning the FCC to actual bookings, in line with the methodology statement. At the same time the FCC is reviewed and updated, there will be an additional adjustment to the reserve prices in order to account for the anticipated under collection driven by the application of any discounts (e.g. interruptible and specific capacity discounts).
- 3.15. The FCC will be reviewed ahead of each tariff year and updates will be communicated to industry as part of the publication of charges. The methodology contained within the statement will be kept under review as part of these updates and any changes to the methodology would be subject to a review process to include consultation with industry.

### **Multipliers**

- 3.16. Adjustments or separate charges can be applied in the calculation of the Entry and Exit Capacity Reserve Prices. These can serve a number of functions such as to acknowledge any potential risk associated with the type of Entry or Exit Capacity, to facilitate the recovery of revenues where relevant or beneficial to do so, and to encourage behaviours along with ensuring that the TSO fulfils any relevant obligations.
- 3.17. Multipliers are applied to the Reference Price to produce the Reserve Price. Under the EU Tariff code (Article 13), the Multipliers for Interconnection Point (IP) quarterly standard capacity products and for IP monthly standard capacity products should be no less than 1 and no more than 1.5. For IP daily standard capacity products and IP within-day standard capacity products, the Multipliers should be no less than 1 and no more than 3. For the IP daily standard capacity products and IP within-day standard capacity products, the multipliers may be less than 1 but higher than 0 or higher than 3, where duly justified.
- 3.18. Beyond 30 September 2020, or in line with the implementation of this Modification, Multipliers for IPs need to be consulted on each year (as per Article 28 of the EU Tariff code). Multipliers applicable to all Entry and Exit Points from implementation of this Modification are provided in the relevant part of section 5 (Reserve Prices produced from Reference Prices).

## **Discounts**

- 3.19. The pricing of Interruptible (Entry) / Off-peak (Exit) capacity will change from the current pricing approach. It will be consistent with the EU Tariff Code Article 16 and applied to all points. The changes proposed permit an adjustment to the relevant firm entry or exit Reserve Price in the calculation of a non-zero Reserve Price and the calculation of that Reserve Price for interruptible products.
- 3.20. The adjustment applied will be proportional to the probability of interruption and will be forward looking based upon an expectation of interruption over the coming year. An adjustment factor ('A' factor) may also be applied to reflect the estimated economic value of the product which will be factored into the assessment. Together, the probability of interruption and the 'A' factor make up the adjustment to be applied to the Reserve Price of the equivalent standard firm capacity product. The interruptible adjustment applicable to all Entry and Exit Points from implementation of this Modification are provided in the relevant part of section 5 (Interruptible (Entry) and Off-peak (Exit) Capacity).
- 3.21. Within the EU Tariff Code there are requirements to apply further discounts for storage capacity, where that discount must be at least 50%. This minimum discount is specific to storage in order to avoid double charging and in recognition of the general contribution to system flexibility and security of supply of such infrastructure. An enduring storage discount value is proposed but it is recognised that EU Tariff Code requirements for the charging regime will be reviewed, as a whole, at least every 5 years.
- 3.22. Any specific 'site type' discounts contemplated by the EU Tariff Code (Article 9) are applied to the Reserve Price to produce a final Reserve Price for the particular Firm Entry or Exit Capacity product at that particular point. The adjustment for Entry Points and Exit Points will be based on the values specified in the Transportation Statement. The specific capacity discount applicable to all Entry and Exit Storage Points from implementation of this Modification are provided in the relevant part of section 5 (Specific Capacity Discounts).

## **Revenue Recovery**

- 3.23. The Modification incorporates a mechanism to manage the consequence of under or over recovery of revenues from Transmission Services Capacity Charges. The approach advocated is a capacity based charge on an enduring basis.
- 3.24. From implementation the charging framework would be expected to move towards dependency on a capacity forecast and a significantly reduced revenue recovery charge that would be capacity based achieving 100% capacity basis for recovery of Transmission Services revenue.
- 3.24.1. The calculation of the capacity prices will, at the time of calculation, take into account the revenue shortfall from any discounts referred to in paragraphs 3.17 to 3.20 of Section 3) in order to adjust the reserve prices such that the amount forecast to be under collected as a result of these discounts is reduced.
- 3.24.2. The approach in 3.22 means that less revenue will be required to be collected from the Transmission Services Revenue Recovery charges than if it were not carried out.

### **Managing inefficient bypass of the NTS (known as “Shorthaul”)**

3.25. The Modification does not propose to retain a charge that discourages inefficient bypass of the NTS. National Grid has initiated a review under UNC governance (Request Group 0670R ‘Review of the charging methodology to avoid the inefficient bypass of the NTS’10). It is therefore inappropriate at this point to include provision for such under this Proposal and thereby pre-empt the outcome of this work. A comprehensive assessment of any charging arrangements to manage discouraging inefficient bypass of the NTS within the charging framework, including compliance with EU Codes and the charges that would be in place as part of this Modification, will be a feature of UNC 0670R and any subsequent Modification.

### **Existing Contracts**

3.26. It is proposed that the provisions will apply for Entry Capacity (for 01 October 2019 or from the effective date of this Modification, whichever is later) allocated up to 06 April 2017.

3.26.1. This will include Existing Contracts, as outlined in Article 35 in EU Tariff Code where the “contract or capacity booking concluded before the entry into force of the EU Tariff Code – 06 April 2017, such contracts or capacity bookings foresee no change in the levels of capacity and/or commodity based transmission tariffs except for indexation, if any”.

3.26.2. The capacity procured under these contracts impact the application of the CWD charging model (specifically when determining Reference Prices at Entry Points) and calculation of Transmission Services Revenue Recovery Charges.

### **Aspects of the GB Charging Regime where there are no proposals for change:**

The following is a list of items for which changes are not being proposed at this time but could be the next steps in the evolution of the GB charging regime.

- Auction Structure – All timings for auctions will be as per prevailing terms (including any changes implemented to comply with CAM).
- Entry/Exit Split – No change is proposed to the current 50:50 split.
- Gas Year/Formula Year – the Formula Year (April to March) and Gas Year (October to September) will be retained.
- DN Pensions Deficit Charge – No change to the calculation or the application of the charge.
- St. Fergus Compression Charge – No change is proposed to the calculation or the application of the charge.
- NTS Metering Charge - No change is proposed to the calculation or the application of the charge
- Shared Supply Meter Point Administration Charges - No change is proposed to the calculation or the application of the charge
- Allocation Charges at Interconnectors - No change is proposed to the calculation or the application of the charge
- Categorisation of Entry and Exit Points – Maintain the link to the Licence for categorisation.
- Seasonal Factors – Not used in current methodology and propose not to introduce.
- Fixed Pricing – As per Modification 0611, Amendments to the firm capacity payable price at IPs.

- Allowed Revenue – No change as per the Licence.
- Principles and application of Interruptible – As per prevailing terms. In respect of IPs, the terms implemented pursuant to Modification 0500, EU Capacity Regulations - Capacity Allocation Mechanisms with Congestion Management Procedures.

## 4 Code Specific Matters

### Reference Documents

There are summary documents available on each of the topics (mentioned in the solution section of the Modification proposal) which have been discussed at NTSCMF and sub-groups related to the gas charging review, which are available at: <http://www.gasgovernance.co.uk/ntscmf/subg1page> and

<http://www.gasgovernance.co.uk/ntscmf/subg1model>.

Uniform Network Code (UNC) Section Y:

<https://www.gasgovernance.co.uk/TPD>

UNC European Interconnection Document (EID):

<http://www.gasgovernance.co.uk/EID>

EU Tariff Code:

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

Implementation Document for the Network Code on Harmonised Transmission Tariff Structures for Gas (Second Edition)

[https://www.entsog.eu/public/uploads/files/publications/Tariffs/2017/TAR1000\\_170928\\_2nd%20Implementation%20Document\\_Low-Res.pdf](https://www.entsog.eu/public/uploads/files/publications/Tariffs/2017/TAR1000_170928_2nd%20Implementation%20Document_Low-Res.pdf)

Uniform Network Code (UNC) Section B:

<https://www.gasgovernance.co.uk/TPD>

NTS Transportation Statements:

<http://www.gasgovernance.co.uk/ntschargingstatements>

Customer and Stakeholder Objectives:

<http://www.gasgovernance.co.uk/ntscmf/060916>

Gas Transmission Charging Review (GTCR) and associated update letters:

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

Ofgem 0621 decision letter:

<https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/page/2018-12/Ofgem%20Decision%20Letter%200621.pdf>

### Knowledge/Skills

An understanding of the Section Y Part A within the UNC, NTS Transportation Statements, the EID within the UNC, Section B within the UNC, the EU Tariff code, GTCR documentation and the customer / stakeholder objectives developed within NTSCMF would be beneficial.

## 5 Solution

This Modification proposal seeks to amend TPD Section Y, Part A (The Gas Transmission Transportation Charging Methodology) of the UNC, by changing the methodology for the calculation of gas transmission transportation charges. Changes to TPD Sections B (System Use and Capacity), E (Daily Quantities, Imbalances and Reconciliation), G (Supply Points) and European Interconnection Document (EID) Section B (Capacity) are also required.

### Mapping of the revenue to Transmission Services revenue and Non-Transmission Services revenue (see paras 3.3 and 3.4 in section 3)

#### Transmission Services Charges

It is proposed that Transmission Services charges will be collected via:

- Transmission Services Capacity charges made up of;
  - Transmission Entry Capacity charges (including NTS Transmission Services Entry Capacity Retention Charge);
  - Transmission Exit Capacity charges;
- Transmission Services Entry Revenue Recovery charges;
- Transmission Services Exit Revenue Recovery charges; and
- NTS Transmission Services Entry Charge Rebate.

#### Non-Transmission Services Charges

It is proposed that Non-Transmission Services charges will be collected via:

- General Non-Transmission Services Entry and Exit Charges;
- St Fergus Compression Charges;
- NTS Metering Charges;
- DN Pensions Deficit charges;
- Shared Supply Meter Point Administration charges; and
- Allocation Charges at Interconnectors

#### Transmission Services Charges

#### Reference Price Methodology (see paras 3.5 to 3.11 in section 3)

It is proposed that a Postage Stamp approach is used in the RPM.

One RPM will be used for the calculation of Reference Prices for all Entry Points and Exit Points on the system. The RPM produces Entry and Exit Capacity Reference Prices for the applicable gas year which in turn through the relevant adjustments and calculation steps will determine the Entry and Exit Capacity Reserve Prices.

## Final Reference Prices

It is proposed that the calculation of the final Reference Price for a given Entry Point or Exit point cannot be less than zero.

### Calculations within the CWD Model

Proposed Postage Stamp Model for calculating Entry and Exit Capacity Base Reference Prices:

The proposed Postage Stamp approach fundamentally requires two main inputs:

- Target Entry or Exit Transmission Services Revenue - Revenue which is Allowed Revenue net of known Existing Contracts (EC) revenue; and
- Capacity (FCC) - FCC (by point) net of Existing Contracts (EC) capacity booked to recover the target Entry or Exit Transmission Services revenue.

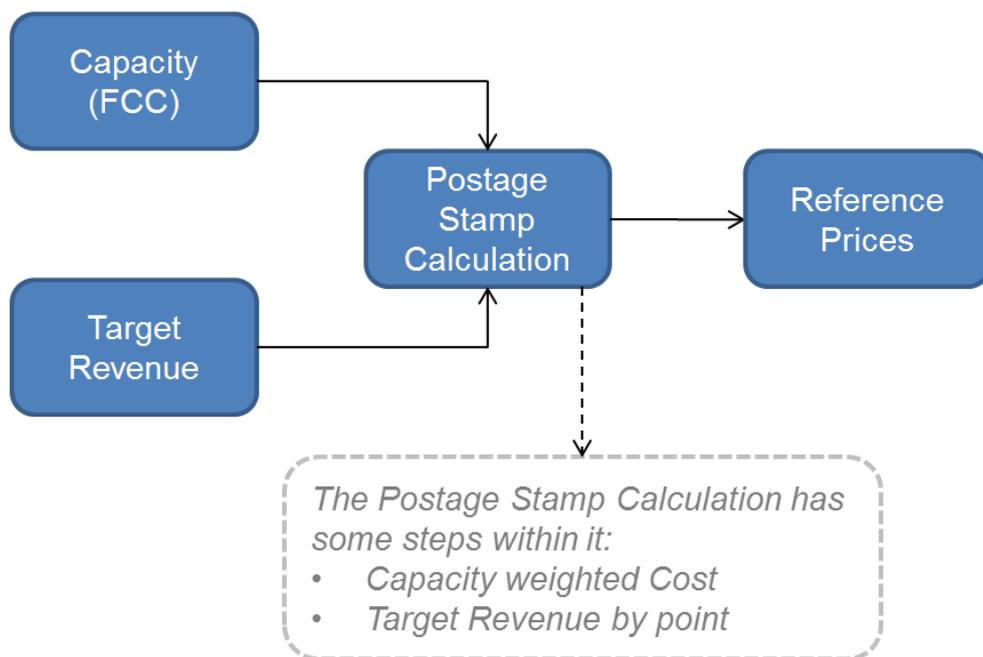


Figure 1: Proposed Postage Stamp Model for calculation of Entry and Exit Capacity Base Reference Prices

Key steps in the CWD calculations see Table 2.

Table 1: Key steps in the CWD calculations

	Entry Capacity Calculation	Exist Capacity Calculation
Capacity Weightings (CW)	Entry Point FCC / Gross FCC	Exit Point FCC /Gross FCC
Target Revenue by Point (TRP)	Entry Target Revenue * CW	Exit Point Revenue * CW
Reference Price (RefP)	Entry TRP / Entry Point FCC	Exit TRP / Entry Point FCC

Note that the proposed FCC calculation takes into account the treatment of capacity associated with Existing Contracts (see below)

Entry Point Reference Prices are calculated in the following steps in the Postage Stamp model, see figure 2.

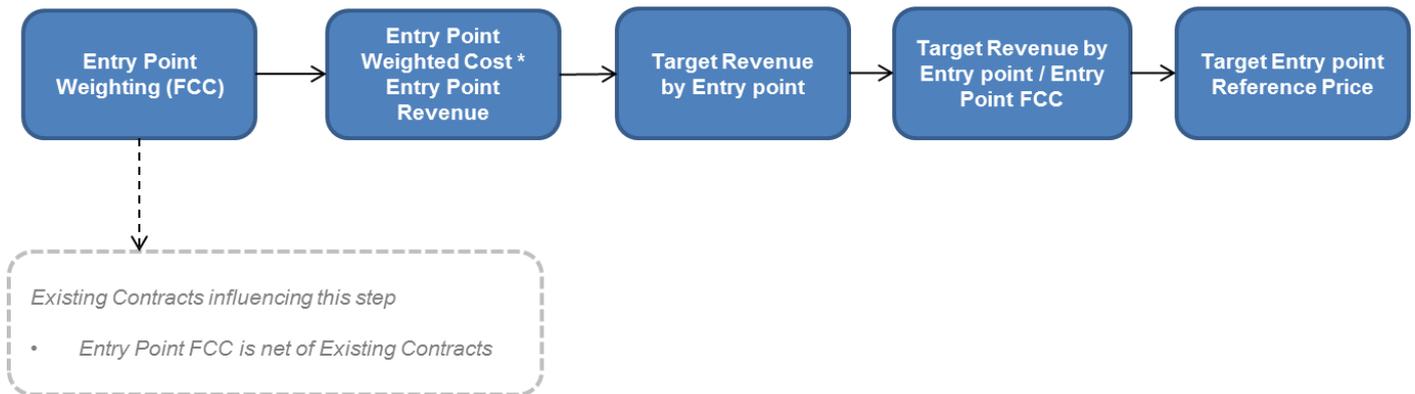


Figure 2: Entry Point Reference Prices calculation model

Exit Point Reference Prices are calculated in the following steps in the Postage Stamp model, see Figure 3.



Figure 3: Exit Point Reference Prices calculation model

### Forecasted Contracted Capacity (FCC) (see paras 3.12 and 3.13 in section 3)

It is proposed that the FCC for an Entry Point or an Exit Point will be equal to a forecasted value determined by a new methodology statement for the FCC. The methodology to determine a capacity forecast will be developed and shared with industry and the intention is that it be transparent and to keep the approach flexible to develop the best possible forecast to be applied to the relevant year to facilitate calculation of the capacity charges. The methodology will be part of a methodology statement, for which the methodology will be subject to some development as part of this Modification development. The FCC will be reviewed ahead of each tariff year and updates will be communicated to industry as part of the publication of charges. The methodology contained within the statement will be kept under review as part of these updates and any changes to the methodology would be subject to a review process to include consultation with industry. The FCC methodology has to take into account the treatment of capacity associated with Existing Contracts.

### Reserve Prices produced from Reference Prices (see paras 3.14 to 3.16 in Section 3)

It is proposed that Reserve Prices for capacity will be produced in p/kWh/d. The Reserve Prices will be calculated each year based on the latest available set of inputs and once published, these will be the Reserve Prices applicable for the relevant gas year regardless of when the capacity product is procured.

For example, the price payable for capacity procured in 2019 for a period in October 2025 will be the Reserve Price determined for gas year 2025/26 plus, where applicable, any premium payable. This premium will be equal to either:

- The difference between the allocated price and Reserve Price in the relevant auction when the capacity was initially contracted for ('auction premium'); or
- The amount specified in respect of entry capacity allocated via a PARCA Application as described in TPD B1.14 and the Entry Capacity Release Methodology Statement ('PARCA premium').

It is proposed that the Reserve Price for Firm capacity at an Entry Point or an Exit Point is determined by application of any applicable Multipliers to the relevant Reference Price.

It is proposed that Multipliers:

- Shall not be zero for any capacity type or product;
- Are not to be used for the purposes of managing revenue recovery;
- Shall be calculated on an ex-ante basis ahead of the applicable year.

It is proposed that for the period commencing 01 October 2019, or from implementation of this proposal should it be after this date, the Multiplier applied to the Reference Prices for all Entry Point and Exit Points in order to determine the Reserve Price will be 1 (one).

### **Interruptible (Entry) and Off-peak (Exit) Capacity (see paras 3.17 to 3.18 in Section 3)**

It is proposed that the Reserve Price for Interruptible Capacity at an Entry Point and Off-peak Capacity at an Exit Point is derived by application of an ex-ante discount to the Reserve Prices for the corresponding Firm capacity products (the day ahead firm price at the relevant Entry Point and the daily firm price at the relevant Exit Point).

It is proposed that when determining the level of discount applied in respect of Interruptible and Off-peak Capacity from 01 October 2019 or implementation date of this Modification should it be after, the likelihood of interruption and the estimated economic value of the Interruptible or Off-peak capacity products are used to determine a discount value (as per Article 16 of EU Regulation 2017/460). It is further proposed to adopt a 'banding approach' for the period commencing 01 October 2019 or implementation date should it be after and for subsequent years, such that the proposed discount value will be rounded up to the nearest 10%:

It is proposed that for the period commencing 01 October 2019, or the implementation date of this Modification should it be after, the discount applied in respect of Interruptible and Off-peak Capacity:

- At Entry Points is 10%; and
- At Exit Points is 10%.

### **Specific Capacity Discounts (see paras 3.19 to 3.20 in section 3)**

It is proposed that Specific Capacity Discounts will be applied to the Reserve Prices in respect of Firm and Interruptible/Off-peak Capacity at the Points detailed below.

It is proposed that in respect of storage sites, (locations where the type of Entry point/Offtake is designated as a 'Storage Site' in National Grid's Licence (Special Condition 5F Table 4B for Entry Points, and Special Condition 5G Table 8 for Exit Points) the applicable Specific Capacity Discount for a given gas year will be equal to 50%.

It is proposed that in respect of Liquefied Natural Gas (LNG) sites, (locations where the type of Entry point is designated as a 'LNG Importation Terminal' in National Grid's Licence (Special Condition 5F Table 4B)) for the period commencing 01 October 2019 or implementation date of this Modification should it be later, the applicable Specific Capacity Discount for a given gas year will be equal to 0%.

It is proposed that no other Specific Capacity Discounts are applied.

### Additional Calculation Step under CWD for Reference / Reserve Prices (see para 3.22 in section 3)

It is proposed that the following step is applicable for Capacity Reference Prices on an enduring basis. Once the Reserve Prices have been calculated taking into account all the required Multipliers, Specific Capacity Discounts and Interruptible / Off-peak adjustment there will be an under recovery driven by the levels of discounts or adjustments (e.g. Interruptible / Off-peak adjustment and Specific Capacity Discounts). This anticipated under recovery will result in the need for an adjustment to be applied to the Postage Stamp calculation in order to recalculate Reference Prices, and therefore Reserve Prices, such that the under recovery is estimated to be zero or close to zero. This will be applied to the Entry and Exit Capacity calculations to recalculate the Entry and Exit Capacity Reference Prices and Reserve Prices for all Entry and Exit points and in doing so will minimise the size of the Transmission Services Entry and Exit Revenue Recovery charges.

### Minimum Reserve Price

It is proposed that Reserve Prices for Firm and Interruptible / Off-peak capacity (determined following the application of any relevant Multipliers, Specific Capacity Discounts, or Interruptible / Off-peak adjustments) will be subject to a minimum value (collar) of 0.0001p/kWh/d.

### Summary of Reserve Price Derivation

The following diagram (see Figure 4) summarises the proposed approach to the derivation of Reserve Prices (from the applicable Reference Price) for both Firm and Interruptible / Off-peak Capacity products (including Capacity at Storage and LNG sites).

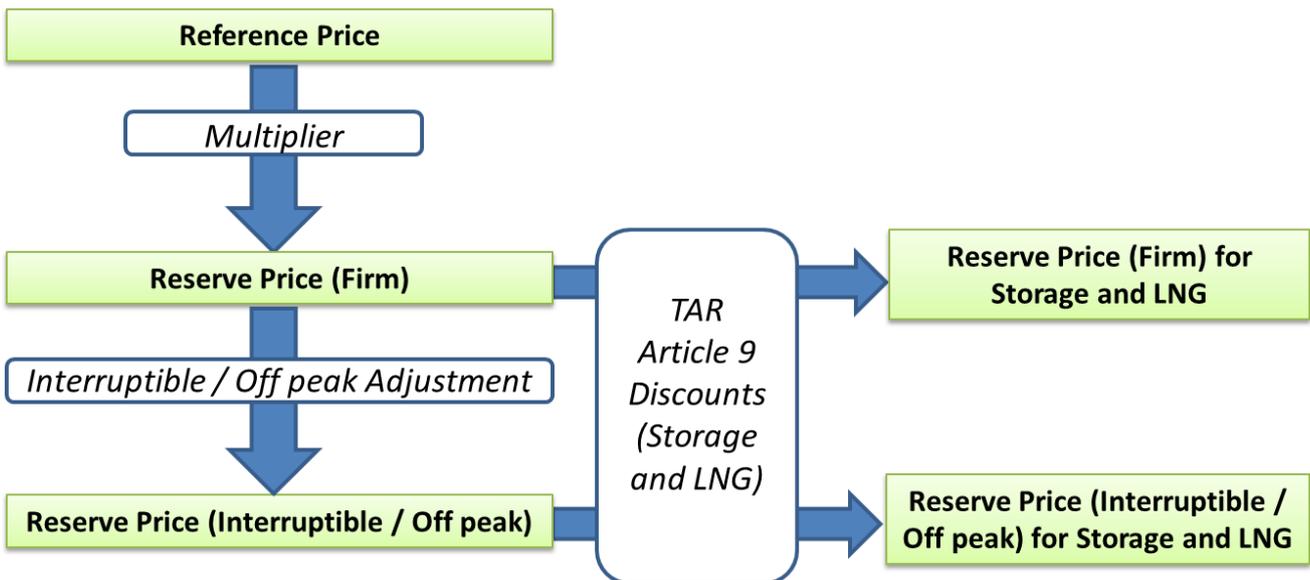


Figure 4: Reserve Price derivation

### Capacity Step Prices

For the purposes of capacity step prices used in the QSEC Auction, these will be an additional 5% of the applicable Reserve Price or 0.0001 p/kWh/Day, whichever is the greatest, per step.

### Transmission Services Revenue Recovery Charges (see para 3.21 in section 3)

It is proposed that where a proportion of revenue could be under/over recovered (i.e. compared to the target Transmission Services revenues) as a consequence of application of Reserve Prices applicable for the following gas year, a revenue recovery mechanism is applied.

The Transmission Services Revenue Recovery charges (Transmission Services Entry Revenue Recovery charge and Transmission Services Exit Revenue Recovery charge) will be calculated after the Reserve Prices have been determined and will be calculated as follows (see Figure 5) for Entry and Exit in the same way:

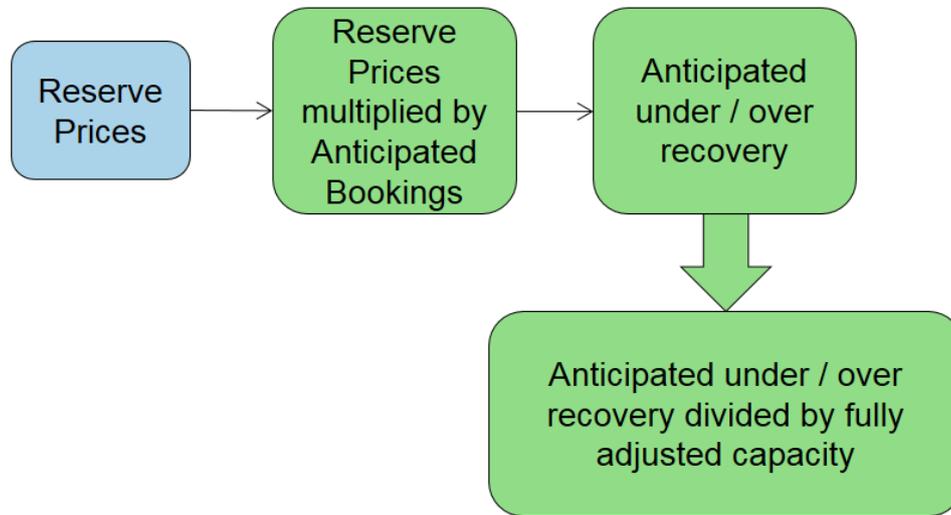


Figure 5: Transmission Services Revenue Recovery Mechanism

It is proposed that the 'Anticipated Bookings' value will be based on National Grid's forecast of capacity bookings and therefore used to forecast the anticipated under or over recovery. It is proposed that the Transmission Services Revenue Recovery charge rate may be adjusted at any point within the gas year.

For the avoidance of doubt, such change would be subject to the existing notice requirements for variation of Transportation Charge rates.

It is proposed that the Transmission Services revenue recovery mechanism is capacity based and applied as additional capacity charges to all fully adjusted capacity except Existing Contracts for Storage. The Transmission Services Entry and Exit revenue recovery charges for this period will be produced in p/kWh/d. For the avoidance of doubt, any Entry Capacity (except Existing Contracts for Storage) or Exit Capacity booked for the applicable year (irrespective of when this capacity was procured from National Grid) would be subject to Revenue Recovery charges.

It is proposed that in respect of adjustments to available Entry Capacity at Storage, where the adjustment is executed:

- Up to and including 05 April 2017, the Capacity will be treated as Entry Capacity procured via Existing Contracts; or
- Subsequent to 05 April 2017, the Capacity will not be treated as Entry Capacity procured via Existing Contracts.

### **NTS Optional Charge (see para 3.23 in Section 3)**

It is proposed that the existing NTS Optional Commodity Rate (OCR) is removed.

### **NTS Transmission Services Entry Charge Rebate**

The charge mechanism reduces any Transmission Services entry over recovery. The process may be triggered at the end of the formula year. It is proposed that this will be applied as a Transmission Services entry capacity credit.

### **NTS Transmission Services Entry Capacity Retention Charge**

NTS Entry Capacity Substitution is where National Grid moves unsold non-incremental Obligated Entry Capacity from one (donor) ASEP to meet the demand for incremental Obligated Entry Capacity at a different (recipient) ASEP. It is proposed that where a User elects to exclude capacity at potential donor ASEPs from being treated as substitutable capacity without having to buy and be allocated the capacity it is required to take out a “retainer”.

The retainer is valid for one year, covering all QSEC auctions (including ad-hoc auctions) held in this period. It is proposed that National Grid will exclude the relevant quantity from the substitution process, but the retainer will not create any rights to the User to be allocated or to use the capacity. The retainer will not prevent Users (including the User taking out the retainer) from buying that capacity at the ASEP in question in the period covered by the retainer.

The retainer is subject to a one-off charge which is payable via an ad hoc invoice raised within 2 months of the QSEC auction allocations being confirmed. If a User wishes to protect capacity for more than one year then a further retainer must be obtained each year and a charge will be payable each year for which a retainer is taken out.

Where any capacity covered by a retainer is allocated, a refund of the retention fee may be made; for example, for a retainer taken out for Gas Year 2013/14 in January 2010, a refund can be triggered by an allocation at the relevant ASEP made during a QSEC auction in 2010, 2011 and 2012, and an AMSEC auction in 2013 and 2014.

NTS Entry Capacity Retention Charges, in regard to non-incremental Obligated Entry Capacity, are calculated based on the minimal capacity charge rate of 0.0001 pence per kWh per day applying over a time period of 32 quarters; this equates to 0.2922 p/kWh of Entry Capacity retained.

NTS Entry Capacity Retention Charges and refunds in regard to non-incremental Obligated Entry Capacity are treated as Transmission Services.

### **Non-Transmission Services Charging**

It is proposed that revenue due for collection via General Non-Transmission Services Entry and Exit Charges will be equal to the Non-Transmission Services revenue minus the DN Pensions Charges, NTS Meter Maintenance Charges, St. Fergus Compressor Charges, Shared Supply Meter Point Administration Charges and Allocation Charges at Interconnectors.

The revenue due for collection via General Non-Transmission Services Entry and Exit Charges will be recovered through a flow based charge as a flat unit price for all Entry Points and Exit Points. It is proposed that the St. Fergus Compressor Charges and General Non-Transmission Services Entry and Exit Charge rates may be adjusted at any point within the gas year.

It is proposed that this is applied to all flows excluding Storage flows unless it is flowed as “own use” gas at the Storage point.

The General Non-Transmission Services charge will be produced in p/kWh.

### **Treatment of under/over recovery (K) – after each formula year**

It is proposed that a separate under or over revenue recovery (otherwise known as the “K” value) will be calculated for Transmission Services and Non-Transmission Services for the formula year. This will be different to the TO and SO “K” values however the principle of reconciling Transmission Entry and Exit revenues separately will remain.

It is proposed that the approach and calculation will be specified in the UNC, to be approved by Ofgem. In addition to Transmission and Non-Transmission being reconciled this Modification also proposes to have reconciliation between Entry and Exit under Transmission Services.

#### ***Transmission Services Revenue:***

It is proposed to maintain 50/50 split between Entry and Exit (for the purposes of allocating revenues to the charges to recover Transmission Services Entry and Exit Revenues). It is also proposed to maintain the reconciliation of Entry and Exit for Transmission Services, as per the current approach for TO charges. This would continue to mean that Entry and Exit, under Transmission Services, when reconciled would not result in Entry impacting Exit or vice versa.

The applicable years Transmission Service Revenue will be split 50:50 between revenue to collect on Entry Capacity charges and revenue to collect on Exit Capacity charges. This value will then be added to any under/over recovery (Transmission Services K value) which was calculated in y-2 (two years ago) and split between Entry and Exit in the correct proportion, to make the applicable revenue which will be used in the CWD model to calculate the capacity charges.

#### ***Non-Transmission Services Revenue:***

It is proposed that all those charges in respect of Non-Transmission Services shall contribute towards Non-Transmission Services revenue recovery. All charges are set on an ex-ante basis.

It is proposed that any under or over recovery attributed to the charges other than the Non-Transmission Services Entry and Exit Charge shall not be subject to reconciliation with any K value (Non-Transmission Services K value) adjusting the Non-Transmission Services Revenue recovery charge. Non-Transmission Services revenue charge will be added to the Non-Transmission Services K value which was calculated in y-2 (two years ago) which will be used to calculate the applicable years Non-Transmission Services Revenue which will be used for calculation of the Non-Transmission Services Charges.

### **Transportation Charges: Information Publication**

It is proposed that information in respect of Transportation Charges will be published in accordance with table 3 below.

Figure 6: Publication dates for Transportation Charges

	Data Item	Publication	Issued by*:
Transmission Services	Forecasted Contracted Capacity	Charging Model	01 August
	CWD Distances	Charging Model	01 August
	Capacity Reference Prices	Transportation Statement	01 August
	Multipliers	Transportation Statement	01 August
	Capacity Reserve Prices	Transportation Statement	01 August
	Interruptible Adjustment (Entry)	Transportation Statement	01 August
	Interruptible Adjustment (Exit)	Transportation Statement	01 August
	Specific Capacity Discounts (Storage)	Transportation Statement	01 August
	Specific Capacity Discounts (LNG)	Transportation Statement	01 August
	Revenue Recovery Charge (Entry)	Transportation Statement	01 August
	Revenue Recovery Charge (Exit)	Transportation Statement	01 August
Non-Transmission Services	Non-Transmission Services Charges	Transportation Statement	01 August
	DN Pension Deficit Charges	Transportation Statement	01 August
	NTS Metering Charges	Transportation Statement	01 August
	St Fergus Compression Charges	Transportation Statement	01 August
	SSMP Administration Charges	Transportation Statement	01 August
	Allocation Charges at Interconnectors	Transportation Statement	01 August

# The CWD distances will be calculated for the purpose of undertaking analysis of a Counterfactual CWD Model

\* Issued by means the date by which the listed information will be consolidated and published in the relevant publication. The information in this table will be published and made available in steps via the relevant notice and supporting material which may be before the date listed. The publication dates may also be changed depending on the implementation of this Modification.

## 6 Impacts & Other Considerations

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

N/A

### Consumer Impacts

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

### Cross Code Impacts

None

## EU Code Impacts

EU Tariff Code compliance is considered as part of this Proposal.

## Central Systems Impacts

There will be impacts on Gemini and UK Link invoicing systems.

# 7 Relevant Objectives

Table 2: Impact of the Modification on the Relevant Objectives

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

Demonstration of how the Relevant Objectives are furthered:

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

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

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

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

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

The proposed changes to TPD B and EID B (where applicable) support the implementation of the new charging methodology and arrangements including those elements required to comply with the EU Tariff Code. The decision to reject UNC0621 and its Alternatives highlighted three areas of compliance that needed to be addressed (Interim Contracts, Transition Period and Shorthaul). This Modification proposes changes that will address these.. In order to provide a compliant proposal to address these areas, the Modification proposes:

- 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).

**Table 3: Impact of the Modification on the Relevant Charging Methodology Objectives**

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

This Modification proposal does not conflict with:

- (i) Paragraphs 8, 9, 10 and 11 of Standard Condition 4B of the Transporter's Licence; or
  - (ii) Paragraphs 2, 2A and 3 of Standard Special Condition A4 of the Transporter's Licence;
- as the charges will be changed at the required times and to the required notice periods.

Demonstration of how the Relevant Objectives are furthered:

- a) Save in so far as paragraphs (aa) or (d) apply, that compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its transportation business;**
  - aa) That, in so far as prices in respect of transportation arrangements are established by auction, either:**
    - (i) no reserve price is applied, or**
    - (ii) that reserve price is set at a level -**
      - (I) best calculated to promote efficiency and avoid undue preference in the supply of transportation services; and**
      - (II) best calculated to promote competition between gas suppliers and between gas shippers;**
- and:**

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

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

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

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

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

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

## 8 Implementation

Implementation of this Modification is proposed to be in line with an Ofgem decision. It should be by 31 May 2019 or as soon as possible after this date.

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

## 9 Legal Text

### Text Commentary

To be provided later

## Text

To be provided later

# 10 Recommendations

## Proposer's Recommendation to Panel

This Modification should

- be treated as urgent and considered alongside UNC0678, and
- should proceed as such under a timetable approved by the Authority.

## 11 Appendix 1: Differences between Modification 0621 and this Modification 0679.

The following table highlights the differences between Modification Proposal 0621 (which was rejected for implementation by Ofgem) and this Modification Proposal (0679). A rationale is provided for those elements where a different approach has been taken in this Modification Proposal 0679 and extracts have been included from Ofgem's decision letter for 0621 which evidence the compliance concern.

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

		0621	Rationale in the context of 0621 Ofgem Decision	0678	Extracts from Ofgem Decision Letter For Mod Proposal 0621	0679	
		v5.0 (1/5/2018)		v1.0 (17/1/2019)	20/12/2019	v1.0 (24/01/19)	
Component	Element	National Grid		National Grid	Ofgem	RWE	
Transmission Services Charges	Capacity Reference Price	Reference Price Methodology (Interim)	Capacity Weighted Distance	Ofgem concluded that individual features of the transition period were non-compliant with TAR hence the interim arrangements have been removed	N/A	"TAR NC makes no provision ...for a transition period as proposed ... however, we note that any methodology in effect from 31 May 2019 must in itself be compliant with ... TAR NC".	N/A
		Reference Price Methodology (enduring)	Capacity Weighted Distance with adjustment to minimise Revenue Recovery		Capacity Weighted Distance with adjustment to minimise Revenue Recovery		Postage Stamp Model with adjustment to minimise Revenue Recovery
		Target Revenue	Net of existing and interim contracts	Ofgem concluded that Interim Contracts were non-compliant with TAR hence the target revenue will only be net of Existing Contracts	Net of Existing Contracts	"treatment by the UNC621 modifications of so-called "interim contracts" is not consistent with either a literal or a purposive reading of Article 35 TAR NC"	Net of Existing Contracts
		Treatment of zero Reference Prices	Uses Weighted Average Distance to determine price using nearest non-zero Reference Priced Entry or Exit Point's WAD.		Uses Weighted Average Distance to determine price using nearest non-zero Reference Priced Entry or Exit Point's WAD.		Uses postage stamp price for entry/exit.
	Forecasted Contracted Capacity (FCC)	Interim arrangements	Obligated capacity for first 2 years	Ofgem concluded that use of obligated values was not consistent with TARs requirement for use of a forecast.	N/A	"obligated capacity does not amount to a "forecast" for the purposes of TAR NC ... the revenue reconciliation principle set out in TAR NC, [is] that under- or over recovery ... should be minimised to the extent possible"	N/A
		Enduring arrangements	National Grid Forecast (excluding Historical Capacity)	Ofgem concluded that Interim Contracts were non-compliant with TAR hence the FCC will only exclude Existing Contracts	National Grid Forecast (excluding Existing Contract capacity)		National Grid Forecast (excluding Existing Contract capacity)
	Reserve Price - Firm and Interruptible	Multiplier (Annual Capacity Product)	1.0		1.0		1.0
		Multiplier (Quarterly Capacity Product)	1.0		1.0		1.0
		Multiplier (Monthly Capacity Product)	1.0		1.0		1.0
		Multiplier (Daily Capacity Product)	1.0		1.0		1.0
		Multipliers from year 2 onwards	1.0		1.0		1.0
		Interruptible / Off-peak adjustment (entry)	10%		10%		10%
		Interruptible / Off-peak adjustment (exit)	10%		10%		10%
	Reserve Price - Specific Capacity Discounts	Interruptible /off-peak adjustments from Year 2 onwards	10%		10%		10%
		Fixed or floating price	Floating		Floating		Floating
		Storage	50%		50%		50%
		Interconnection Points	None		None		None
		LNG	0%		0%		0%
Revenue Recovery Charges (Interim)	Minimum Reserve Price	0.0001p/kWh/d		0.0001p/kWh/d		0.0001p/kWh/d	
	Target revenue apportionment	Pro-rated according to forecast flows at IPs / non-IPs versus forecast total flows		N/A		N/A	
	Duration	2 years	Ofgem concluded that use of a commodity (flow) based revenue recovery mechanism in the interim period was not compliant with TAR both in terms of the consequential proportion of revenue recovered via this mechanism and the question as to whether this was consistent with the requirement for such recovery means to be "an exception"	N/A	"use of obligated capacity ... would lead to... more than 50% of ... revenue being recovered by this charge. ... use of a commodity-based charge to recover most of the ... revenue is inconsistent with the intention of Article 4(3) TAR NC, which provides "as an exception" that a "part" of the revenue may be recovered via a commodity-based charge"	N/A	
	IP application	Capacity charge (applied to fully adjusted capacity)		N/A		N/A	
	IP Exclusions	None		N/A		N/A	
	Non-IP application	Flow based charge applied to allocations (flow)		N/A		N/A	
	Non-IP Exclusions	Non-own use gas allocations (flow) at Storage Connection Points		N/A		N/A	

		0621	Rationale in the context of 0621 Ofgem Decision	0678	Extracts from Ofgem Decision Letter For Mod Proposal 0621	0679
		v5.0 (1/5/2018)		v1.0 (17/1/2019)	20/12/2019	v1.0 (24/01/19)
Component	Element	National Grid	National Grid	Ofgem	RWE	
Transmission Services Charges	Revenue Recovery Charges (Enduring)	Target revenue apportionment between IPs and non-IPs	n/a	n/a	n/a	
		IP application	Capacity charge (applied to fully adjusted capacity)	Capacity charge (applied to fully adjusted capacity)	Capacity charge (applied to fully adjusted capacity)	
		IP Exclusions	None	None	None	
		Non-IP application	Capacity charge (applied to fully adjusted capacity)	Capacity charge (applied to fully adjusted capacity)	Capacity charge (applied to fully adjusted capacity)	
		Non IP Exclusions	Historical Contracts for Capacity at Storage Connection Points	Ofgem concluded that Interim Contracts were non-compliant with TAR hence the exclusion will only extend to Existing Contracts	Existing Contracts for Capacity at Storage Connection Points	Existing Contracts for Capacity at Storage Connection Points
	NTS Optional Charge	Application	2 years		N/A	N/A
		Method (rate derivation)	Existing formula, cost base subject to annual RPI adjustment		N/A	N/A
		Quantity (IPs)	Capacity deemed to have been used		N/A	N/A
		Quantity (Non-IPs)	Allocation (flow)		N/A	N/A
		Alternative charges	Transmission Services Revenue Recovery charges and Non-Transmission Services (entry and exit) charges	Ofgem concluded that the Optional Charge was not compliant with the criteria for classification as a Transmission Services Charge.	N/A	N/A
	Limitations	60km distance cap		N/A	N/A	
	Application at Bacton ASEPs	NTS optional flow at UKCS and IP pro rata in proportion to total flows at both		N/A	N/A	
	'K'	Application	Existing principles	Existing principles	Existing principles	
Non-Transmission Services Charges	St. Fergus Compression	Application	Existing principles	Existing principles	Existing principles	
	NTS Metering	Application	Existing principles	Existing principles	Existing principles	
	DN Pensions Deficit	Application	Existing principles	Existing principles	Existing principles	
	SSMP Administration	Application	Existing principles	Existing principles	Existing principles	
	IP Allocation	Application	Existing principles	Existing principles	Existing principles	
	Entry and Exit Charges	Application	Allocation (flow) based charge to recover residual Non-transmission services revenue, except non-own-use at storage	Allocation (flow) based charge to recover residual Non-transmission services revenue, except non-own-use at storage	Allocation (flow) based charge to recover residual Non-transmission services revenue, except non-own-use at storage	
	'K'	Application	Existing principles	Existing principles	Existing principles	
General	Publication of variables	Multippliers	Transportation Statement	Transportation Statement	Transportation Statement	
		Interruptible Adjustment	Transportation Statement	Transportation Statement	Transportation Statement	
		LNG Discount	Transportation Statement	Transportation Statement	Transportation Statement	
		CWD Distances	Charging Model	Charging Model	Charging Model	
		CWD FCCs	Charging Model	Charging Model	Charging Model	
		Maximum allowed revenue forecast	No proposed obligations	No proposed obligations	No proposed obligations	

Variation in treatment of element from UNC Modification Proposal 0621