








UNC Modification	At what stage is this document in the process?
<h1>UNC 0XXX:</h1> <h2>Revision of Overrun Charge Multiplier</h2>	<div style="display: flex; flex-direction: column; align-items: flex-start;"> <div style="border: 1px solid green; background-color: #008000; color: white; padding: 5px; margin-bottom: 5px;">01 Modification</div> <div style="border: 1px solid blue; background-color: #e6f2ff; padding: 5px; margin-bottom: 5px;">02 Workgroup Report</div> <div style="border: 1px solid purple; background-color: #f2e6ff; padding: 5px; margin-bottom: 5px;">03 Draft Modification Report</div> <div style="border: 1px solid orange; background-color: #fff9e6; padding: 5px;">04 Final Modification Report</div> </div>
<p>Purpose of Modification:</p> <p>This Modification Proposal seeks to amend the multiplier in the Overrun charge are calculation at NTS Entry and Exit points.</p>	
	<p>The Proposer recommends that this modification should be:</p> <ul style="list-style-type: none"> assessed by a Workgroup <p>This modification will be presented by the Proposer to the Panel on 19th February 2020. The Panel will consider the Proposer’s recommendation and determine the appropriate route.</p>
	<p>High Impact: None identified</p>
	<p>Medium Impact: All parties that pay NTS Transportation Charges and/or have a connection to the NTS, and National Grid NTS</p>
	<p>Low Impact: None identifies</p>

Contents		
1	Summary	3
2	Governance	4
3	Why Change?	4
4	Code Specific Matters	4
5	Solution	4
6	Impacts & Other Considerations	6
7	Relevant Objectives	7
8	Implementation	8
9	Legal Text	8
10	Recommendations	8
Timetable		
The Proposer recommends the following timetable:		
Pre-modification presented to WG	06 February 2020	
Modification considered by Panel	19 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?


Contact:
Joint Office of Gas Transporters

 enquiries@gasgovernance.co.uk


 0121 288 2107


Proposer:
Anna Stankiewicz

 Anna.Stankiewicz@nationalgrid.com


 07866 884818

Transporter:
National Grid







Systems Provider:
Xoserve

 UKLink@xoserve.com

Other:
Insert name

 email address

 telephone

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 capacity than 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. 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 will be 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 acquiring capacity. As capacity reserve prices increase, these prices will increase according, meaning that Overrun charges will also increase.

Furthermore, 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 recognising the increased Overrun charges are likely to be incurred because of the new proposed charging methodology and believes that maintaining an appropriate incentive for shippers to book capacity is required. However, the forecast level of this incentive should be akin to historic levels and this proposal aims to broadly maintain the same level of incentive to encourage shippers to book capacity according to their flows.

The principle of keeping the Overrun incentive 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)) to x 6. 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. 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 may deem 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 terms of financial exposure to Users, assuming no change in behaviour.

2 Governance

Requested Next Steps

This Modification should:

- 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 safeguard Users from excessively penal 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 penal nature 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 (https://www.ofgem.gov.uk/system/files/docs/2019/12/unc678_minded_to_decision.pdf) 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.

Entry Overrun Charges

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. Based on the figures presented, for Entry the currently collected actual revenue will 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 will 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

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.*

***Currently there is no reserve price for within day allocation. PS reserve price and more competitive, potentially closer to flow auction bookings will considerably increase charges in the new regime.*

The proposer recognises that, as a result of Modification 678A being 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

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 (aided by Overrun charges) 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, meaning that capacity bookings are reflective of flows and not inflated due to risk of incurring a high Overrun penalty.

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. By extension, it will have a positive impact on lowering the 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.	Positive
d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	Positive

e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers.	None
f) Promotion of efficiency in the implementation and administration of the Code.	None
g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	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.

High Overrun prices could be adding to shippers' risk and administration costs. By booking more capacity than their requirements because of potential high penalty, shippers would act against their licence obligation which asks them to match their bookings with flows.

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) of the existing Overrun regime.

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