UNC Modification	At what stage is this document in the process?
# UNC 0716: ## Revision of Overrun Charge Multiplier	01 Modification 02 Workgroup Report 03 Draft Modification Report 04 Final Modification Report

Purpose of Modification:

This Modification Proposal seeks to amend the multiplier in the Overrun Charge calculation at NTS Entry and Exit points.

	The Proposer recommends that this modification should be: • assessed by a Workgroup • considered a material change and not subject to self-governance This modification will be presented by the Proposer to the Panel on 20th February 2020. The Panel will consider the Proposer's recommendation and determine the appropriate route.
	High Impact: None identified
	Medium Impact: All parties that pay NTS Transportation Charges and/or have a connection to the NTS, and National Grid NTS
	Low Impact: None identifies

Contents

Timetable

The Proposer recommends the following timetable:

Pre-modification presented to WG	06 February 2020
Modification considered by Panel	20 February 2020
Initial consideration by Workgroup	06 March 2020
Workgroup Report presented to Panel	21 May 2020
Draft Modification Report issued for consultation	22 May 2020
Consultation Close-out for representations	11 June 2020
Final Modification Report available for Panel	12 June 2020
Modification Panel decision	18 June 2020

Any questions?

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1 Summary

What

Overrun Charges incentivise shippers to book the capacity required to match their gas flows. This supports the 'ticket to ride' principle that underpins the capacity regime in GB.

At Entry points, Overrun Charges are applied to any one User if that User flows more gas than capacity that they have booked. At Exit points capacity is aggregated, therefore Overrun Charges are only applied to flows over and above the total exit capacity booked by all parties at an exit point (i.e. irrespectively of which parties have booked the capacity).

This proposal seeks to amend the multiplier used in calculating Overrun Charges at both Entry and Exit points.

Why

An outcome of the Charging Review is that a higher proportion of revenue will be recovered through capacity charges than previously. Ofgem's minded to position is to implement UNC Modification 0678A, which results in a Postage Stamp methodology (it would introduce one price for all Entry and one price for all Exit points). As a result, capacity reserve prices will increase at some entry and exit points and decrease at others. Industry discussions suggest that a consequence of this could result in a significant increase in the **average** Overrun Charge for both Entry and Exit. This is due to the methodology for calculation of Overrun Charges being set at a multiple (x 8) of the bid or application prices already accepted for parties / users acquiring capacity. As capacity reserve prices increase, these prices would increase accordingly, meaning that Overrun Charges will also increase.

Furthermore, the industry felt that with bookings potentially being made closer to flows in the future it is anticipated that more accurate FCC (Forecasted Contracted Capacity) will be produced. Increased Overrun Charges could potentially make Users book more capacity than they require (for the fear of over-running and incurring penalties), which as a consequence might negatively affect accurate FCC predictions.

How

The proposer recognises that the increased Overrun Charges are likely to be incurred because of the new proposed charging methodology and believes that maintaining an appropriate incentive (by way of financial penalty) for shippers to book capacity is required. The aim of the proposal is to find a multiplier which would maintain the status quo; keep the Overrun Charge and incentive to book capacity at the same level as it is today. Revenue is used as a measure of shipper's performance of booking capacity to measure flows and therefore as a method of maintaining that status quo. It was assumed capacity booking behaviour will not worsen if revenue remains similar as in previous years.

The new charging regime will have an impact on capacity booking behaviours. While we know that the behaviour could change, we don't know to what extent. We have based this proposal on historic quantifiable data of capacity bookings against flows (revenue from historic Overrun Charges) rather than future uncertain predictions of behaviours. The principle of keeping the Overrun incentive at similar historic levels post implementation of the charging review can be achieved by reduction of the Entry Overrun x 8 multiplier (referred to in UNC B2.12.3 (a)) to x 4 and reduction of the Exit Overrun x 8 multiplier (referred to in UNC B3.13.3 (a) and (c)) to x 6. By changing the multiplier as proposed, the **overall** charges should not be increased.

This proposal does not seek amendments to the Overrun methodology in other instances.

The proposer recognises that it is not plausible to predetermine a uniquely appropriate level of the Overrun multiplier. Although the historic reason for implementing x8 multiplier is unclear, the proposer believes that the level of **overall** incentive (administered through the existing UNC mechanism) should be maintained going forward and therefore the multiplier should have quantifiable justification behind it. The impacts of the implementation of UNC Modification 0678A, Ofgem's minded to decision is not confirmed, and will not occur until October 2020, may lead to a change in Users capacity booking behaviour which at this stage is unknown. Once the new patterns are known, the proposer deems it necessary to re-assess Overrun Charges to establish whether they still meet their primary objective. The proposed change outlined in this modification is to maintain the status quo in the interim period in terms of financial exposure to Users, assuming no change in behaviour.

2 Governance

Justification for Authority Direction

As the proposal has a material cost impact on the transportation arrangements for Shippers and relevant consumers, it should be subject to Authority Direction.

Requested Next Steps

This Modification should:

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

3 Why Change?

As a result of the proposed changes related to the allowed transported revenue being recovered through capacity charges from 1st October 2020, some Overrun Charges will see a substantial change with the average impact being a significant increase of exposure. This proposal seeks to maintain the status quo and safeguard Users by moderating Overrun Charges caused by an unintended consequence of the implementation of UNC Modification 0678A. At the same time, the proposer recognises that it is imperative the keep appropriate level of Overrun Charges to maintain the incentive on shippers to book capacity on the NTS. The proposer believes that the proposed solution seeks to strike an accurate balance between the magnitude of Overrun Charges and the incentive to book the capacity for the gas flows required.

4 Code Specific Matters

Reference Documents

Not identified.

Knowledge/Skills

Not identified

5 Solution

Given the change to the reserve price methodology likely to be implemented by UNC Modification 0678A, as per Ofgem's minded to position, ("Minded to" Letter - Modification 0678) analysis has been conducted to ensure that the potential revenue collection from Overrun Charges are forecast to remain, on average, at a consistent level as it has been in the past years in order to maintain the same incentive / penalty on User's to match capacity bookings and flows.. This proposal recognises that there will be differences in the increase/decrease of reserve prices at individual entry and exit points. The entry points average reserve price increase, on average, will be greater than exit points.

This proposal has taken a holistic view of all entry and all exit points. By changing the multiplier as proposed, the overall level of Overrun Charges will remain the same and it has been assumed that for that reason the capacity booking behaviour will not worsen (Overruns will not occur more often once the new charging regime is implemented).

Entry Overrun Charge

The table below demonstrates how revenue collected from Entry Overrun Charges will potentially increase after implementation of Modification 678A if booking behaviour remains as current. *For the purpose of the calculation, the following was taken into account:*

** Expected changes to the NTS charging methodology will recover a greater proportion of transporter allowed revenue from capacity fees. The current TO Entry and Exit charges will, in broad terms, be transferred and recovered via Entry and Exit capacity charges in the future charging regime. Therefore, to more accurately reflect future difference in fees, TO Entry or Exit commodity element of the existing commodity charge for the relevant year has been added to* ***Actual charges*** *collected. TO Entry and Exit fee added was based on the Overrun quantity of gas.*

***Currently there is no reserve price for within day allocation. postage stamp reserve price and more competitive, potentially closer to flow auction bookings will considerably increase charges in the new regime. Charges reflected in this column are the minimum charges the fees would potentially increase to.*

Based on the figures presented, for Entry the currently collected actual revenue would maintain at approximately the same level if we reduce the multiplier to x 4 (e.g. actual revenue collected in 18/19 with x 8 multiplier = £543,707.16 which is close to potential collected revenue based on Reserved Prices for Daily standard Capacity in Postage Stamp Methodology x 4 = £562,426.20).

Multiplier	*Actual charges Year 18/19 (including TO Entry Commodity charges)	**Charges 18/19 updated with Reserved Prices for Daily Standard Capacity (Postage Stamp)
x8	**543,707.16**	1,138,852.40
x6	445,921.87	854,139.30
x4	348,136.21	**562,426.20**
x2	250,350.54	284,713.10

Multiplier	*Actual charges Year 17/18 (including TO Entry Commodity charges)	**Charges 17/18 updated with Reserved Prices for Daily Standard Capacity (Postage Stamp)
x8	**3,426,247.39**	7,298,673.19
x6	2,852,329.47	5,474,004.90
x4	2,277,263.40	**3,649,336.60**
x2	1,702,197.33	1,824,668.30

Exit Overrun Charges

The table below demonstrates how revenue collected from Exit Overrun Charges would potentially increase after implementation of UNC Modification 0678A if booking behaviour remains as current. Based on the figures presented, for Exit the currently collected actual revenue will remain most like current levels if we reduce the multiplier to x 6. In 18/19 the actual revenue collected with x 8 multiplier was = £715,845.11 and in 17/18 the actual revenue collected with x 8 multiplier was = £715,794.33. Although for 18/19 and 17/18 a x 6 multiplier would under recover against actual levels, the level of under recovery would be closer to actual charges based on an x 8 multiplier than a x 7 multiplier would over-recover. For example, across 17/18 and 18/19 a x 6 multiplier would under-recover by a total of £95,213 whereas a x 7 multiplier would over-recover by a total of £127,525. Therefore, a x 6 multiplier is the closest whole number multiplier which overall recovers the level of revenue most akin to actual charges for those years.

Multiplier	*Actual charges (£s) Year 18/19 (including TO exit commodity charges)	**Charges (£s) 18/19 updated with Reserved Prices for Daily Standard Capacity (Postage Stamp)
x8	**715,845.11**	863,265.67
X7	645,621.13	**755,357.46**
x6	575,397.13	647,449.25
x4	434,949.14	431,632.83
x2	294,501.15	215,816.42

Multiplier	*Actual charges (£s) Year 17/18 (including TO exit commodity charges)	**Charges (£s) 17/18 updated with Reserved Prices for Daily Standard Capacity (Postage Stamp)
x8	**715,794.33**	918,636.87
X7	648,523.27	803,807.27
x6	581,252.21	**688,977.66**
x4	446,710.08	459,318.44
x2	312,167.96	229,659.22

The proposer recognises that, if Modification 678A is implemented, the reserve prices will increase at some entry and exit points and decrease at others. However, as demonstrated above, on average the potential postage stamp reserve price will cause Overrun Charges to double at entry points and significantly increase at exit points. The proposer believes that the proposed reduction in the multiplier, based on historic behaviour results, and the impact of the implementation of the UNC Modification 0678A minded to position is not leading to, on average, any significant greater financial risk from Overruns to Users'.

The analysis conducted show that by reducing the multiplier to x 4 for Entry and x 6 for Exit, on average, a similar amount of revenue will be collected from Overrun Charges and therefore a similar level of incentive would be provided as prior to the introduction of the UNC Modification 0678A changes.

	*Actual charges (£s) Year 17/18 & 18/19 (including TO entry/exit charges)	**Charges (£s) 17/18 & 18/19 updated with Reserved Prices for Daily Standard Capacity (Postage Stamp) x 4 Entry / x 6 Exit
Entry Overrun Charges	3,969,954.55	4,211,762.80
Exit Overrun Charges	1,431,639.44	1,336,426.91
TOTAL	5,361,481.78	5,548,239.71

It is worth noting that the revenue collected from Entry Overrun Charges is credited to Neutrality monthly and returned to Users. Neutrality is shared out based on each User's end of the day firm capacity (as a percentage of the total system end of the day firm capacity for all Users). Revenue collected does not, therefore, contribute to the NTS Transporter Allowed Revenue. Revenue from Exit Overrun Charges is deducted from SO Commodity in Y+2 in the instance of over-recovery of Transporter Allowed Revenue.

6 Impacts & Other Considerations

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

No

Consumer Impacts

Improved safety & liability: Overrun Charges embed the ticket to ride principle whereby a shipper should hold one unit of capacity to flow one unit of energy onto or off the system. Receiving accurate capacity booking information supports the efficient and safe commercial operation and management of the system. Reduction of the multiplier will have a positive impact on accurate booking behaviour (i.e. by maintaining the status quo of incentive through financial penalty, there should not be a greater fear of overrunning than current as the

aggregate charges remains the same), meaning that capacity bookings are reflective of flows and not inflated due to risk of incurring a high Overrun Charge.

Lower bills than would otherwise be the case: The reduction in multiplier will reduce the potential higher User exposure to increased charges because of implementation of Modification 678A. Assuming that the industry as a whole passes through charges to end consumers as a principle, by extension, lowering the multiplier would have the effect of maintaining the level of aggregate charges, ensuring that any increase in capacity unit rates has a neutral effect on consumer bills

Reduced environmental damage: As new technology and new sources of gas enter the market as the industry evolves to meet decarbonisation targets, the risk of high Overrun Charges being passed on, to potentially small customers may be a blocker to their entry and continued operation.

Improved quality of service: National Grid's stakeholders have identified the impact of UNC Modification 0678A on Overrun Charges. By raising this modification, National Grid aims to provide a good quality of service which will ultimately benefit consumers.

Cross Code Impacts

None

EU Code Impacts

None

Central Systems Impacts

TBC

7 Relevant Objectives

Impact of the modification on the Relevant Objectives:

Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	Positive
b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters.	None
c) Efficient discharge of the licensee's obligations.	None
d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	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.	None

Incentivising Users to book capacity reflecting their flows of gas will enable National Grid NTS to commercially plan, operate and manage the NTS accordingly, and therefore facilitate efficient and economic operation of the system.

Expected changes to the NTS charging methodology will recover a greater proportion of transporter allowed revenue from capacity compared to the current regime. As capacity charges will be set at a level to recover this higher proportion, the financial impact of a User incurring an Overrun Charge may materially increase at point compared to such a charge being incurred under the current framework. If no change is made to the Overrun regime and as a consequence of the implementation of UNC Modification 0678A the costs of an Overrun materially increases as described above, it is arguably detrimental to competition. Accordingly, implementation of this proposal would better facilitate objective (d) by adjusting the Overrun multiplier in order to, as far as possible, match the financial impact (in proportion terms) and therefore drive the same behaviours as the existing Overrun regime.

Furthermore, significant increase to Overrun Charges could create additional barrier to new market entrants, which would go against the desire of creating effective competition.

8 Implementation

This modification is raised due to a consequential impact of UNC Modification 0678A. Therefore, implementation is dependent on UNC Modification 0678A being implemented and on concurrent timescales (i.e. 1st October 2020). This proposal should be considered now to ensure delivery of a solution is achievable in within those timescales.

9 Legal Text

TBC

10 Recommendations

Proposer's Recommendation to Panel

Panel is asked to:

- Issue this proposal to a Workgroup for assessment