

V1.0

**Views of the Proposer on**

**UNC Modification Proposal 0678H 'Amendments to Gas Transmission Charging Regime (Postage Stamp) including a Cost based Optional Capacity Charge'**

**compliance with COMMISSION REGULATION (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas**

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**Nick Wye  
3 March 2019**

#### **Article 4**

##### ***Transmission and non-transmission services and tariffs***

1. *A given service shall be considered a transmission services where both of the following criteria are met:*
  - (a) *the costs of such service are caused by the cost drivers of both technical or forecasted contracted capacity and distance;*
  - (b) *the costs of such service are related to the investment in and operation of the infrastructure which is part of the regulated asset base for the provision of transmission services.*

*Where any of the criteria set out in points (a) and (b) are not complied with, a given service may be attributed to either transmission or non-transmission services subject to the findings of the periodic consultation by the transmission system operator(s) or the national regulatory authority and decision by the national regulatory authority, as set out in Articles 26 and 27.*

This article deals with the determination of the revenue amounts to be considered Transmission and Non-Transmission Services. The method of determining the costs allocated to Transmission Services charges meet the criteria in the Article. Transmission Services revenues are considered the amounts under Transmission Owner (TO) activities, under National Grid's Licence charges. Two specific TO amounts that are levied via targeted charges do not meet the Transmission Services criteria in this Article (DN Pensions Deficit charge and NTS meter Maintenance charge) and are proposed to be recovered via Non-Transmission Charges as a consequence.

The Modification 0678H proposes the application of the Postage Stamp model as the RPM. The Postage Stamp Model excludes distance as a cost driver for the purpose of allocating costs. This is consistent with the observations made by Ofgem in its Modification 0621 decision letter where it highlighted a number of weaknesses with using distance as a factor for setting reference prices. Forecasted contracted capacity is the sole cost driver that is related to the definition of transmission services under Article 4 where such services relate to historical sunk costs of a shared network that is already built and that has spare capacity. The reference price methodology under 0678A is compliant with Article 4 (1)(a).

2. *Transmission tariffs may be set in a manner as to take into account the conditions for firm capacity products.*

All Transmission Service charges are capacity based. The OCC more properly reflects the charges pertinent to costs incurred by National Grid for services transporting gas from an entry point to an exit point in relatively close proximity. There are specific rules and conditions particular to those Users shipping gas along an OCC route, tying a particular entry point to a particular exit point and the requirement to pay an annual OCC Fee. The inclusion of an OCC will bring wider benefits to all Users of the NTS, beyond those customers who avail themselves of the service. These are detailed in the Objectives section of the Modification Proposal 678H

3. *The transmission services revenue shall be recovered by capacity-based transmission tariffs.*

All Transmission Services revenue will be recovered by capacity charges.

*As an exception, subject to the approval of the national regulatory authority, a part of the transmission services revenue may be recovered only by the following commodity-based transmission tariffs which are set separately from each other:*

- (a) a flow-based charge, which shall comply with all of the following criteria:*
    - (i) levied for the purpose of covering the costs mainly driven by the quantity of the gas flow;*
    - (ii) calculated on the basis of forecasted or historical flows, or both, and set in such a way that it is the same at all entry points and the same at all exit points;*
    - (iii) expressed in monetary terms or in kind.*
  - (b) a complementary revenue recovery charge, which shall comply with all of the following criteria:*
    - (i) levied for the purpose of managing revenue under- and over-recovery;*
    - (ii) calculated on the basis of forecasted or historical capacity allocations and flows, or both;*
    - (iii) applied at points other than interconnection points;*
    - (iv) applied after the national regulatory authority has made an assessment of its cost-reflectivity and its impact on cross-subsidisation between interconnection points and points other than interconnection points.*
- 4.** *The non-transmission services revenue shall be recovered by non-transmission tariffs applicable for a given non- transmission service. Such tariffs shall be as follows:*
- (a) cost-reflective, non-discriminatory, objective and transparent;*
  - (b) charged to the beneficiaries of a given non-transmission service with the aim of minimising cross-subsidisation between network users within or outside a Member State, or both. Where according to the national regulatory authority a given non-transmission service benefits all network users, the costs for such service shall be recovered from all network users.*

Non-Transmission Services charges are to be levied in a manner consistent with the current method for the recovery of System Operator costs save for the revenue associated to Capacity charges which will be considered Transmission Services Revenue (e.g. Interruptible capacity). Following the determination of the target Non-Transmission Services Revenue to be recovered from the specified charges then, some costs will be levied in the form of specific service charges; the remainder will be recovered via a flow-based charge on all entry and exit gas flows (excluding storage facility flows, unless flowed as own use gas).

The exclusion of these charges from OCC Users reflects the costs which would be incurred by the owner/operator of a by-pass pipeline as detailed in the Modification Proposal 678H.

## **Article 5**

### **Cost allocation assessments**

1. *The national regulatory authority or the transmission system operator, as decided by the national regulatory authority, shall perform the following assessments and shall publish them as part of the final consultation referred to in Article 26:*
  - (a) *a cost allocation assessment relating to the transmission services revenue to be recovered by capacity-based transmission tariffs and based exclusively on the cost drivers of*
    - (i) *technical capacity; or*
    - (ii) *forecasted contracted capacity; or*
    - (iii) *technical capacity and distance; or*
    - (iv) *forecasted contracted capacity and distance;*
  - (b) *a cost allocation assessment relating to the transmission services revenue to be recovered by commodity-based transmission tariffs, if any, and based exclusively on the cost drivers of:*
    - (i) *the amount of gas flows; or*
    - (ii) *the amount of gas flows and distance.*
2. *The cost allocation assessments shall indicate the degree of cross-subsidisation between intra-system and cross-system network use based on the proposed reference price methodology.*
3. *The cost allocation assessment referred to in paragraph 1(a) shall be carried out as follows:*
  - (a) *the transmission services capacity revenue to be obtained from intra-system network use at both all entry points and all exit points shall be divided by the value of the relevant capacity cost driver(s) for intra-system network use in order to calculate the intra-system capacity ratio, which is defined as a monetary unit per measurement unit, such as in euro per MWh/day, in accordance with the following formula:*

*[Formula]*

*Where:*
  - (b) *the transmission services capacity revenue to be obtained from cross-system network use at both all entry points and all exit points shall be divided by the value of the relevant capacity cost driver(s) for cross-system network use in order to calculate the cross-system capacity ratio, which is defined as a monetary unit per measurement unit, such as in euro per MWh/day, in accordance with the following formula:*

*[Formula]*

- (c) *the capacity cost allocation comparison index between the ratios referred to in points (a) and (b), which is defined in percentage, shall be calculated in accordance with the following formula:*

*[Formula]*

- 4. *The cost allocation assessment referred to in paragraph 1(b) shall be carried out as follows:*

- (a) *the transmission services commodity revenue to be obtained from intra-system network use at both all entry points and all exit points shall be divided by the value of the relevant commodity cost driver(s) for intra-system network use in order to calculate the intra-system commodity ratio, which is defined as a monetary unit per measurement unit, such as in euro per MWh, in accordance with the following formula:*

*[Formula]*

- (b) *the transmission services commodity revenue to be obtained from cross-system network use at both all entry points and all exit points shall be divided by the value of the relevant commodity cost driver(s) for cross-system network use in order to calculate the cross-system commodity ratio, which is defined as a monetary unit per measurement unit, such as in euro per MWh, in accordance with the following formula:*

*[Formula]*

- (c) *the commodity cost allocation comparison index between the ratios referred to in points (a) and (b), which is defined in percentage, shall be calculated in accordance with the following formula:*

*[Formula]*

- 5. *The transmission services revenue to be obtained from intra-system network use at entry points referred to in paragraphs 3(a) and 4(a) shall be calculated as follows:*

- (a) *the amount of allocated capacity or, respectively, flows attributed to the provision of transmission services for cross-system network use at all entry points shall be deemed equal to the amount of capacity or, respectively, flows attributed to the provision of transmission services for cross-system network use at all exit points;*

- (b) *the capacity and, respectively, flows, determined as set out in point (a) of this paragraph shall be used to calculate the transmission services revenue to be obtained from cross-system network use at entry points;*

- (c) *the difference between the overall transmission services revenue to be obtained at entry points and the resulting value referred to in point (b) of this paragraph shall be equal to the transmission services revenue to be obtained from intra-system network use at entry points.*

- 6. *Where distance is used as a cost driver in combination with technical or forecasted contracted capacity or flows, the capacity weighted average distance or, respectively, commodity weighted average distance shall be used. Where the results of the capacity, or respectively commodity cost allocation comparison indexes referred to in paragraph 3(c) or, respectively*

*paragraph 4(c), exceed 10 percent, the national regulatory authority shall provide the justification for such results in the decision referred to in Article 27(4).*

The detailed information used for setting charges will enable the relevant cost assessments to be undertaken by the Authority. National Grid will make available to the NRA all necessary data to facilitate compliance with this Article. The information required from Article 5 is linked to the processed required to be undertaken under Article 26 and 27.

## **Article 6**

### **Reference price methodology application**

1. *The reference price methodology shall be set or approved by the national regulatory authority as set out in Article 27. The reference price methodology to be applied shall be subject to the findings of the periodic consultations carried out in accordance with Article 26 by the transmission system operator(s) or the national regulatory authority, as decided by the national regulatory authority.*

Implementation of Modification 0678H will require a decision to be made by the Authority.

2. *The application of the reference price methodology shall provide a reference price.*

Reference prices will be generated by the proposed Postage Stamp Reference Price Methodology prescribed in Modification 0678H.

3. *The same reference price methodology shall be applied to all entry and exit points in a given entry-exit system subject to the exceptions set out in Articles 10 and 11.*

The same Reference Price Methodology (RPM) will apply to all entry and exit points. Existing Contracts and the way they are incorporated in the RPM calculation is the same for Entry and Exit. As there are no qualifying volumes for Existing Contracts for Exit, they are not required to be provided in the algebra in the RPM for Exit reference prices (which is the same as having values of zero). They are included for Entry as Entry has qualifying values. The calculation of all Reserve Prices for the acquisition of capacity (including OCC) is based on the same methodology. Adjustments to OCC related capacity prices follow the initial allocations.

4. *Adjustments to the application of the reference price methodology to all entry and exit points may only be made in accordance with Article 9 or as a result of one or more of the following:*
  - (a) *benchmarking by the national regulatory authority, whereby reference prices at a given entry or exit point are adjusted so that the resulting values meet the competitive level of reference prices;*
  - (b) *equalisation by the transmission system operator(s) or the national regulatory authority, as decided by the national regulatory authority, whereby the same reference price is applied to some or all points within a homogeneous group of points;*
  - (c) *rescaling by the transmission system operator(s) or the national regulatory authority, as decided by the national regulatory authority, whereby the reference prices at all entry or all exit points, or both, are adjusted either by multiplying their values by a constant or by adding to or subtracting from their values a constant.*

UNC0678H proposes to adjust prices following the “use” of OCC as determined in the Modification Proposal 678H to reflect the costs of a by-pass pipeline. These are ex-post of the formulation of Reserve Prices and subsequent allocation

#### **Article 7**

##### **Choice of a reference price methodology**

*The reference price methodology shall comply with Article 13 of Regulation (EC) No 715/2009 and with the following requirements. It shall aim at:*

- (a) enabling network users to reproduce the calculation of reference prices and their accurate forecast;*

The Reference Price Methodology for setting Transmission Services Charges is explicitly detailed and in conjunction with the information provided by National Grid (e.g. allowed revenue and Forecasted Contracted Capacities) prices are able to be reproduced by Users.

- (b) taking into account the actual costs incurred for the provision of transmission services considering the level of complexity of the transmission network;*

The Postage Stamp basis for setting Transmission Services Charges includes capacity as a cost-driver as this properly reflects those costs which are historical and sunk in nature. The use of distance as a cost driver is inconsistent with the recovery of such costs.

- (c) ensuring non-discrimination and prevent undue cross-subsidisation including by taking into account the cost allocation assessments set out in Article 5;*
- (d) ensuring that significant volume risk related particularly to transports across an entry-exit system is not assigned to final customers within that entry-exit system;*
- (e) ensuring that the resulting reference prices do not distort cross-border trade.*

The proposed methodology applies the same criteria to determine prices for both Interconnection Points and Non-Interconnection Points including.

#### **Article 8**

##### **Capacity weighted distance reference price methodology**

A CWD counterfactual will be produced as part of 678H and will be consistent with the steps set out in this Article 8.

1. *The parameters for the capacity weighted distance reference price methodology shall be as follows:*
  - (a) the part of the transmission services revenue to be recovered from capacity-based transmission tariffs;*

In the counterfactual CWD, Transmission Services revenue to be recovered from capacity based tariffs is an input to the proposed Reference Price Methodology.

- (b) *the forecasted contracted capacity at each entry point or a cluster of entry points and at each exit point or a cluster of exit points;*

In the counterfactual CWD, Forecasted Contracted Capacity at each Entry and Exit Point are inputs to the proposed Reference Price Methodology.

- (c) *where entry points and exit points can be combined in a relevant flow scenario, the shortest distance of the pipeline routes between an entry point or a cluster of entry points and an exit point or a cluster of exit points;*

In the counterfactual CWD, there is no restriction assumed in the calculation of the reference prices linked to a “flow scenario” whereby it might be assumed that gas does not or can’t flow between specific points.

- (d) *the combinations of entry points and exit points, where some entry points and some exit points can be combined in a relevant flow scenario;*

In the counterfactual CWD, there is no restriction assumed in the calculation of the reference prices linked to a “flow scenario” whereby it might be assumed that gas does not or can’t flow between specific points. The assumption for the NTS is that all gas from an Entry point can flow to any Exit point.

- (e) *the entry-exit split referred to in Article 30(1)(b)(v)(2) shall be 50/50. Where entry points and exit points cannot be combined in a flow scenario, this combination of entry and exit points shall not be taken into account.*

In the counterfactual CWD, an entry / exit split of 50/50 is applied when considering the overall revenue to be collected. This 50/50 split is accommodated within the proposed Reference Price Methodology

2. *The reference prices shall be derived in the following sequential steps:*

- (a) *the weighted average distance for each entry point or each cluster of entry points and for each exit point or each cluster of exit points shall be calculated, taking into account, where relevant, the combinations referred to in paragraph 1(d), in accordance with the following respective formulas:*

- (i) *for an entry point or cluster of entry points, as the sum of the products of capacity at each exit point or cluster of exit points and the distance from this entry point or cluster of entry points to each exit point or cluster of exit points, divided by the sum of capacities at each exit point or cluster of exit points:*

*[Formula]*

- (ii) *for an exit point or cluster of exit points, as the sum of the products of capacity at each entry point or cluster of entry points and the distance to this exit point or cluster of exit points from each entry point or cluster of entry points, divided by the sum of capacities at each entry point or cluster of entry points:*

*[Formula]*



- (b) *the weight of cost for each entry point or each cluster of entry points and for each exit point or each cluster of exit points shall be calculated in accordance with the following respective formulas:*

*[Formula]*

- (c) *the part of the transmission services revenue to be recovered from capacity-based transmission tariffs at all entry points and the part of the transmission services revenue to be recovered from capacity-based transmission tariffs at all exit points shall be identified by applying the entry-exit split;*

- (d) *the part of the transmission services revenue to be recovered from capacity-based transmission tariffs at each entry point or each cluster of entry points and for each exit point or each cluster of exit points shall be calculated in accordance with the following respective formulas:*

*[Formula]*

- (e) *the resulting values referred to in point (d) shall be divided by the forecasted contracted capacity at each entry point or each cluster of entry points and at each exit point or each cluster of exit points in accordance with the following respective formulas:*

*[Formula]*

In the counterfactual CWD, adjustments will be made to accommodate the treatment of Existing Contracts consistent with the approach taken in this Modification 0678H in relation to the Postage Stamp model.

#### **Article 9**

##### **Adjustments of tariffs at entry points from and exit points to storage facilities and at entry points from LNG facilities and infrastructure ending isolation**

1. *A discount of at least 50 % shall be applied to capacity-based transmission tariffs at entry points from and exit points to storage facilities, unless and to the extent a storage facility which is connected to more than one transmission or distribution network is used to compete with an interconnection point.*

A discount of 50% is proposed in respect of Storage Facilities.

2. *At entry points from LNG facilities, and at entry points from and exit points to infrastructure developed with the purpose of ending the isolation of Member States in respect of their gas transmission systems, a discount may be applied to the respective capacity-based transmission tariffs for the purposes of increasing security of supply.*

The inclusion of an LNG adjustment is an optional requirement. As the adjustment is permitted, Modification 0678H proposes a value of zero (i.e. no discount) is included within the Proposal for the LNG adjustment.

#### **Article 10**

##### **Rules for entry-exit systems within a Member State where more than one transmission system operator is active**

Not applicable – there is only one TSO operating the entry-exit system in GB.

**Article 11**

**Rules for entry-exit systems covering more than one Member State where more than one transmission system operator is active**

Not applicable – the entry-exit system in GB does not cover more than one Member State.

**Article 12**

**General provisions**

1. *For yearly standard capacity products for firm capacity, the reference prices shall be used as reserve prices. For non-yearly standard capacity products for firm capacity, the reserve prices shall be calculated as set out in this Chapter. For both yearly and non-yearly standard capacity products for interruptible capacity, the reserve prices shall be calculated as set out in this Chapter. The level of multipliers and of seasonal factors, set out in accordance with Article 13, and the level of discounts for the standard capacity products for interruptible capacity, set out in accordance with Article 16, may be different at interconnection points.*
2. *Where the tariff period and gas year do not coincide, separate reserve prices may be applied respectively:*
  - (a) *for the time period from 1 October to the end of the prevailing tariff period; and*
  - (b) *for the time period from the beginning of the tariff period following the prevailing tariff period to 30 September*

The proposed methodology derives charges applicable for a Gas Year.

3. *The respective reserve prices published according to Article 29 shall be binding for the subsequent gas year or beyond the subsequent gas year in case of fixed payable price, beginning after the annual yearly capacity auction, unless:*
  - (a) *the discounts for monthly and daily standard capacity products for interruptible capacity are recalculated within the tariff period if the probability of interruption referred to in Article 16 changes by more than twenty percent;*
  - (b) *the reference price is recalculated within the tariff period due to exceptional circumstances under which the non- adjustment of tariff levels would jeopardise the operation of the transmission system operator.*

Prices for capacity will be set so as to apply for the duration of a Gas Year or in line with a decision by the NRA should it be required.

**Article 13**

**Level of multipliers and seasonal factors**

1. *The level of multipliers shall fall within the following ranges:*

- (a) *for quarterly standard capacity products and for monthly standard capacity products, the level of the respective multiplier shall be no less than 1 and no more than 1,5;*
  - (b) *for daily standard capacity products and for within-day standard capacity products, the level of the respective multiplier shall be no less than 1 and no more than 3. In duly justified cases, the level of the respective multipliers may be less than 1, but higher than 0, or higher than 3.*
2. *Where seasonal factors are applied, the arithmetic mean over the gas year of the product of the multiplier applicable for the respective standard capacity product and the relevant seasonal factors shall be within the same range as for the level of the respective multipliers set out in paragraph 1.*

Multipliers will be set at a level of “1” for all standard capacity products. No seasonal factors are proposed under Modification 0678H.

#### **Article 14**

##### **Calculation of reserve prices for non-yearly standard capacity products for firm capacity in absence of seasonal factors**

*The reserve prices for non-yearly standard capacity products for firm capacity shall be calculated as follows:*

- (a) *for quarterly standard capacity products, for monthly standard capacity products and for daily standard capacity products, in accordance with the following formula:*

*[Formula]*

- (b) *for within-day standard capacity products, in accordance with the following formula:*

*[Formula]*

Reserve prices will be calculated in accordance with this Article. Charges will be determined as a daily rate (i.e. p/kWh/d).

#### **Article 15**

##### **Calculation of reserve prices for non-yearly standard capacity products for firm capacity with seasonal factors**

Seasonal factors are not proposed and the requirements of this Article are therefore not relevant.

#### **Article 16**

##### **Calculation of reserve prices for standard capacity products for interruptible capacity**

1. *The reserve prices for standard capacity products for interruptible capacity shall be calculated by multiplying the reserve prices for the respective standard capacity products for firm capacity calculated as set out in Articles 14 or 15, as relevant, by the difference between 100 % and the level of an ex-ante discount calculated as set out in paragraphs 2 and 3.*
2. *An ex-ante discount shall be calculated in accordance with the following formula:*

*[Formula]*

*Pro factor is the probability of interruption which is set or approved in accordance with Article 41(6)(a) of Directive 2009/73/EC pursuant to Article 28, and which refers to the type of standard capacity product for interruptible capacity;*

*A is the adjustment factor which is set or approved in accordance with Article 41(6)(a) of Directive 2009/73/EC pursuant to Article 28, applied to reflect the estimated economic value of the type of standard capacity product for interruptible capacity, calculated for each, some or all interconnection points, which shall be no less than 1.*

3. *The Pro factor referred to in paragraph 2 shall be calculated for each, some or all interconnection points per type of standard capacity product for interruptible capacity offered in accordance with the following formula on the basis of forecasted information related to the components of this formula:*

*[Formula]*

4. *As an alternative to applying ex-ante discounts in accordance with paragraph 1, the national regulatory authority may decide to apply an ex-post discount, whereby network users are compensated after the actual interruptions incurred. Such ex-post discount may only be used at interconnection points where there was no interruption of capacity due to physical congestion in the preceding gas year.*

*The ex-post compensation paid for each day on which an interruption occurred shall be equal to three times the reserve price for daily standard capacity products for firm capacity.*

Modification Proposal 0678H advocates an ex ante discount of 10%. The proposal is linked to the probability of interruption. The application of a discount was developed using a banding approach of 10% bands and as the initial assessment of the likelihood of interruption is considered to be less than 10%.

This has been identified as the appropriate discount level through application of the formula specified in paragraph 2 of this Article. A discount of greater than 10% is not justified when taking these into account.

## **Article 17**

### **General provisions**

1. *Where and to the extent that the transmission system operator functions under a non-price cap regime, the following principles shall apply:*
  - (a) *the under- or over-recovery of the transmission services revenue shall be minimised having due regard to necessary investments;*

The following features of the proposed methodology seek to ensure that the aggregate revenue collected from capacity charges are as close to target revenue as possible:

- Development of a robust **Forecasted Contracted Capacity** methodology, to ensure forecast capacity bookings are as close to actual bookings as possible;

- Removal of the ‘known’ **Existing Contracts revenue** and associated **capacity** from RPM, to ensure the unit charge rate is appropriately set to recover the net revenue (ie. net of the known revenue from Existing Contracts);
- **Adjustments** within the Reference Price Methodology (and consequently Reserve prices) to take into account any Specific Capacity Discounts and Interruptible / Off-peak adjustments

*(b) the level of transmission tariffs shall ensure that the transmission services revenue is recovered by the transmission system operator in a timely manner;*

The methodology, including revenue recovery charges, sets charges with the aim of recovering allowed revenue throughout, and within, the Gas Year.

*(c) significant differences between the levels of transmission tariffs applicable for two consecutive tariff periods shall be avoided to the extent possible.*

The proposed methodology is expected to provide to be a more stable pricing regime compared to the prevailing arrangements.

2. *Where and to the extent that the transmission system operator functions under a price cap regime or applies a fixed payable price approach set out in Article 24(b), no revenue reconciliation shall occur and all risks related to under- or over-recovery shall be covered exclusively by the risk premium. In such case Articles 18, 19(1) to (4) and 20 shall not apply.*

Not applicable, National Grid does not operate under a “price cap regime”.

3. *Subject to the requirements of periodic consultations pursuant to Article 26 and subject to approval in accordance with Article 41(6)(a) of Directive 2009/73/EC, non-transmission services revenue may be reconciled as set out in this Chapter, mutatis mutandis.*

#### **Article 18**

##### **Under- and over-recovery**

1. *The under- or over-recovery of the transmission services revenue shall be equal to:*

*[Formula]*

2. *Where the difference calculated in accordance with paragraph 1 is positive, it shall indicate an over-recovery of the transmission services revenue. Where such difference is negative, it shall indicate an under-recovery of the transmission services revenue.*

The above principles are applied in the determination of Revenue Recovery

#### **Article 19**

##### **Regulatory account**

1. *The regulatory account shall indicate the information referred to in Article 18(1) for a given tariff period and may include other information, such as the difference between the anticipated and the actual cost components.*

2. *The transmission system operator's under- or over-recovered transmission services revenue shall be attributed to the regulatory account, unless other rules have been enacted in accordance with Article 41(6)(a) of Directive 2009/73/EC.*
3. *Where incentive mechanisms for capacity sales are implemented, subject to a decision in accordance with Article 41(6)(a) of Directive 2009/73/EC, only a part of the transmission system operator's under- or over-recovery shall be attributed to the regulatory account. In such case, the residual part thereof shall be kept or paid, as relevant, by the transmission system operator.*

This Proposal is not designed to address the requirements of this Article.

#### **Article 20**

##### **Reconciliation of regulatory account**

1. *The full or partial reconciliation of the regulatory account shall be carried out in accordance with the applied reference price methodology and, in addition, by using the charge referred to in Article 4(3)(b), if applied.*
2. *The reconciliation of the regulatory account shall be carried out pursuant to the rules enacted in accordance with Article 41(6)(a) of Directive 2009/73/EC over a given reconciliation period, meaning the time period over which the regulatory account referred to in Article 19 shall be reconciled.*
3. *The regulatory account shall be reconciled with the aim of reimbursing to the transmission system operator the under-recovery and of returning to the network users the over-recovery.*

The above principles are applied in the determination of Revenue Recovery

#### **Article 21**

##### **Pricing of bundled capacity**

This Article is already accommodated within the UNC. The Modification will not amend the current arrangements.

#### **Article 22**

##### **Pricing of capacity at a virtual interconnection point**

There are no Virtual Interconnection Points in GB.

#### **Article 23**

##### **Calculation of clearing price at interconnection points**

*The clearing price for a given standard capacity product at an interconnection point shall be calculated in accordance with the following formula:*

[Formula]

This Article is already accommodated within the UNC. The Modification will not amend the current arrangements.

#### **Article 24**

##### **Calculation of payable price at interconnection points**

*The payable price for a given standard capacity product at an interconnection point shall be calculated in accordance with either of the following formulas:*

*(a) where the floating payable price approach is applied:*

*[Formula]*

The floating payable price is already in place (consistent with the requirements of this Article) under prevailing arrangements.

*(b) where the fixed payable price approach is applied:*

*[Formula]*

#### **Article 25**

##### **Conditions for offering payable price approaches**

1. *Where and to the extent that the transmission system operator functions under a non-price cap regime, the conditions for offering payable price approaches shall be as follows:*

*(a) for cases where only existing capacity is offered:*

*(i) the floating payable price approach shall be offered;*

*(ii) the fixed payable price approach shall not be allowed.*

*(b) for incremental capacity and existing capacity offered in the same auction or same alternative allocation mechanism:*

*(i) the floating payable price approach may be offered;*

*(ii) the fixed payable price approach may be offered where one of the following conditions is met:*

*(1) an alternative allocation mechanism set out in Article 30 of Regulation (EU) 2017/459 is used;*

*(2) a project is included in the Union list of projects of common interest as set out in Article 3 of Regulation (EU) No 347/2013 of the European Parliament and of the Council (1).*

The floating payable price is already in place (consistent with the requirements of this Article) under prevailing arrangements.

2. *Where and to the extent that the transmission system operator functions under a price cap regime, the floating payable price approach or the fixed payable price approach, or both, may be offered.*

The floating payable price is already in place (consistent with the requirements of this Article) under prevailing arrangements.

## **Article 26**

### **Periodic consultation**

1. *One or more consultations shall be carried out by the national regulatory authority or the transmission system operator(s), as decided by the national regulatory authority. To the extent possible and in order to render more effective the consultation process, the consultation document should be published in the English language. The final consultation prior to the decision referred to in Article 27(4) shall comply with the requirements set out in this Article and Article 27, and shall include the following information:*

- (a) the description of the proposed reference price methodology as well as the following items:*
  - (i) the indicative information set out in Article 30(1)(a), including:*
    - (1) the justification of the parameters used that are related to the technical characteristics of the system;*
    - (2) the corresponding information on the respective values of such parameters and the assumptions applied.*
  - (ii) the value of the proposed adjustments for capacity-based transmission tariffs pursuant to Article 9;*
  - (iii) the indicative reference prices subject to consultation;*
  - (iv) the results, the components and the details of these components for the cost allocation assessments set out in Article 5;*
  - (v) the assessment of the proposed reference price methodology in accordance with Article 7;*
  - (vi) where the proposed reference price methodology is other than the capacity weighted distance reference price methodology detailed in Article 8, its comparison against the latter accompanied by the information set out in point (iii);*
- (b) the indicative information set out in Article 30(1)(b)(i), (iv), (v);*
- (c) the following information on transmission and non-transmission tariffs:*
  - (i) where commodity-based transmission tariffs referred to in Article 4(3) are proposed:*
    - (1) the manner in which they are set;*
    - (2) the share of the allowed or target revenue forecasted to be recovered from such tariffs;*





1. *Upon launching the final consultation pursuant to Article 26 prior to the decision referred to in Article 27(4), the national regulatory authority or the transmission system operator(s), as decided by the national regulatory authority, shall forward the consultation documents to the Agency.*
2. *The Agency shall analyse the following aspects of the consultation document:*
  - (a) *whether all the information referred to in Article 26(1) has been published;*
  - (b) *whether the elements consulted on in accordance with Article 26 comply with the following requirements:*
    - (1) *whether the proposed reference price methodology complies with the requirements set out in Article 7;*
    - (2) *whether the criteria for setting commodity-based transmission tariffs as set out in Article 4(3) are met;*
    - (3) *whether the criteria for setting non-transmission tariffs as set out in Article 4(4) are met.*
3. *Within two months following the end of the consultation referred to in paragraph 1, the Agency shall publish and send to the national regulatory authority or transmission system operator, depending on which entity published the consultation document, and the Commission the conclusion of its analysis in accordance with paragraph 2 in English. The Agency shall preserve the confidentiality of any commercially sensitive information.*
4. *Within five months following the end of the final consultation, the national regulatory authority, acting in accordance with Article 41(6)(a) of Directive 2009/73/EC, shall take and publish a motivated decision on all items set out in Article 26(1). Upon publication, the national regulatory authority shall send to the Agency and the Commission its decision.*
5. *The procedure consisting of the final consultation on the reference price methodology in accordance with Article 26, the decision by the national regulatory authority in accordance with paragraph 4, the calculation of tariffs on the basis of this decision, and the publication of the tariffs in accordance with Chapter VIII may be initiated as from the entry into force of this Regulation and shall be concluded no later than 31 May 2019. The requirements set out in Chapters II, III and IV shall be taken into account in this procedure. The tariffs applicable for the prevailing tariff period at 31 May 2019 will be applicable until the end thereof. This procedure shall be repeated at least every five years starting from 31 May 2019.*

The Proposal, outlined in the solution for Modification 0678G is not designed to address the requirements of this Article.

**Article 28**  
**Consultation on discounts, multipliers and seasonal factors**

This Proposal, and the solution outlined in Modification 0678H is not designed to address the requirements of this Article. Values for multipliers and applicable discounts are provided for in the proposal and updates would be subject to industry consultation via the UNC change process.

## **Article 29**

### **Information to be published before the annual yearly capacity auction**

*For interconnection points and, where the national regulatory authority takes a decision to apply Regulation (EU) 2017/459, points other than interconnection points, the following information shall be published before the annual yearly capacity auction in accordance with the requirements set out in Articles 31 and 32 by the national regulatory authority or the transmission system operator(s), as decided by the national regulatory authority:*

- (a) for standard capacity products for firm capacity:*
  - (i) the reserve prices applicable until at least the end of the gas year beginning after the annual yearly capacity auction;*
  - (ii) the multipliers and seasonal factors applied to reserve prices for non-yearly standard capacity products;*
  - (iii) the justification of the national regulatory authority for the level of multipliers;*
  - (iv) where seasonal factors are applied, the justification for their application.*
- (b) for standard capacity products for interruptible capacity:*
  - (i) the reserve prices applicable until at least the end of the gas year beginning after the annual yearly capacity auction;*
  - (ii) an assessment of the probability of interruption including:*
    - (1) the list of all types of standard capacity products for interruptible capacity offered including the respective probability of interruption and the level of discount applied;*
    - (2) the explanation of how the probability of interruption is calculated for each type of product referred to in point (1);*
    - (3) the historical or forecasted data, or both, used for the estimation of the probability of interruption referred to in point (2).*

The Proposal, outlined in the solution for Modification 0678GH is not designed to address the requirements of this Article. All the requirements of this article would be provided in a manner to support the Article 29 process, as required.

## **Article 30**

### **Information to be published before the tariff period**

1. *The following information shall be published before the tariff period in accordance with the requirements set out in Articles 31 and 32 by the national regulatory authority or the transmission system operator(s), as decided by the national regulatory authority:*
  - (a) information on parameters used in the applied reference price methodology that are related to the technical characteristics of the transmission system, such as:*

- (i) technical capacity at entry and exit points and associated assumptions;*
  - (ii) forecasted contracted capacity at entry and exit points and associated assumptions;*
  - (iii) the quantity and the direction of the gas flow for entry and exit points and associated assumptions, such as demand and supply scenarios for the gas flow under peak conditions;*
  - (iv) the structural representation of the transmission network with an appropriate level of detail;*
  - (v) additional technical information about the transmission network, such as the length and the diameter of pipelines and the power of compressor stations.*
- (b) the following information:*
- (i) the allowed or target revenue, or both, of the transmission system operator;*
  - (ii) the information related to changes in the revenue referred to in point (i) from one year to the next year;*
  - (iii) the following parameters:*
    - (1) types of assets included in the regulated asset base and their aggregated value;*
    - (2) cost of capital and its calculation methodology;*
    - (3) capital expenditures, including:*
      - (a) methodologies to determine the initial value of the assets;*
      - (b) methodologies to re-evaluate the assets;*
      - (c) explanations of the evolution of the value of the assets;*
      - (d) depreciation periods and amounts per asset type.*
    - (4) operational expenditures;*
    - (5) incentive mechanisms and efficiency targets;*
    - (6) inflation indices.*
  - (iv) the transmission services revenue;*
  - (v) the following ratios for the revenue referred to in point (iv):*

- (1) *capacity-commodity split, meaning the breakdown between the revenue from capacity-based transmission tariffs and the revenue from commodity-based transmission tariffs;*
  - (2) *entry-exit split, meaning the breakdown between the revenue from capacity-based transmission tariffs at all entry points and the revenue from capacity-based transmission tariffs at all exit points;*
  - (3) *intra-system/cross-system split, meaning the breakdown between the revenue from intra-system network use at both entry points and exit points and the revenue from cross-system network use at both entry points and exit points calculated as set out in Article 5.*
- (vi) *where and to the extent that the transmission system operator functions under a non-price cap regime, the following information related to the previous tariff period on regarding the reconciliation of the regulatory account:*
- (1) *the actually obtained revenue, the under- or over-recovery of the allowed revenue and the part thereof attributed to the regulatory account and, if applicable, sub-accounts within such regulatory account;*
  - (2) *the reconciliation period and the incentive mechanisms implemented.*
- (vii) *the intended use of the auction premium.*
- (c) *the following information on transmission and non-transmission tariffs, accompanied by the relevant information related to their derivation:*
- (i) *where applied, commodity-based transmission tariffs referred to in Article 4(3);*
  - (ii) *where applied, non-transmission tariffs for non-transmission services referred to in Article 4(4);*
  - (iii) *the reference prices and other prices applicable at points other than those referred to in Article 29.*
2. *In addition, the following information shall be published with regard to transmission tariffs:*
- (a) *explanation of the following:*
- (i) *the difference in the level of transmission tariffs for the same type of transmission service applicable for the prevailing tariff period and for the tariff period for which the information is published;*
  - (ii) *the estimated difference in the level of transmission tariffs for the same type of transmission service applicable for the tariff period for which the information is published and for each tariff period within the remainder of the regulatory period.*
- (b) *at least a simplified tariff model, updated regularly, accompanied by the explanation of how to use it, enabling network users to calculate the transmission tariffs applicable for*

*the prevailing tariff period and to estimate their possible evolution beyond such tariff period.*

3. *For the points excluded from the definition of relevant points referred to in point 3.2(1)(a) of Annex I to Regulation (EC) No 715/2009, the information on the amount of forecasted contracted capacity and the forecasted quantity of the gas flow shall be published as set out in point 3.2(2) of Annex I to Regulation (EC) No 715/2009.*

The Proposal, outlined in the solution for Modification 0678H is not designed to address the requirements of this Article. All the requirements of this article would be provided in a manner to support the Article 30 publication criteria, as required, when publishing tariffs.

### **Article 31**

#### **Form of publication**

1. *The information referred to in Articles 29 and 30 shall be published as set out in Article 32 via a link on the platform referred to in point 3.1.1(1)(h) of Annex I to Regulation (EC) No 715/2009 to the website of the respective entity. Such information shall be accessible to the public, free of charge and of any limitations as to its use. It shall be published:*
  - (a) *in a user-friendly manner;*
  - (b) *in a clear, easily accessible way and on a non-discriminatory basis;*
  - (c) *in a downloadable format;*
  - (d) *in one or more of the official languages of the Member State and, unless one of the official languages of the Member State is English, to the extent possible, in English.*
2. *The following information shall be published for interconnection points on the platform referred to in point 3.1.1(1)(h) of Annex I to Regulation (EC) No 715/2009: (a) at the same time as set out in Article 29, the reserve prices for standard capacity products for firm capacity and for standard capacity products for interruptible capacity; (b) at the same time as set out in Article 30, a flow-based charge referred to in Article 4(3)(a), where applied.*
3. *The information referred to in paragraph 2 shall be published in the following manner:*
  - (a) *as set out in paragraph 1(a) to (c);*
  - (b) *in English;*
  - (c) *in a standardised table which shall include at least the following information:*
    - (i) *the interconnection point;*
    - (ii) *the direction of the gas flow;*
    - (iii) *the names of the relevant transmission system operators;*
    - (iv) *the start and the end time of the product;*

- (v) *whether the capacity is firm or interruptible;*
  - (vi) *the indication of the standard capacity product; (vii) the applicable tariff per kWh/h and per kWh/d in the local currency and in the euro taking into account the following:*
    - (1) *where the applied capacity unit is kWh/h, the information on the applicable tariff per kWh/d shall be non-binding, and vice versa;*
    - (2) *where the local currency is other than the euro, the information on the applicable tariff in euro shall be non-binding. In addition, at the same time as set out in Article 30, such standardised table shall include the simulation of all the costs for flowing 1 GWh/day/year for each interconnection point in the local currency and in the euro subject to point vii(2).*
4. *Where the information referred to in paragraph 2 is different from the respective information referred to in paragraph 1, the respective information referred to in paragraph 1 shall prevail.*

The Proposal, outlined in the solution for Modification 0678H is not designed to address the requirements of this Article.

### **Article 32**

#### **Publication notice period**

*The deadline for the publication of the information set out in Articles 29 and 30 shall be as follows:*

- (a) *for the information set out in Article 29, no later than thirty days before the annual yearly capacity auction;*
- (b) *for the information set out in Article 30, no later than thirty days before the respective tariff period;*
- (c) *for the respective transmission tariffs updated within the tariff period as set out in Article 12(3), immediately after the approval in accordance with Article 41(6)(a) of Directive 2009/73/EC.*

*Each update of the transmission tariffs shall be accompanied by information indicating the reasons for the changes in their level. Where Article 12(3)(b) is applied, it shall also be accompanied by the updated report referred to in Article 29(b) for the respective types of standard capacity products for interruptible capacity.*

The publication of tariffs will be in line with UNC/Licence requirements which meet these requirements.

### **Article 33**

#### **Tariff principles for incremental capacity**

The Proposal, outlined in the solution for Modification 0678GH is not designed to address the requirements of this Article.

**Article 34**

**Methodologies and parameters used to determine the allowed or target revenue of transmission system operators**

The Proposal, outlined in the solution for Modification 0678GH is not designed to address the requirements of this Article.

**Article 35**

**Existing contracts**

1. *This Regulation shall not affect the levels of transmission tariffs resulting from contracts or capacity bookings concluded before 6 April 2017 where such contracts or capacity bookings foresee no change in the levels of the capacity- and/or commodity-based transmission tariffs except for indexation, if any.*

The Modification fully complies with this requirement in that eligible “Existing Contracts” (i.e. fir GB this is system entry capacity purchased prior to 6th April 2017) will not have those charges which foresee no change in the levels of the charges, subject to changes. Application in Modification 0678H only considers Existing Contracts for Entry, there are no eligible Exit contracts and for these entry contracts they will attract only the fixed capacity price contracted for. Transmission Services Revenue Recovery Charges will not apply to Existing Contracts thereby affording the full contractual protection prescribed by this Article 35.

2. *The contract provisions related to transmission tariffs and capacity bookings referred to in paragraph 1 shall not be renewed, prolonged or rolled over after their expiration date.*
3. *Before 6 May 2017, a transmission system operator shall send the contracts or the information on capacity bookings, if any, referred to in paragraph 1 to the national regulatory authority for information.*

**Article 36**

**Implementation monitoring**

**Article 37**

**Power to grant derogations**

**Article 38**

**Entry into force**