

**Gas System  
Operator**

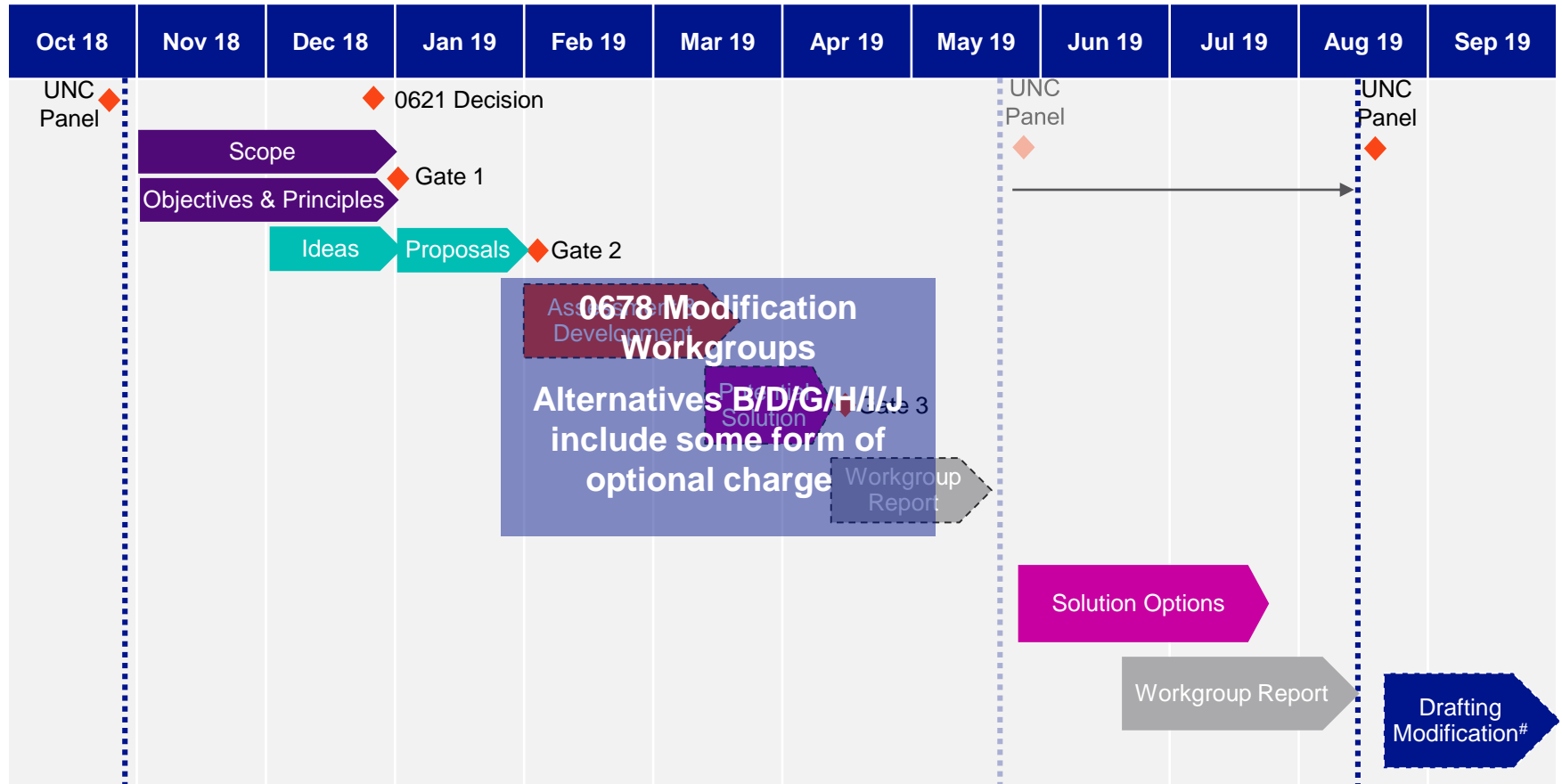
# **Review of the charging methodology to avoid the inefficient bypass of the NTS**

**NTSCMF 0670R Workgroup**  
2<sup>nd</sup> July 2019

**nationalgrid**



# 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

1	2*
NTSCMF Meetings	

# Actions and agenda for 2<sup>nd</sup> July NTSCMF

## 0670R Action Updates

Action Number	Description
0670R 0601:	Parties to provide views for consideration against the presentation provided for potential inclusion within the Workgroup Report.
0670R 0602:	National Grid to provide how products could be formulated.

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01

## Criteria for Inefficient Bypass Charge

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# 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**

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02

European  
Proposals

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## Review of other member states approaches

- National Grid have reviewed other member state's proposals and the following slides provide a summary of those member states where conditional products have been proposed
- These may be useful to review as part of the developments for GB in considering managing inefficient bypass through the Transportation Charging Framework
- A summary of the proposal is provided along with ACERs views
- Whilst not all may be easy to apply to GB, they provide a helpful frame of reference in terms of compliance and potential options



## Conditional products put to ACER by four member states:

### - **Germany**

- 5% discount for point to point (DZK product). No access to VBP.

### - **Italy**

- Discount to exit clusters within 15km.
- The Agency recommends that AREERA ... Remove the proposed discount

### - **Belgium**

- 75% discount for Wheeling
- Operational Capacity Usage Commitments offered between IPs, discounts range between 25% and 62%

### - **Netherlands**

- 94% discount for Wheeling approved and in place for 01-Jan-2020 onwards
- Short-haul product rejected by ACM rather than ACER on two counts:
  - 1) Lack of uptake
  - 2) “Ex-post custom-made tariff” - not determined and published in advance and so not compliant with TAR NC

## ACER comments:

- Remove the conditionalities in a selective way, by focusing on key bottlenecks impeding competition and trade, thus minimising tariff increase.
- ...the standardisation of conditional products will remain preferable.
- ...taking due account of the tariff increases that may be necessary to achieve that [an integrated market] and minimising conditional capacity.
- The Agency would welcome a set of harmonised rules

...the proposed (Italian) methodology creates cross-subsidies among intra-system users due to:

An additional, post-equalisation, distance-based discount ... The Agency considers this discount and the resulting cross-subsidisation not compliant with the NC TAR.

[https://acer.europa.eu/Official\\_documents/Acts\\_of\\_the\\_Agency/Publication/ACER%20Report%20on%20the%20conditionalities%20stipulated%20in%20contracts%20for%20standard%20capacity%20products%20for%20firm%20capacity.pdf](https://acer.europa.eu/Official_documents/Acts_of_the_Agency/Publication/ACER%20Report%20on%20the%20conditionalities%20stipulated%20in%20contracts%20for%20standard%20capacity%20products%20for%20firm%20capacity.pdf)

# 03

Examples for  
potential new  
design / updates



# NG Suggestion for workgroup report structure - recap

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.

In the following slides we explore the potential for new design and potential refinement of options presented in 0678 alternatives for illustration and discussion. It does not present a final proposal.

# NG Proposals (from June NTSCMF)

National Grid proposed that any future modification could consider the following themes. It was asked if we could illustrate examples of how these may be considered in any potential new design:

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

# **New design considerations – examples of how to incorporate additional elements (1/2)**

**In the following slides we explore the potential impacts of applying a tiered approach. Works on Transmission Services Capacity Reserve prices discount only rather than alternative charges. All other charges payable.**

**Key assumptions for this modelling:**

- 1. Based on Capacity Weighted Distance Method as per UNC0678. Maintains storage at 50% and interruptible at 10% discounts;**
- 2. Provides a discount to the Entry and Exit reserve prices only for eligible quantities. Ineligible values attract normal charges;**
- 3. When calculating the charges assume all volumes are included in the FCC that sets the reserve prices;**
- 4. Existing Contracts are ineligible for discount, only levels above the existing contracts are eligible. Exit is not affected and will get full discount;**
- 5. Considers throughput as a driver (based on known routes that use the current “Shorthaul” product)**

## **New design considerations – examples of how to incorporate additional elements (2/2)**

- 6. No revenue adjustments are applied to illustrate the potential amounts that would require redistribution across ineligible values (i.e. spread across other Users). The Revenue recovery is split into two categories:**
  - Anticipated shortfall from Storage and Interruptible; and
  - Anticipated shortfall as a result of inefficient bypass product (IBP) discount.
- 7. Uses the FCC values as presented in version 3.1 of the CWD Transportation Charging sensitivity tool:**
  - <https://www.gasgovernance.co.uk/0678/Models>
- 8. No behavioural changes are illustrated except in one scenario;**
- 9. All scenarios (except one) assume ineligible values still use the NTS. In the exception it assumes all eligible volumes choose not to use the NTS.**
- 10. If the throughput considered exceeds the Exit Capacity then the Exit volume is capped at zero (i.e. cannot be negative).**
- 11. No zero charges – minimum rate of 0.0001 p/kWh is applied.**

# Illustrative analysis – introduction to scenarios modelled

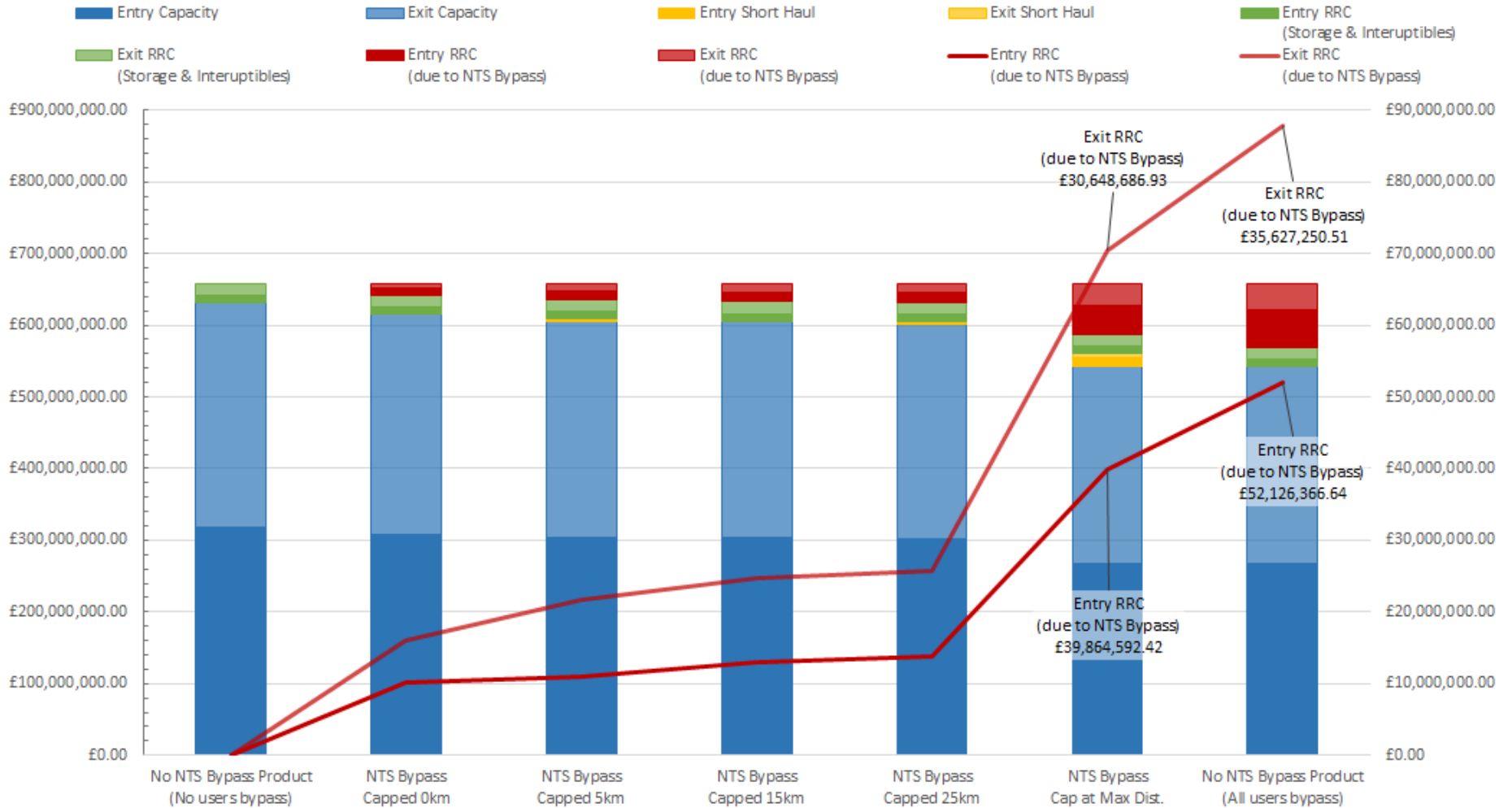
	Summary	Detail
1	No NTS Bypass Product (No users bypass)	NTS Bypass Product is removed and not replaced. This scenario assumes no users bypass the system and all users pay the Reserve Price.
2	NTS Bypass Capped 0km	NTS Bypass Product provided only for users at 0km distance. Inefficient Bypass Product (IBP) Rate is collared at 0.0001p/kWh/day
3	NTS Bypass Capped 5km	NTS Inefficient Bypass Product is discounted on a sliding scales based on:
4	NTS Bypass Capped 15km	<b>(Distance to Entry point / Distance Cap) * Reserve Price</b>
5	NTS Bypass Capped 25km	i.e. 4km based on 5km Cap = 20% discount 4km based on 25km Cap = 84% discount Inefficient Bypass Product (IBP) Rate is collared at 0.0001p/kWh/day
6	NTS Bypass Cap at Max Dist.	As per (2,3,4,5), but distance cap is based on current longest short-haul route so all current NOCC users receive a discount.
7	No NTS Bypass Product (All users bypass)	NTS Bypass Product is removed and not replaced. This scenarios assumes all volumes would be there in setting charges but then choose to not use the NTS. Therefore assumes all current NOCC users bypass the system and all IBP revenue is lost from those users.



# Illustrative analysis – Modelled scenarios

	No NTS Bypass Product (No users bypass)	NTS Bypass Capped 0km	NTS Bypass Capped 5km	NTS Bypass Capped 15km	NTS Bypass Capped 25km	NTS Bypass Cap at Max Dist.	No NTS Bypass Product (All users bypass)
<b>Entry Capacity</b>	£318,707,208.97	£308,507,543.47	£304,476,765.90	£304,476,765.90	£302,694,726.10	£266,580,842.33	£266,580,842.33
<b>Exit Capacity</b>	£312,133,873.39	£306,292,971.32	£299,899,388.53	£299,895,481.48	£299,104,395.42	£276,506,622.89	£276,506,622.89
<b>Entry IBP</b>	£0.00	£48,231.34	£3,362,297.71	£1,160,817.81	£2,232,101.06	£12,261,774.22	£0.00
<b>Exit IBP</b>	£0.00	£48,231.34	£1,501,696.58	£536,454.84	£1,030,866.60	£4,978,563.57	£0.00
<b>Entry RRC (Storage &amp; Interruptibles)</b>	£10,071,215.16	£10,071,215.16	£10,071,215.16	£10,071,215.16	£10,071,215.16	£10,071,215.16	£10,071,215.16
<b>Exit RRC (Storage &amp; Interruptibles)</b>	£16,644,550.74	£16,644,550.74	£16,644,550.74	£16,644,550.74	£16,644,550.74	£16,644,550.74	£16,644,550.74
<b>Entry RRC (due to NTS Bypass)</b>	£0.00	£10,151,434.16	£10,868,145.36	£13,069,625.26	£13,780,381.81	£39,864,592.42	£52,126,366.64
<b>Exit RRC (due to NTS Bypass)</b>	£0.00	£5,792,670.74	£10,732,788.28	£11,701,937.07	£11,998,611.38	£30,648,686.93	£35,627,250.51

# Revenue Breakdown



# 0678 Proposals with an Optional product

Elements that we believe would benefit from reviewing in potentially considering updating aspects of the 0678 options (0678 B, D, G, H, I and J):

**Treatment of Existing Contracts and their fixed price**

**Access arrangements reviewing if too generous (i.e. more effective targeting) and thereby reflecting those routes most likely at risk of bypass subject to appropriate criteria**

**Level of “redistribution” assessing the impact of such a product on others (e.g. should there be a limit on the amount that is redistributed to other charges to those ineligible)**

**There are potentially different ways of addressing these within any updates to those options presented.**

# 04

## Next Steps



# NG Suggestion for workgroup report structure - recap

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.

## **Next steps, actions for 30<sup>th</sup> July NTSCMF**

Drafting and completion of the workgroup report ready for August UNC Panel

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