

UNC Request	At what stage is this document in the process?
<h1 style="color: #008080;">UNC 0670R:</h1> <h2 style="color: #008080;">Review of the charging methodology to avoid the inefficient bypass of the NTS</h2>	<div style="display: flex; flex-direction: column; gap: 10px;"> <div style="border: 1px solid #ccc; border-radius: 5px; padding: 5px; display: flex; align-items: center; gap: 10px;"> 01 Request </div> <div style="border: 1px solid #ccc; border-radius: 5px; padding: 5px; display: flex; align-items: center; gap: 10px;"> 02 Workgroup Report </div> <div style="border: 1px solid #ccc; border-radius: 5px; padding: 5px; display: flex; align-items: center; gap: 10px;"> 03 Final Modification Report </div> </div>
<p>Purpose of Request:</p> <p>To conduct a review and assessment of the charging methodology that is a feature of the overall Gas Transportation Charging framework to avoid the inefficient bypass of the NTS (currently the NTS Optional Commodity charge). This review would assess the objectives, identify requirements, analyse potential options and propose an enduring proportionate solution.</p>	
	<p>The Workgroup recommends that the Panel now agree to close the Workgroup.</p>
	<p>High Impact: All parties that pay NTS Transportation Charges and / or have a connection to the NTS, and National Grid NTS</p>
	<p>Medium Impact: N/A</p>
	<p>Low Impact: N/A</p>

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About this document	
<p>This report will be presented to the panel on 16 July 2020.</p> <p>The Panel will consider whether to agree with Workgroup that Request 0670R should be closed.</p>	
 Any questions?	
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1 Request Summary

Request Update July 2019

The following paragraph is designed to update the reader as to what has happened in the time 0670R has been under consideration.

Request 0670R was raised on 08 October 2018. At that time Modification 0621 - *Amendments to the Gas Transmission Charging Regime* and its alternatives were with Ofgem awaiting a decision on implementation. The Request was made in light of this. On 20 December 2018 Ofgem issued a Decision Letter¹ outlining its decision to reject implementation of the modification and all of its alternatives. Soon after, on 17 January 2019 National Grid NTS raised Urgent Modification 0678 - *Amendments to Gas Transmission Charging Regime* and thereafter 10 alternatives were raised. The Final Modification Report was sent to Ofgem for consideration on 29 May 2019. As at 23 July 2019 there has been no decision on whether Ofgem will implement one of the 0678 Modifications, if any.

Ofgem gave the following indication to the UNC Modification Panel on 18 July 2019:

“... it was unlikely that a decision would be made by 01 August 2019, given the steps which are likely to be carried out in order to do so. Ofgem confirmed that consultants are being appointed to support the analysis to go into the impact assessment. He further clarified that Ofgem had not yet completely finished the procurement process for these external consultants.

Alongside the work to develop the impact assessment, Ofgem is considering the TAR NC compliance of the submitted Modifications. Based on this work Ofgem may, if appropriate, consult on a ‘minded to’ decision or other appropriate output.

Panel Members noted that the process should not be rushed given the scale of the impact.

Panel Members requested a timetable for the decision making process and a progress update at Panel from Ofgem each month going forward until a decision is made.

LK recognised the importance of the issue to industry and agreed to give an offline update to Panel on progress.”

Why is the Request being made?

The NTS Optional Commodity Charge product was introduced in 1998 to avoid inefficient bypass of the National Transmission System (NTS) by large sites located near to entry terminals. The charge is an alternative to investment, so the formula to calculate individual rates is derived from an estimated cost of laying and operating a dedicated pipeline of NTS specification. Shippers can currently elect to pay the NTS Optional Commodity Charge as an alternative to the NTS System Operator (SO) and Transmission Operator (TO), Entry and Exit Commodity Charges.

Due to changing behaviours, the NTS Optional Commodity Charge (also referred to as “Short-haul”), has seen a significant increase in its use which has impacted on other charges in a way that was not originally envisaged. As a result, it could be applied in situations that are considered inconsistent with its original purpose.

¹ All material relating to Modification 0621 can be found here:

<http://www.gasgovernance.co.uk/0621>

Taking on learning from recent Modifications 0636, 0653 and 0621, National Grid, as Proposer of Request Modification 0670R, recognises the benefit of considering this aspect of charging as part of a separate review. More importantly it should be considered as an integral part of an overall methodology and not in isolation, prior to a solution being proposed. It is considered that returning to the principles of the product will help to facilitate an industry consensus before a solution is raised, thereby helping to reduce the risk of multiple alternatives, saving time and helping to progress with the implementation of a Modification, if required.

The purpose of this Request therefore, is to conduct a review and assessment of the charging methodology that is a feature of the overall Gas Transportation Charging framework to avoid inefficient bypass of the NTS. This review would consider:

- The objectives;
- Identify requirements and scope;
- Identify principles on which to base any solution;
- Analyse potential options (including ideas already explored e.g. elements proposed under 0636/A/B/C/D and 0653); and
- Propose an enduring proportionate solution within the charging framework.

This review is considered necessary and should be performed, regardless of the outcomes of other related UNC Modifications, due to the time required for the review and potential implementation timescales. Modification 0621 - *Amendments to the Gas Transmission Charging Regime* and its alternatives are in progress and in most proposed solutions, a charge is retained that discourages inefficient bypass of the NTS. This retained charge has been developed under the supported notion that this is a topic that should be reviewed separately to give it appropriate time for examination, with most alternative proposals having no optional charge after the transitional period (as of October 2021) and most industry parties supporting a separate review to put in place a suitable charging structure for this from 2021. There is an expectation that arrangements from 2021 should be reviewed as part of a dedicated review group.

This proposal is to review the method by which the avoidance of inefficient bypass is managed, as part of the NTS Transportation Charging Framework. This review allows time and focus to consider whether and how the charging proposals for discouraging inefficient bypass should be catered for within any Gas Transportation Charges, including the objectives of any such arrangement that it should be measured against. It is hoped that participants will begin the review looking at the principles first, rather than trying to refashion any existing potential solution options. The assessment of these objectives and principles will determine the full scope of the review.

Scope

The purpose of this Request is to create a Workgroup to conduct a review and assessment of the charging methodology that is used to avoid the inefficient bypass of the NTS as a feature of the overall charging framework.

This review would assess the objectives of the charging arrangements that discourage inefficient bypass of the NTS and identify the most effective way to incorporate these into the Transportation Charging framework. In addition to reviewing the objectives of any such arrangement, the process is suggested to identify requirements, then analyse and propose potential enduring solutions within the charging framework. This can be carried out independent from, and with an awareness of, UNC Modifications that are currently awaiting decisions, to provide enough time for implementation. The level

of detail of any considered options will be part of the workgroup discussions, to ensure this is appropriate, given that 0621 may not be decided upon until 2019.

UNC0621 and its alternatives are currently subject to Ofgem decision. This review can determine ways in which it is most efficient to manage the incentive, through the overall charging arrangements, to avoid bypass and use the NTS. The target of this review and likely Modification (post awareness of UNC0621 decision) would be for implementation for October 2021 charges.

The Workgroup will address consequential changes to UNC derived from the review, including any potential minded to positions that may come from Ofgem's impact assessment, and evaluate the impacts from the proposed solution(s). Compliance with EU Tariff Code (Regulation 2017/460) will be a feature of the discussions. The timelines for any potential change will be part of the discussions.

Impacts & Costs

Costs associated with the Request Proposal are currently unknown.

Impact and cost depend on the nature of the proposed solution, if any.

Recommendations

The Request aims to create a Workgroup to conduct a review and assessment of the charging methodology that is used to avoid the inefficient bypass of the NTS (currently the NTS Optional Commodity charge) as part of the overall Gas Transportation Charging framework. This review would assess the objectives, identify requirements, identify principles on which to base any solution; analyse potential options and propose an enduring proportionate solution.

The Proposer considers the proposal should be issued to a Workgroup in order to conduct a holistic review, prior to determining any solution and identify an enduring solution to be taken forward as a future Modification.

Additional Information

Links to relevant charging Modifications that have been discussed recently:

0678/A/B/C/D/E/F/G/H/I/J (Urgent) - Amendments to Gas Transmission Charging Regime

<https://www.gasgovernance.co.uk/0678/>

0621/A/B/C/D/E/F/G/H/J/K/L - Amendments to Gas Transmission Charging Regime

<https://www.gasgovernance.co.uk/0621/>

0636/A/B/C/D - Updating the parameters for the NTS Optional Commodity Charge

<https://www.gasgovernance.co.uk/0636/>

0653 - Updating the parameters for the NTS Optional Commodity Charge – Introducing the NTS Optional Capacity Charge

<https://www.gasgovernance.co.uk/0653/>

0718/A/B/C - Introduction of a Conditional Discount for Avoiding Inefficient Bypass of the NTS

https://www.gasgovernance.co.uk/0718

0728/A/B/C/D (Urgent) - Introduction of a Conditional Discount for Avoiding Inefficient Bypass of the NTS

https://www.gasgovernance.co.uk/0728

2 Impacts and Costs

Consideration of Wider Industry Impacts

There is the potential for wider industry impacts; the areas affected, and scale are dependent on the solution identified as part of this Request and may also be influenced by other code modifications and developments. The extent of any potential impact will be considered alongside the development in the review.

Impacts

Impact on Central Systems and Process	
Central System/Process	Potential impact
UK Link	<ul style="list-style-type: none"> Not yet known
Operational Processes	<ul style="list-style-type: none"> Not yet known

Impact on Users	
Area of Users' business	Potential impact
Administrative and operational	<ul style="list-style-type: none"> Not yet known
Development, capital and operating costs	<ul style="list-style-type: none"> Not yet known
Contractual risks	<ul style="list-style-type: none"> Not yet known
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> Not yet known

Impact on Transporters	
Area of Transporters' business	Potential impact
System operation	<ul style="list-style-type: none"> Not yet known
Development, capital and operating costs	<ul style="list-style-type: none"> Not yet known
Recovery of costs	<ul style="list-style-type: none"> Not yet known
Price regulation	<ul style="list-style-type: none"> Not yet known
Contractual risks	<ul style="list-style-type: none"> Not yet known
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> Not yet known
Standards of service	<ul style="list-style-type: none"> Not yet known

Impact on Code Administration	
Area of Code Administration	Potential impact
Modification Rules	<ul style="list-style-type: none"> Impact is unlikely

Impact on Code Administration	
UNC Committees	<ul style="list-style-type: none"> Impact is unlikely
General administration	<ul style="list-style-type: none"> This request is likely to be a significant piece of work for the Joint Office to support and manage
DSC Committees	<ul style="list-style-type: none"> Not yet known

Impact on Code	
Code section	Impacted
UNC TBD Section Y and UNC TBD Section B.	<ul style="list-style-type: none"> Impacted

Impact on UNC Related Documents and Other Referenced Documents	
Related Document	Potential impact
Network Entry Agreement (TPD I1.3)	<ul style="list-style-type: none"> Not yet known
General	Potential Impact
Legal Text Guidance Document	<ul style="list-style-type: none"> Impact is unlikely
UNC Modification Proposals – Guidance for Proposers	<ul style="list-style-type: none"> Impact is unlikely
Self Governance Guidance	<ul style="list-style-type: none"> Impact is unlikely
TPD	Potential Impact
Network Code Operations Reporting Manual (TPD V12)	<ul style="list-style-type: none"> Not yet known
UNC Data Dictionary	<ul style="list-style-type: none"> Not yet known
AQ Validation Rules (TPD V12)	<ul style="list-style-type: none"> Not yet known
AUGE Framework Document	<ul style="list-style-type: none"> Not yet known
Customer Settlement Error Claims Process	<ul style="list-style-type: none"> Not yet known
Demand Estimation Methodology	<ul style="list-style-type: none"> Not yet known
Energy Balancing Credit Rules (TPD X2.1)	<ul style="list-style-type: none"> Not yet known
Energy Settlement Performance Assurance Regime	<ul style="list-style-type: none"> Not yet known
Guidelines to optimise the use of AQ amendment system capacity	<ul style="list-style-type: none"> Not yet known
Guidelines for Sub-Deduct Arrangements (Prime and Sub-deduct Meter Points)	<ul style="list-style-type: none"> Not yet known

Impact on UNC Related Documents and Other Referenced Documents	
LDZ Shrinkage Adjustment Methodology	<ul style="list-style-type: none"> No impact
Performance Assurance Report Register	<ul style="list-style-type: none"> No impact
Shares Supply Meter Points Guide and Procedures	<ul style="list-style-type: none"> No impact
Shipper Communications in Incidents of CO Poisoning, Gas Fire/Explosions and Local Gas Supply Emergency	<ul style="list-style-type: none"> No impact
Standards of Service Query Management Operational Guidelines	<ul style="list-style-type: none"> No impact
Network Code Validation Rules	<ul style="list-style-type: none"> No impact
	<ul style="list-style-type: none">
OAD	Potential Impact
Measurement Error Notification Guidelines (TPD V12)	<ul style="list-style-type: none"> No impact
	<ul style="list-style-type: none">
EID	Potential Impact
Moffat Designated Arrangements	<ul style="list-style-type: none"> Not yet known
IGTAD	Potential Impact
	<ul style="list-style-type: none"> Not yet known
DSC / CDSP	Potential Impact
Change Management Procedures	<ul style="list-style-type: none"> Not yet known
Contract Management Procedures	<ul style="list-style-type: none"> Not yet known
Credit Policy	<ul style="list-style-type: none"> Not yet known
Credit Rules	<ul style="list-style-type: none"> Not yet known
UK Link Manual	<ul style="list-style-type: none"> Not yet known
	<ul style="list-style-type: none">

Impact on Core Industry Documents and other documents	
Document	Potential impact
Safety Case or other document under Gas Safety (Management) Regulations	<ul style="list-style-type: none"> Impact is unlikely
Gas Transporter Licence	<ul style="list-style-type: none"> Impact is unlikely

Other Impacts	
Item impacted	Potential impact
Security of Supply	<ul style="list-style-type: none"> • Not yet known
Operation of the Total System	<ul style="list-style-type: none"> • Not yet known
Industry fragmentation	<ul style="list-style-type: none"> • Not yet known
Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties	<ul style="list-style-type: none"> • Not yet known

3 Terms of Reference

Background

To conduct a review and assessment of the charging methodology that is a feature of the overall Gas Transportation Charging framework to avoid the inefficient bypass of the NTS (currently the NTS Optional Commodity Charge). This review would assess the objectives, identify requirements, identify principles on which to base any solution, analyse potential options and propose an enduring proportionate solution.

Topics for Discussion

- Understanding the objectives
- Understand/develop the principles on which to base any solution
- Assessment of alternative means to achieve objective
- Development of Solution (including business rules if appropriate)
- Assessment of potential impacts of the Request
- Assessment of implementation costs of any solution identified during the Request
- Assessment of legal text

Outputs

Produce a Workgroup Report for submission to the Modification Panel, containing the assessment and recommendations of the Workgroup including a draft Modification where appropriate.

Composition of Workgroup

The Workgroup is open to any party that wishes to attend or participate.

A Workgroup meeting will be quorate provided at least two Transporter and two User representatives are present.

Meeting Arrangements

Meetings will be administered by the Joint Office and conducted in accordance with the Code Administration Code of Practice.

4 Request Workgroup Assessment

The Workgroup accepted the list of topics for discussion in section 3 above.

Workgroup focused on narrowing the scope of the Review during November and December 2018, whilst examining and agreeing principles on which to build a suitable product during December 2018 and into January 2019. Assessing ideas which might achieve the objective took place also in December 2018 and January 2019.

The Ofgem Decision Letter on Modification 0621 and its alternatives which was issued late in December 2018 gave plenty of information for the Workgroup to discuss. In particular, the compliance issues summarised in Slide 9 of the slide pack from National Grid for the 05 February 2019 0670R meeting. (see: <http://www.gasgovernance.co.uk/0670/050219>)

In February 2019 Workgroup 0670R broadly agreed that the objective was to

Avoid inefficient bypass of the NTS.

The original reasoning of the objective still held true. There is an enduring need despite of or due to future of gas uncertainty. Bypass of the NTS can be considered in a wider context of bypass of the NBP. Inefficient bypass is defined in this context from the existing network perspective. The construction and use of independent pipelines bypassing the NTS risks increased costs as they are spread over a smaller base.

In February 2019, Workgroup 0670R broadly agreed that the Core Principles should be:

- Compliant with relevant legislation
- Historical decisions considered
- UNC Charging Relevant Objectives
- UNC Relevant Objectives
- Defined commitment to product
- Cost reflectivity.

Regarding cost reflectivity, two of the topics Workgroup discussed at length without coming to a clear consensus were:

- Difficulty in defining project/pipeline costs (pipeline diameters, distance and flow rate, inflationary cost updates, whether to assume load factor, cost of capital, potential complexity factor as distance increases etc.)
- Difficulty of determining the value of receiving transmission service.

Ideas for a charging methodology to avoid the inefficient bypass of the NTS

National Grid summarised three ideas which Workgroup had discussed:

- Idea 1 - The NTS Optional Capacity Charge as contained in Modification 0653, raised by Centrica.
- Idea 2 - NTS Bypass Avoidance Charge suggested as a capacity discount methodology by National Grid.
- Idea 3 - Cost Reflective Bypass Avoidance Charge, a charge defined by route, suggested by Waters Wye Associates.

The raising of Modification 0678 on 17 January 2019 and its Alternatives which followed thereafter meant that efforts to develop **shorthaul** proposals began to be focussed under Modification 0678 to develop these proposals. For example, Modification 0678B, which was raised by Centrica on 06 February 2019 contained a shorthaul type product as part of its methodology which resembles Idea 2 above.

The March and April 2019 meetings of 0670R were essentially deferred, due to Workgroup 0678 commitments.

In April 2019 National Grid issued its Optional Charge Analysis document with analysis to support Workgroup 0678 (see: <http://www.gasgovernance.co.uk/0670/300419>). It was intended to provide indicative information regarding the potential impact of any optional charges or lack thereof. Note that Cost of Gas and gas source had been deemed to be out of scope.

Workgroup noted that the following topics for discussion had not been deemed to be appropriate since a draft Modification has not been forthcoming as part of the Review Workgroup:

- Development of Solution (including business rules if appropriate)
- Assessment of potential impacts of the Request
- Assessment of implementation costs of any solution identified during the Request
- Assessment of legal text.

Almost all Workgroup Participants had been heavily involved in Workgroup 0678 and contributed to the Final Modification Report 0678 (formed of several Parts) which was submitted to Ofgem on 29 May 2019.

June and July 2019

National Grid suggested Workgroup summarise its work to date by grouping under the following three headings:

- A. New Design
- B. Refinement of option available via those presented in 0678 Alternatives
- C. No bypass product.

Some Workgroup participants were uneasy with both A and B; a Workgroup Participant summarised the views:

In its 02 July [2019] presentation, National Grid set out recommendations for the Workgroup Report, which included the potential for a “new OCC design” and/or “refinement of option available via those presented in 0678 alternatives”. While it is the case that the Proposers of the OCC alternatives, which include an OCC product, maintain the view that their Proposals are compliant with EU law; better facilitate the relevant charging objectives; and are consistent with the observations set out by Ofgem in its Modification 0621 rejection letter, it would be inappropriate, in the view of the Proposers, for a Workgroup to critique a solution which currently sits with Ofgem for a determination. Were this to be permitted, then it would undermine the UNC governance process and effectively extend the UNC consultation process beyond the permitted dates. To this end, a number of Workgroup Participants are concerned that National Grid felt it appropriate to air its observations of the 0678 proposals in a Workgroup presentation it gave to the 04 June meeting (some felt these were criticisms). In

short, it is not the role of a Workgroup to pre-judge the outcome of any Modification Proposal nor critique its validity where a Modification is currently with Ofgem for a decision.

Regarding the prospect of no bypass product, a majority of Workgroup Participants felt that from a compliance perspective with TAR NC the product is not mandatory. There is no provision under TAR NC stating that such a product is required.

It is the view of several Workgroup Participants that without an incentive to use the NTS, there will be undesirable consequences of fewer Users of the NTS. Thus, there should be a charge or product of some sort that avoided inefficient bypass of the NTS. Workgroup agreed a well-designed product is desirable. Workgroup also noted that Ofgem has urged participants of Request Workgroup 0670R to continue work at pace.

At the 30 July 2019 Workgroup meeting, National Grid clarified that the material and suggestions for Workgroup Report structure were offered for discussion and that National Grid understands the points raised. However, as the Proposer of 0670R, National Grid believes that there should be discussions and development in this area to provide more timely delivery of any future proposed changes, should they be required. As the Proposer of 0670R, National Grid believes it would be remiss not to consider future development beyond Modification 0678 and does not believe this undermines the governance of 0678 or Modification 0686 (at that time with Ofgem for decision), as each of these will be considered on the material and impacts presented to Ofgem. Considering potential changes in such a manner, discussing in Workgroup, is an effective and efficient method of UNC development, to be better prepared should any further Modification be required (for example on reflection of further developments and updates out of any Modification with Ofgem).

National Grid summarised the work carried out by Workgroup to date as follows (taken from slide 6 of its 06 July 2019 slide pack):

Criteria in considering Inefficient Bypass approach

- Eligibility
- Redistribution of revenue as a consequence
- Existing contracts
- Commitment, and how or if it should be included, and considering the impacts
- Duration and review and product
- How it interacts with other charges

Several Workgroup Participants requested that an additional criterion should be added to the top of the list:

- Economic test

A Workgroup Participant provided the following view of the requirements of a future shorthaul product:

Any inefficient by-pass product would need to be well defined and suitably cost reflective of the service being provided, fully recognising the risks and commitments associated with self-provision. Compliance with EU regulations is essential and is likely to require a restricted conditional availability of any such product.

A further Workgroup Participant provided the following view of the requirements of a future shorthaul product:

During the examination and development of potential OCC solutions, the majority of Workgroup attendees agreed that an OCC product was desirable and necessary (to avoid

inefficient bypass) and any future OCC methodology should be cost reflective. To that end, any such methodology should be based, broadly, upon a valuation of the costs to build and maintain a pipeline of equivalent size and length to an OCC route. This approach was adopted by Modification Proposals 0678 D/G/H/J. The cost based approach also formed the basis of Idea 2, proposed to Workgroup 0670R by National Grid and Idea 3, proposed to Workgroup 0670R by WWA in January 2019.

European Proposals

Workgroup requested and National Grid examined and brought back to the Workgroup an update on other Member State's Proposals of conditional products. Most were not easy to apply in GB but provided a helpful frame of reference in terms of compliance (especially considering ACER's views) and potential options. For more information see slides 7-10 of the National Grid slide pack for 02 July 2019: <http://www.gasgovernance.co.uk/0670/020719> .

Brexit

The assumption throughout Workgroups was that whatever the outcome of the UK leaving the European Union and whenever that took place, the expectation would be to have a similar regulatory regime in place in the UK as could be found in Europe. This can be reviewed and considered further if any changes to the current approach, of full compliance with EU Codes being necessary, were to change.

National Grid began to flesh out some aspects of an alternative shorthaul proposal, for discussion, at the June 2019 meeting. At the 02 July 2019 meeting possible themes below were analysed in more detail:

- Eligibility criteria that is not a decision based on optional charge vs RPM
- Reflection of transmission services received in any charge levied
- Level of uptake and redistribution impact
- Consideration of who as well as where
- Tiered approach to application and charge

The latter theme was explored in greater depth, though Workgroup did not find much of the resulting analysis very useful. National Grid commented that analysis for the Workgroup Report should only be those parts considered to be useful and, if it were helpful, to get feedback on the analysis presented for discussion. National Grid also commented that the analysis had been produced to facilitate discussion on aspects of development.

Most Workgroup Participants only found two aspects of the data useful - in Slide 18 of the slide pack, the far right-hand side bar and the far left-hand side bar. These show the two extremes of the scenarios presented:

- The far left-hand side bar represents a scenario where no NTS Bypass Product exists (the NTS Bypass Product is removed and not replaced). This scenario assumes no users bypass the system and all users pay the Reserve Price.
- The far right-hand side bar represents a scenario where no NTS Bypass Product exists (the NTS Bypass Product is removed and not replaced). This scenario assumes all volumes would be there in setting charges but then choose to not use the NTS. Therefore, it assumes **all current NOCC users bypass the system** and all IBP revenue is lost from those users.

Regarding Slide 19 some Workgroup Participants felt the points made on slide 19 covering the 0678 Modifications with Ofgem were not helpful. On Slide 21 some Workgroup participants felt the word 'refinement' should be removed. Some Workgroup Participants took exception to the word 'redistribution'.

Most Workgroup Participants considered that it was appropriate to look at lost revenue as a consequence of Users who come off the NTS.

National Grid believes it is essential to consider changes to revenue which are a consequence of any update of a Shorthaul product, and the impact this would have on the remaining charges and User base who would pay as a result. This would, in National Grid's view, allow impacts on other charges to be more predictable and stable.

General Summary on the current position of the 0670R review group - July 2019:

- A majority of Workgroup Participants support the inclusion of a Shorthaul type product as part of the Transportation Charging arrangements.
- Developing consensus in this area in terms of design and application may be challenging as there are differing views on this.
- Understanding more about how the UNC baseline would potentially be change is considered necessary to fully inform any potential Modification that could come as a result of the conclusion of 0670R. Updates from Modifications 0678 and 0686 will provide this.

Possible next steps

Workgroup noted that a baseline needs to be understood in order to meaningfully develop any 'shorthaul' type charge. This would be known once any decisions have been communicated by Ofgem on the charging Modifications 0678 and 0686.

At the Workgroup meeting on 30 July 2019, Workgroup Participants discussed views on whether or not the Workgroup should close or remain open, to meet to share and develop solutions for a Shorthaul product, pending further input from Ofgem regarding its consideration of Modification 0678 and its Alternatives.

There were mixed views expressed in the group.

A number of Workgroup Participants advocated that 0670R should be closed down given the lack of a clear Modification to discuss and, in any event, several of the Modification 0678 Alternatives have a Shorthaul product associated with them and this could undermine any development work done by the group.

A Workgroup Participant summarised thus:

A number of Workgroup Participants believe that the 0670R Workgroup should be temporarily suspended until such time as Ofgem makes a determination on Modification 0678 (and its alternatives) or provides interim feedback focused on the legitimacy of the OOC products contained within the various proposals. The feedback from Ofgem should:

- *set out clearly the reasoning behind its views;*
- *provide suitably well-defined guidance on any future 'shorthaul' product construction; AND*
- *where Ofgem's conclusion means it is appropriate, allow industry enough time to develop a suitable product to allow implementation in parallel with any Modification 0678 reforms.*

There was a larger group of Workgroup Participants advocating that the Workgroup should remain open, with an extended reporting date. This is on the basis that closing the group prematurely could

lose any work done to date and delay the development of a Shorthaul product, if the outcome of Modification 0678 was a variant that didn't come complete with a Shorthaul provision. Keeping it open would enable a quick stand-up of the Workgroup to discuss any Ofgem input which may be forthcoming.

National Grid, as the Proposer of 0670R supported an approach where the Workgroup is not formally closed, remains an open Workgroup to provide inputs and thus provides, in its view, several benefits to take account of relevant updates and inputs:

- Timely discussion on any development including response to any Ofgem or industry updates and inputs;
- Given the interest in this topic, it provides a useful means to keep up to date and also provide input where it may be challenging to resource attending regularly;
- Retaining 0670R as a Workgroup on NTSCMF's agenda gives a regular opportunity to discuss and keep on top of discussions and also any cover related charging matters from other areas of development on NSTCMF's agenda and outputs.

The majority view was that 0670R should remain open but that the terms of reference should be reviewed alongside a review of the objectives. Some Workgroup Participants suggested that there should be specific consideration of the impact of short haul and that the Workgroup report should provide specific reference to what analysis can and cannot be undertaken in addition to potentially considering electricity generation impacts.

Given the balance of views in the meeting, the Panel were requested to agree that Request 670R should be return to the Workgroup for further development with an extension of 6 months to report back to Panel in January 2020.

Ofgem Decision letter 23 December 2019 – minded-to for 0678A

In its letter on 23 December 2019, Ofgem issued a minded-to position for consultation on its preference for Modification 0678A, which proposes a postage stamp Reference Price Methodology (RPM). The consultation was to close out on 24 February 2020. A final decision by Ofgem would then be required under EU Code (TAR NC) at the latest by 24 July 2020. Implementation was planned for October 2020.

An additional NTSCMF meeting was scheduled on 28 January 2020 to discuss shorthaul as some industry participants were considering raising some follow up modifications on shorthaul and storage discounts. Ofgem had made it clear the process for making decisions on future Modifications would likely be expedited where:

- There are fewer modifications to go through the Ofgem decision making process;
- There appears to be industry consensus as far as possible;
- There is a positive Panel decision.

At the February 2020 Modification Panel, National Grid outlined their planned approach to raising a Modification which subsequently became Modification 0718 - Introduction of a Conditional Discount for Avoiding Inefficient Bypass of the NTS. This Modification aimed to address the fact that if 0678A were to be implemented (in line with Ofgem's minded to position) the new NTS Charging Methodology would not incorporate a mechanism to disincentivise inefficient bypass of the NTS. Modification 0718 sought to introduce a new Conditional Discount which would effectively replace the existing mechanism (the NTS Optional Commodity Rate). A key fact was that Modification 0718 was conditional on Ofgem's approval of Modification 0678 or 0678A.

Alternative Modification 0718A was raised alongside 0718, as were Alternatives 0718B, 0718C and 0718D. Each proposed various methods for defining how the discount should be set up.

Rejection of Urgency for Modifications 0718/A/B/C 19 March 2020

Ofgem, in its letter of 19 March 2020, rejecting Urgency for Modification 0718/A/B/C/D stated:

UNC718 proposes to amend the NTS Charging Methodology that would be introduced by UNC678 or UNC678A, should either of these modifications be approved. NGGT also states that the proposed legal text is drafted based on the UNC text as it would stand if either UNC678 or UNC678A were to be approved.

We have been asked to assess this modification proposal on a 'conditional basis'. We have noted the views of Workgroup participants, UNC parties, and the JO. Both the licence conditions governing the arrangements around UNC and the existing UNC Modification Rules preclude us from considering proposals against a baseline that is not at that point in time part of the UNC.

Modifications 0718/A/B/C were subsequently withdrawn by the Proposers on 26 March 2020, awaiting a decision on Modifications 0678/A/B/C/D/E/F/G/H/I/J (Urgent) - Amendments to Gas Transmission Charging Regime.

Once Ofgem had issued its decision letter on 10 June 2020 with the final decision implementing Modification 0678A from October 2020, National Grid and the other Proposers of the 0718 alternatives were able to re-draft their Modifications. These became 0728/A/B/C.

Modifications 0728/A/B/C/D raised 09 June 2020

Modifications 0728/A/B/C/D (Urgent) propose to introduce forms of capacity discount to manage potential inefficient bypass of the NTS. Each of the 5 Alternative Modifications has slightly nuanced methods for defining how the discount should be set up. Please see the helpful Comparison Table contained in the Appendix outlining some of the differences between the Modifications. (0728D was an additional Alternative, unrelated to the 0718 family of Modifications). After consultation, which received a strong response from industry and in line with the timetable issued by the Authority, the Modifications were discussed at an extraordinary Modification Panel meeting on 03 July. These Modifications were sent to the Authority on Friday 03 July 2020 for a decision on implementation². The implementation date recommended by all 5 Modifications is October 2020.

Recommendation for closure of 0670R - 07 July 2020

At Request 0670R Workgroup meeting on 07 July 2020, Workgroup Participants agreed that it was the right time to close the Workgroup as Modifications 0728/A/B/C/D are now with the Authority for a decision on implementation.

Workgroup Participants were keen to record that if one of the Modifications 0728/A/B/C/D are not implemented then the discussion on a suitable charge to avoid inefficient bypass of the NTS will need to be opened up again. Should this be the situation, then it is likely that any Ofgem decision letter would give an indication where the areas for future work should concentrate and such areas would subsequently be discussed.

Workgroup Participants also recognised that should one of the options be implemented, it may need altering or updating (for example in the area of Transmission Services and non-Transmission Services Charges).

² <https://www.gasgovernance.co.uk/0728>

07 July 2020 0670R Workgroup meeting - Impact on consumers

Workgroup Participants noted the Panel Discussions on 03 July 2020 regarding Modifications 0678/A/B/C/D and, in particular, the comments from the UNC Modification Panel Domestic Consumer Representative, L Snoxell. These are shown below:

A Panel Member (domestic consumer representative) noted that it is difficult to understand the quantifiable cost impact on domestic consumers and especially taking into account the current pandemic situation. This is disappointing. There is not enough information in the Modifications to establish this cost impact, without specifying the change in capacity booking behaviours and other variables. This means that the view of this Panel Member is that implementation of the Modifications are not recommended.

Workgroup Participants were keen to note that though charges in their totality do not change, the consumer impact both upstream and downstream is very subjective and requires assumptions to be made (for example on consumer booking behaviour) which can have a significant impact on how and to what extent the charges are socialised.

Future areas of work – consumer impact

In recognition of the comments raised, Workgroup noted future avenues for potential further exploration:

- Domestic consumers - amount of customer bill affected by any discount.
- Affordability in context of Covid-19.
- Potential for the methodology to assess RIIO-2 impact to also be utilised to help assess impacts.

5 Recommendation

Workgroup's Recommendation to Panel

The Workgroup asks Panel to agree that the Request Workgroup 0670R should now be closed.

6 Appendix

Comparison Table for Modifications 0728/A/B/C/D (Urgent)

Charge Group	Element	0728	0728A	0728B	0728C	0728D
		v1.0 (6/3/2020)	v1.0 (4/6/2020)	v1.0 (4/6/2020)	v1.0 (4/3/2020)	v1.0 (4/3/2020)
		National Grid	South Hook Gas Company	Vitol SA Geneva	RWE	ENI Trading & Shipping
Transmission Services Conditional Discount	Charge which the discount is applied to	Entry Capacity Reserve Price and Exit Capacity Reserve Price	Entry Capacity Reserve Price and Exit Capacity Reserve Price	Entry Capacity Reserve Price and Exit Capacity Reserve Price	Entry Capacity Reserve Price and Exit Capacity Reserve Price	Entry Capacity Reserve Price and Exit Capacity Reserve Price
	DCSL Distance (km)	18	18	28	18	5 (standard 90% discount)
	Initial Eligible Quantity (Entry)	(Lower of Entry Capacity, Exit Capacity, Entry Allocation, Exit Allocation) less any Existing Contract Capacity	(Lower of Entry Capacity, Exit Capacity, Entry Allocation, Exit Allocation) less any Existing Contract Capacity	(Lower of Entry Capacity, Exit Capacity, Entry Allocation, Exit Allocation) less any Existing Contract Capacity	(Lower of Entry Capacity, Exit Capacity) less any Existing Contract Capacity	(Lower of Entry Capacity, Exit Capacity, Entry Allocation, Exit Allocation) less any Existing Contract Capacity
	Initial Eligible Quantity (Exit)	Lower of Entry Capacity, Exit Capacity, Entry Allocation, Exit Allocation	Lower of Entry Capacity, Exit Capacity, Entry Allocation, Exit Allocation	Lower of Entry Capacity, Exit Capacity, Entry Allocation, Exit Allocation	Lower of Entry Capacity, Exit Capacity	Lower of Entry Capacity, Exit Capacity, Entry Allocation, Exit Allocation
Non-Transmission Services Conditional Discount	Charge which the discount is applied to	N/A	General Non-Transmission Services Charge	N/A	N/A	General Non-Transmission Services Charge
	Discount (%)	N/A	80	N/A	N/A	94
	Eligible Quantity	N/A	Lower of Entry Allocation, Exit Allocation	N/A	N/A	Lower of Entry Allocation, Exit Allocation

Variation in treatment of element from UNC Modification Proposal 0728