

**Gas System
Operator**

Review of the charging methodology to avoid the inefficient bypass of the NTS

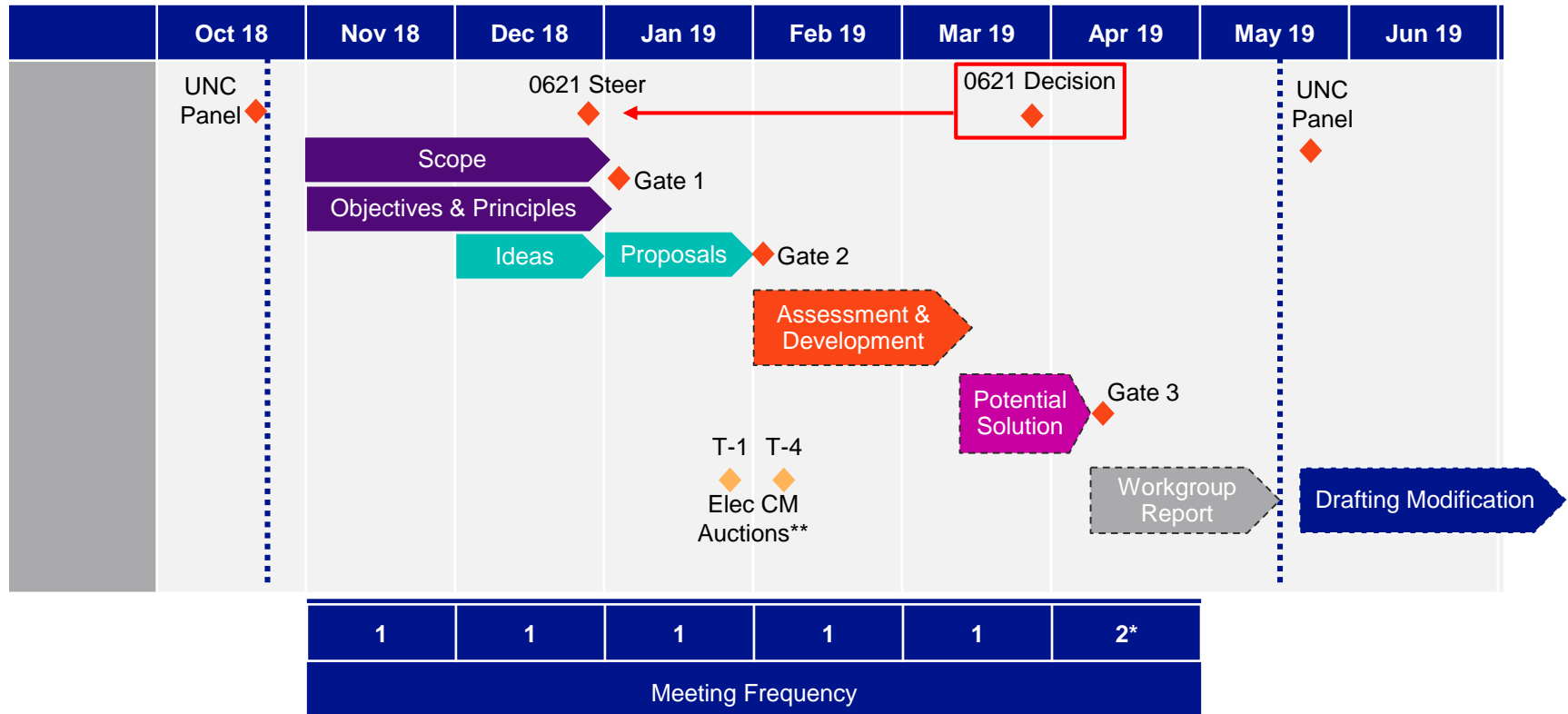
NTSCMF 0670R Workgroup

4th June 2019

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Original Timeline (at time of raising 0670R)



Gate 1: Sign off Scope and Objectives & Principles

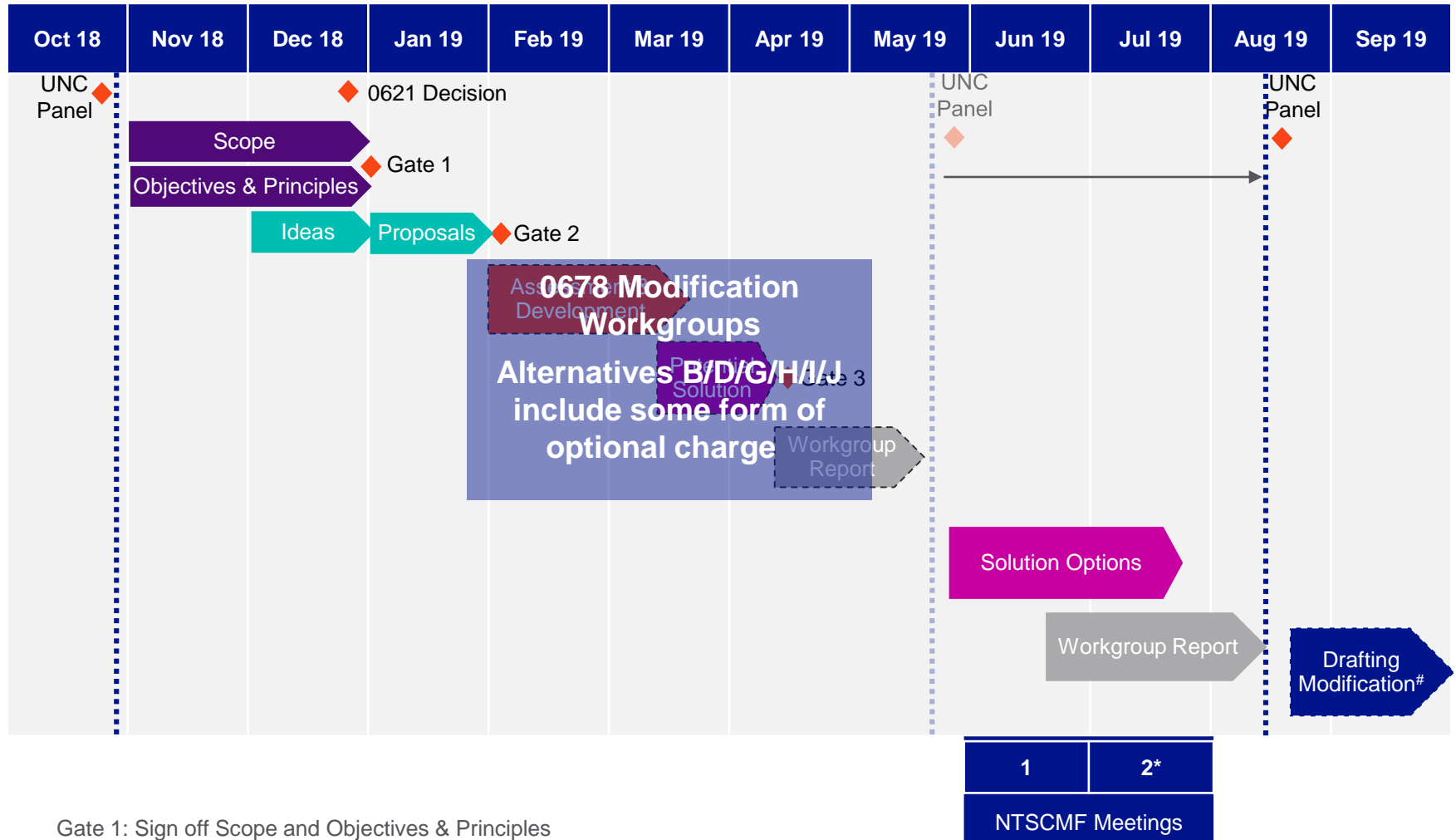
Gate 2: Select proposal(s) for further assessment & Development

Gate 3: Refine Solution following 0621 for inclusion in Workgroup Report

* May NTSCMF scheduled for 30th April 2019

** Elec Capacity Market is currently suspended ECJ conclusion on breach of state aid rules, auctions currently on hold

High Level Timeline



Gate 1: Sign off Scope and Objectives & Principles

Gate 2: Select proposal(s) for further assessment & Development

*August meeting scheduled for 30th July

#Drafting Modification subject to 0678 decision – can only be done once a decision is reached or clearer on direction of travel

Actions and agenda for June NTSCMF

0670R Action Updates

Action Number	Description
0670R 0401:	National Grid to provide views on the various optional methods at the next meeting.
0670R 0402:	National Grid to confirm if there are any further methods which could be considered at the next meeting.
0670R 0403:	All other parties to provide suggestions for a new method or one of the methods outlined in Modifications 0678.
0670R 0404:	Parties to state if they have a view on Optional Charges.
0670R 0405:	Parties to provide feedback/queries/questions on the Optional Charge Analysis.

As of 29/05, National Grid has received no further inputs related to actions 0403, 0404 and 0405.

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01

Introduction

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Objective

Objective

0670R Workgroup definition of the objective is...

Avoid inefficient bypass of the NTS

The original reasoning of the objective still holds true

Bypass of the NTS can be considered in a wider context of bypass of the NBP

There is an enduring need despite of or due to future of gas uncertainty

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

Core Principles

CP

Compliant with relevant legislation

UNC Charging Relevant Objectives

UNC Relevant Objectives

Defined commitment to product

Historical decisions considered

Cost reflectivity

NTS Optional Commodity Charge

Following the Ofgem Decision Letter for UNC0621 and its alternatives, noting a rejection, 0678 was raised.

Under modification UNC0678 and all of its alternative proposals, **the current NTS Optional Commodity Charge will cease to exist on implementation of any of the 0678 modification proposals.**

Ofgem 0621 Decision Letter

A number of issues or concerns were flagged regarding the NTS Optional Charge (NOC) in the 0621 proposals, including compliance. These should be taken into consideration for 0670R Proposals

Genuine risk	Insufficient evidence of parties bypassing the NTS
Cross-subsidy	Updates improve current situation and improve competition but concerns remain
Transmission service	NOC classified as this, therefore must comply with TAR Art 4
TAR Article 4 (2,3)	Should be set taking into account conditions for firm capacity products and does not satisfy commodity exceptions
Cost reflectivity	Load factor assumptions and pipeline routes criticised. Charge should reflect the transmission service received
Distance Cap	Rationale was not accepted, must reflect genuine risk

UNC0678 Optional Charge Proposals

Six out of eleven modifications have some form of optional charge that have been categorised as:

Method 1

Optional Capacity Charge and System Utilisation Factor Discounted Reserve Price

- As represented in Modification 0678B

Method 2

Optional Capacity Charge and Annual Fee Cost-Based Rate with Reconciliation to Forecast Contracted Capacity (FCC)

- As represented in Modifications 0678D/G/H/J

Method 3

Wheeling Charge Cost Based Rate with Distance Cap

- As represented in Modification 0678I

UNC0678 Consultation Responses

The consultation of UNC0678 and its alternatives generated 37 responses.

As well as comments on the modifications themselves, Ofgem asked a specific question:

Can you provide reasons why an NTS Optional Charge is or is not justified? If you consider an NTS Optional Charge is justified, which proposal do you prefer and why is it compliant with TAR NC?

- Majority of respondents commented that the reasoning to avoid NTS bypass remains valid (some examples were provided)
- Varying support between methods
- Concerns over compliance, discrimination, level of cross subsidy and availability of charge from different Users
- Different opinions on the role of 0670R

UNC0678 Consultation Responses

Issues raised in NG Consultation Response:

- Mechanisms proposed are ‘commercial’ options with no limitation to routes (apart from 0678I) where bypass is a genuine consideration (i.e. wheeling). This is one of the concerns under the current regime
- Where the charge is widely accessible, has substantial discounts or has the potential for significant uptake, this will result in charges for other routes increasing which remains a concern
- The charges change the prices payable and under all proposals, as designed, effectively have the capability to change (where used) the price for Existing Contracts as described in TAR Article 35. This undermines the fixed price nature of the Existing Contract as defined in Article 35 of TAR.

02

Definition of Charge



Definition of the Charge

Charges have so far fallen into the following categories, what other options are there?

Distance based adjustment of RPM

Update of current OCC methodology, using generic pipeline cost to generate capacity charge

**Standard multiplier? Minimum fee?
Value of access to the NTS?**

0670R should focus on the key drivers and principles that can form the basis of any future modifications raised. It does not need to deliver the specific solution as nothing can be assessed until 0678 is decided upon.

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Application of
Charge

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Application of Charge

Current options have limited application criteria

Commercial decision, open to all specified site types

Limited to NTS Direct Connects, not DN or Storage

Wheeling Charge has distance cap of 0km

Stepped distance related application process?

Site type? Load factor? Customer profile? Who and where

Proof of pipeline? Criteria? Likelihood bands? A tiered approach

0670R should make recommendations on the application process to be considered in any future modifications raised

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Consequence and Outcome

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Consequence and Outcome

Can charges designed to avoid NTS bypass be based around what the potential outcome may be?

Redistribution of revenue?

Revenue lost

Determined by sectoral impact?

0670R should consider all options

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NG Proposal

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NG Proposal

Given the elements discussed, National Grid views that any modification for an optional charge to avoid the inefficient bypass of the NTS, should include the following:

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

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Next Steps

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Next steps, actions for 2nd July NTSCMF

Start drafting on workgroup report

NG Suggestion for workgroup report structure

Given the subject matter we recognise there is unlikely to be one outcome that will draw universal support. In terms of how the 0670R workgroup report format and findings can be reported, we believe it can be covered in a format that covers the following.

New design

Refinement of option available via those presented in 678 alternatives

No bypass product

The outcomes can have a range of options except the latter. However there are established principles that can be considered in each.

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