







UNC Modification	At what stage is this document in the process?
<h1>UNC 07XX:</h1> <h2>Introduction of a Conditional Discount for Avoiding Inefficient Bypass of the NTS</h2>	<div style="display: flex; flex-direction: column; gap: 5px;"> <div style="border: 1px solid green; background-color: #008000; color: white; padding: 5px; display: flex; align-items: center; justify-content: center;"> 01 Modification </div> <div style="border: 1px solid blue; padding: 5px; display: flex; align-items: center; justify-content: center;"> 02 Workgroup Report </div> <div style="border: 1px solid purple; padding: 5px; display: flex; align-items: center; justify-content: center;"> 03 Draft Modification Report </div> <div style="border: 1px solid orange; padding: 5px; display: flex; align-items: center; justify-content: center;"> 04 Final Modification Report </div> </div>
<p>Purpose of Modification:</p> <p>Ofgem’s ‘minded to’ decision in respect of the Modification 0678 suite of Proposals indicated that it is minded to approve Modification 0678A. If Modification 0678A is approved the new NTS Charging Methodology will not incorporate a mechanism to dis-incentivise inefficient bypass of the NTS.</p> <p>This Modification seeks to introduce a new Conditional Discount which would effectively replace the existing mechanism (the NTS Optional Commodity Rate). It is proposed as a modification conditional on Ofgem’s approval of 0678A.</p>	
	<p>The Proposer recommends that this modification should be: Treated as an Urgent Modification and should proceed as such under a timetable agreed with the Authority</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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Timetable		
The Proposer recommends the following timetable:		
Ofgem approval of Urgent status	11 March 2020	
Draft Modification Report issued for consultation	13 March 2020	
Consultation Close-out for representations	2 April 2020	
Final Modification Report available for Panel	9 April 2020	
Modification Panel recommendation	16 April 2020	
Final Modification Report issued to Ofgem	17 April 2020	


 Any questions?


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1 Summary

What

If Ofgem approves Modification 0678A, the resulting NTS Charging Methodology (currently expected to take effect from 01 October 2020) will not include a bespoke provision for directly connected NTS users located at or near Entry Points, where construction of a pipeline to bypass the NTS may be a viable commercial option.

This Modification seeks to implement a more cost reflective charging arrangement for such points when compared with the charges which would be generated via the new Capacity Charging Methodology.

This Modification takes into account the Impact Assessment and minded-to-decision Ofgem has made regarding Modification 0678¹ and its Alternatives, published on 23 December 2019 and addresses the areas of compliance identified in this decision to ensure compliance with EU Tariff Code (Regulation 2017/460)².

This Modification is conditional on the approval by Ofgem of Modification 0678A and based on the NTS Charging Methodology that would be introduced by Modification 0678A, if approved. The legal text is drafted based on the UNC text as it would be modified by 0678A. If Modification 0678A is not approved this Modification will not be effective. This Modification (and the justification for urgency) is also based on the assumption that the implementation date of 0678A would be 1 October 2020.

Why

If implemented, Modification 0678A will align the overall GB transmission charging methodology to the new charging structures compliant with the EU Tariff Code.

Modification 0678A would move the GB charging methodology from a 'capacity and commodity' charge structure to a purely capacity-based methodology for Transmission Services. This delivers compliance with the EU Tariff Code.

The EU Tariff Code does not require there to be a charging arrangement specific to manage potential inefficient bypass. Whilst 0678/0678A do not include such a product, they do set the expectation for one to be developed separately and implemented under a new Modification ideally with the same effective date.

Through Request Modification 0670R (Request 0670R) the industry has taken the opportunity to reassess the original intent of the NTS Optional Commodity Charge (OCC) and develop a new charging mechanism which is compliant with the EU Tariff Code and one that provides an alternative charge to the appropriate Users, being those where bypassing the grid is a commercially viable option.

How

A new charging arrangement is proposed specifically for directly connected NTS Users located at, or near, Entry Points where construction of a pipeline to bypass the NTS may be a commercially viable option.

Through applying a generic methodology, incorporating a view of expected costs of bypass, an assessment compared to likely charges in conjunction with key principles of delivering a **simple, targeted** and **proportionate** product, this will better facilitate understanding of a genuine bypass risk, and thus eligibility for the conditional product.

¹ <https://www.gasgovernance.co.uk/0678>

² [EU Tariff Code \(Regulation 2017/460\)](#)

The conditional product is informed by the costs and benefits associated with remaining connected to the NTS. These criteria and the formula for calculating the product rates will be reviewed periodically, to ensure its suitability and application. This will include the relevance of the product as part of the overall charging methodology including, and not limited to, the levels of cross subsidy delivered from the uptake of the conditional arrangement.

Changes are proposed to the charging methodology contained within UNC TPD Section Y. It is also likely that changes to other sections of the UNC TPD (Sections B and G) and the Transition Document will be required.

2 Governance

Justification for Urgency

This Modification should be treated as urgent and should proceed under a timetable approved by the Authority. A proposed timeline is provided in the timetable section of this Modification.

Urgent status is sought on the basis that the need to introduce the mechanism advocated by this Modification is driven by an imminent date related issue, this being the removal of the existing arrangement (the NTS OCC) which is currently expected to take effect from 01 October 2020 (if Modification 0678A is then implemented).

There is a relatively short period of time between the expected publication of the Authority's final decision in respect of the 0678 suite of Modifications and this 'go-live' date which is not sufficient enough to deliver a timely decision in respect of this Modification were it to follow standard governance procedures.

This Modification has been formulated in advance of Ofgem's final decision on the 0678 suite of Modifications, however it is based on the Impact Assessment and the 'minded to' decision of Modification 0678A provided by Ofgem on 23 December 2019.

If this is not urgently addressed, this would result in a significant commercial impact for certain UNC parties and consumers given that existing bespoke arrangements for the relevant points would cease, meaning they would be subject to 'standard' charges (from October 2020). This would result in a significant commercial impact to certain Users and is likely, in turn, to materially impact the reciprocal charges levied to customers, dependent on how those Users recover transportation costs.

Justification for Authority Direction

This Modification is recommended to be sent to the Authority for direction as it is likely to have a material effect on commercial activities relating to the shipping, transportation and supply of gas because, if implemented, it is likely to have a material impact on the allocation of charges across NTS networks Users.

Failing to develop a replacement for the NTS OCC would have a significant impact on those Users and consumers currently using, or potentially benefitting, from the NTS OCC. It would also increase the likelihood of a party bypassing the NTS or considering a bypass of the NTS.

Analysis based on the period 2020/21 using the Postage Stamp (PS) method described in Modification 0678A and applying the prevailing NTS OCC product suggests that this could potentially lead to thirty-seven of the currently active routes potentially bypassing the NTS. These represent those parties who could avail of the NTS OCC based on the usage of the product in place within the Gas Year October 2019 – September 2020. In total, these routes account for approximately £181.2m of contributions based on the charges calculated under Modification 0678A for Gas Year 2020/21, approximately 24.4% of Maximum Allowed Revenue for that period. Assuming all these routes bypass the NTS then this would result in a shortfall to be socialised across Users who remain connected to the NTS. Whilst this level of bypass may be unlikely, due to some of these distances

involved, it would be realistic to suggest some would more actively consider a bypass if there were no specific product within the charging framework.

Requested Next Steps

This modification should:

- be treated as Urgent and should proceed under a timetable agreed with the Authority

The topic of managing inefficient bypass as part of the Transportation Charging Methodology has been extensively discussed during the development of Modifications 0621, 0678, 0636 and 0653. A more targeted review has been undertaken under the remit of Request 0670R with further discussions taking place in the NTS Charging Methodology Forum (NTSCMF). Pre-modification discussions have been tabled at Request 0670R and/or the NTSCMF.

3 Why Change?

Background

- 3.1. The topic of managing inefficient bypass as part of the Transportation Charging Methodology has been extensively discussed during the development of Modifications 0621 (and alternatives), 0678 (and alternatives), 0636 and 0653.
- 3.2. A more targeted review has been undertaken under the remit of Request 0670R with further discussions taking place in the NTS Charging Methodology Forum (NTSCMF). Pre-modification discussions have been tabled at Request 0670R and/or the NTSCMF.
- 3.3. This Modification is proposing a new product to build on Modification 0678A, where there is no such product for managing inefficient bypass as part of the proposed charging methodology. Where any relevant comparisons are made to the methodology (the prevailing NTS OCC) that is in place up to and including gas year 2019/20 (ie. Prior to Modification 0678A) this is referenced in the appropriate section.

Consequences if Not Addressed

- 3.4. If the Charging Methodology does not incorporate measures to address potential bypass of the NTS in the circumstances described, there will likely be more active consideration of bypass of the NTS. In some instances, doing so could reduce transportation charges significantly for selected Users, resulting in large savings over a relatively short period of time for such points.
- 3.5. Should the relevant consumers elect to bypass the NTS, large volumes could be lost from the NTS whilst the Maximum Allowed Revenue (MAR) nevertheless remains unchanged. This could create a significant increase in charge rates for all remaining Users of the NTS, with no contribution towards this revenue from those electing to bypass.

Analysis shows that this could mean socialisation of up to a combined 24.4% of Transmission Operator (TO) costs and System Operator (SO) costs based on the prevailing NTS OCC, spread over both Entry and Exit users:

	Prevailing NTS OCC
OCC Contribution	£28,695,987.33
Potential TO Socialisation	£97,559,664.09
SO Socialisation	£57,983,030.86
Total as % of MAR	24.4%
Routes Considered	37
Max Effective Rate Discount	99.3%
Longest Route Considered	244.0

- 3.6. Details of these calculations can be found in the Appendix, point 6 onwards.
- 3.7. Incentivising those points genuinely at risk of bypassing to continue to use the NTS would create some additional costs for other Users, but these should be less than the figures possible should there be no incentive put in place and this demand be 'lost' from the NTS along with contributions towards Allowed Revenue collection.
- 3.8. With any arrangement that results in a discounted treatment for some users, the amount of the 'discount' or benefits realised will adjust other charges. This can often be referred to as a cross subsidy, given it results in an amount not paid by some, and picked up by others. As a result, the level of this redistribution should also play a part in the assessment of the Modification. The level of redistribution should always be kept under review and should it become necessary to update any element of the method outlined in this Modification, it would be via a UNC change at the appropriate time.

Impacts and Considerations

- 3.9. Ultimately a Network user's primary driver, as to whether to remain on the NTS or bypass the network entirely, will be based on which option is more cost effective for their business. This decision will take in to account the up-front capital expenditure for construction and/or commissioning of a pipeline, potentially lengthy planning & construction times, cost of use of the NTS during that period, and long-term operational expenses including upkeep & maintenance of the asset. This would be compared with the Transportation Charges related to alternatively accessing and using the NTS. This decision would likely consider the less easily quantifiable advantages inherent in remaining connected to the NTS such as security of supply and access to the National Balancing Point (NBP).
- 3.10. In practice, bypassing the network requires a single pipeline from Entry point to Exit point, the planning, development and construction of which could take months or years in some instances. As an indication of timescales, the current Planning and Advanced Reservation of Capacity Agreement (PARCA) process sets timescales between 12 and 90 months (between 1 and 7.5 years).
- 3.11. It should be noted that any access to the proposed conditional discount would be immediate and has the benefit, where eligibility and accessibility permits. This is also an advantage in remaining connected to the NTS compared to the process that would lead up to and include building and commissioning and operating a bypass pipeline.

- 3.12. Those Modification 0678 alternatives which proposed a new charge to avoid the inefficient bypass of the NTS were considered non-compliant with the EU Tariff Code as outlined in Ofgem's minded to decision on Modification 0678 and suite of alternatives.
- 3.13. One concern highlighted was, amongst other points, Users potentially being able to take advantage of some preferential charges, regardless of whether bypass of the NTS is a genuine consideration. Under the NTS OCC this issue is also seen whereby, the uptake of the product, in combination with the impacts and interactions in the Charging Methodology results in a disproportionate use over its intended usage and resulting in unrealistic distances for a potential bypass.
- 3.14. Therefore, we propose that both the charge rate, and more importantly eligibility for a new product, must be more informed by the risk of bypass. We are of the view that distance between exit and entry point, as well as forecasted volumes, must be accounted for in calculating the potential costs or savings available to those looking to bypass the network. Whilst difficult to quantify, Users should also be aware of the additional benefits described above.
- 3.15. Industry must also be aware that a reduced rate for some Users does result in an increase to the costs for others. As described above, not replacing the NTS OCC, and affected Users choosing to bypass, would generate significant shortfall in the revenue recovered and so charge rates would increase. Therefore, the Methodology for this product must balance the potential loss of demand from the NTS (and the resultant increase in revenue recovery from those remaining connected) with the potential level of cross subsidy due to discounts being provided to those at risk of bypassing the system.
- 3.16. We acknowledge that some level of socialisation is required to suitably incentivise Users to remain connected to the NTS and avoid the potentially larger costs associated with the loss of large volumes of demand from the NTS. Nonetheless, we also recognise the need to target only those points where a risk is clear and present, in particular those users who have situated their businesses near an Entry point.
- 3.17. Socialisation of some costs and charges can typically be a feature of a regime with multiple Users and specific access arrangements. Where discounts or alternative charges are a feature (e.g. the Storage discount to Transmission Services (TS) capacity reserve prices in 0678A, Storage exemption from General Non-Transmission Services (Gen Non-TS) Commodity charges or the Interruptible Discount to TS capacity reserve prices) they result in amounts effectively not levied on some Users and paid for by others. Providing these further the relevant objectives these can be viewed as positive when applied in the overall methodology.

Recent Developments

- 3.18. A critique of the current NTS Charging Methodology undertaken as part of the Gas Transmission Charging Review identified that it is too volatile, unpredictable and does not provide stability of charges for Users. Modification 0678A will introduce a new NTS Charging Methodology that produces stable and predictable transportation charging and is compliant with EU Tariff Code (Regulation 2017/460). Under Modification 0678A, the NTS OCC will cease with effect from implementation of Modification 0678A.

- 3.19. Despite the absence of a mechanism to dis-incentivise inefficient bypass of the NTS in Modification 0678A, National Grid NTS recognises that there remains an enduring need for the prospective charging methodology to include bespoke charging arrangements to ensure the efficient use of the network, in this case to avoid inefficient bypass of the NTS by large consumers located close to points of entry to the NTS. To facilitate this aspiration, we initiated the review under Request 0670R to provide a suitable forum to discuss and consider outside of the main charging developments under our Modification 0678.
- 3.20. Through Request 0670R several options have been discussed. Following the minded to position from Ofgem on Modification 0678 and alternatives on 23rd December 2019, National Grid discussed a new conditional discount proposal for managing inefficient bypass through the Charging Framework at workgroups held in the first quarter of 2020. This sought to address issues presented in this minded to position in addition to the issues highlighted above.
- 3.21. This Modification also takes account of the status of Modification 0678 and alternatives in that it is a minded to decision from Ofgem that has been published. Therefore, this Modification builds on the minded to position, the preference being Modification 0678A to establish the UNC baseline this Modification will change.

Overview of the Proposed Solution

Conditional Discount

- 3.22. This Modification, raised following development within Request 0670R, is designed against the baseline of Modification 0678A and is considered conditional, based upon acceptance of Modification 0678A. Should these be rejected or another alternate accepted, we would expect this Modification to be rejected by the Authority with immediate effect.
- 3.23. For the Eligible Quantity (EQ) (which will have an Eligible Entry Quantity and an Eligible Exit Quantity), over a qualifying nominated route (an Entry point and an Exit point), as per the Licence, there will be a discount to Transmission Services Entry and Exit Capacity reserve prices. The level of discount will vary dependent on distance, reducing as distances increase up to a maximum distance. A maximum and minimum discount have been developed along with eligibility and access criteria. Any capacity or flow above the Eligible Quantity will pay the standard charges.
- 3.24. Transmission Services Entry and Exit Revenue Recovery Charges on capacity bookings remain payable and General Non-Transmission Services Entry and Exit charges remain payable on flows.
- 3.25. Further details on the specific components are outlined later in this Section 3.

Justification for Aspects of the Solution

Eligibility

- 3.26. In determining eligibility for the discount, several factors have been considered:
- This product is designed to reduce the risk of bypass for directly connected NTS Users only, therefore Distribution Networks and connections to Distribution Networks are not eligible to use this product. For connections to Distribution Networks, a bypass from an NTS Entry Point to the

end DN offtake would therefore bypass both the Transmission and Distribution Networks which is unlikely to be considered. If it were the optimal infrastructure, it could be reasonably assumed it would be part of the DN network (and represented into its funding and regulated revenues) and therefore a bypass to the NTS not likely to be an active consideration.

It should also be noted that when considering the party responsible for capacity and flows when it comes to DN offtakes to the NTS, they are different Users. It is not expected these would therefore be able to comparatively assess bypassing the NTS as the DN is responsible for capacity and the Shipper for the flows.

- Storage Sites are, purposefully, embedded within the NTS and so by design, it would be impossible to bypass the NTS. They are therefore not eligible to use this product.

Determining a Discount Curve

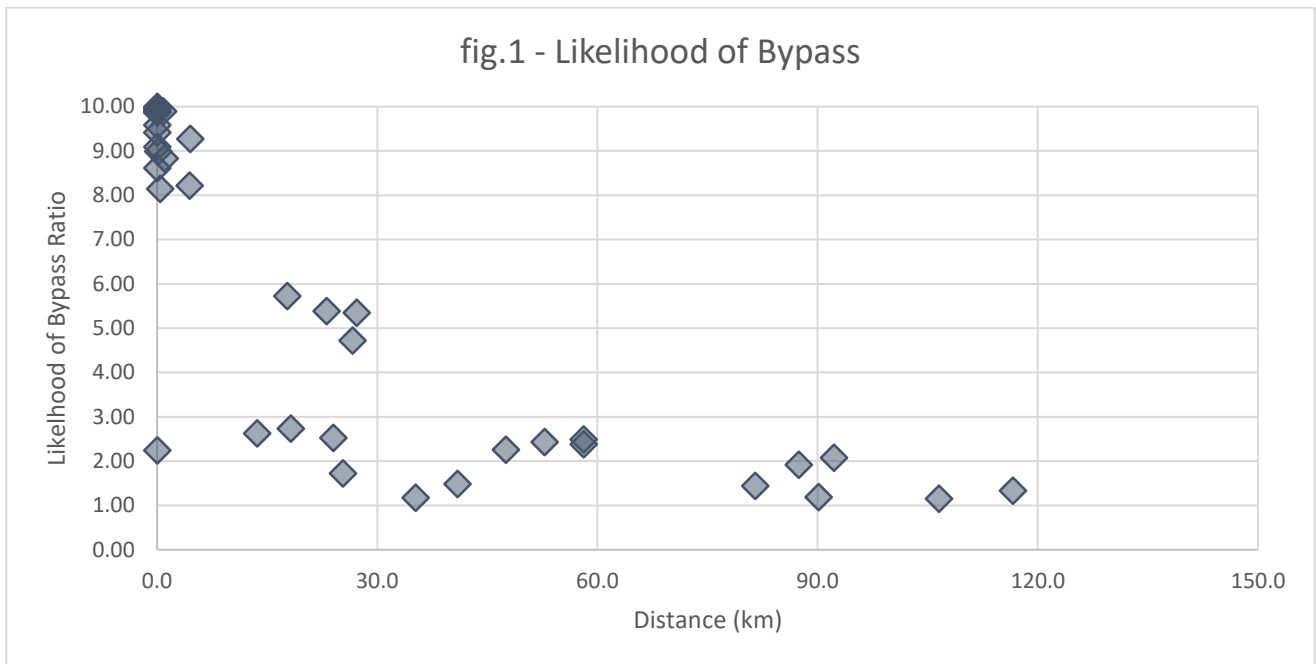
3.27. To attempt to assess the likelihood of bypass we have calculated, for each route combination a set of costs. Using the General Flow Equation; with constants taken from current TPD Section Y 2.5.2, current MNEPOR values, and a combination of straight-line (where available) and pipeline distances taken from the National Grid pipeline data-book, a Pipe Diameter for all potential routes was calculated. The steps taken are detailed in paragraph 23 onwards of the Analysis and Methodology document included in the Appendix to this Modification.

3.28. Using a formula published by the Council of European Energy Regulators in paper “PROJECT CEER-TCB18 -Pan-European cost-efficiency benchmark for gas transmission system operators – 17.07.2019”³, timescales inferred from the PARCA process and the costs of using the NTS during construction period under 0678A (where no NTS OCC product will exist) a ratio of annualised bypass construction costs vs. NTS costs was calculated. The costs include the costs that would most likely go into the preparation and building of an alternative pipeline.

3.29. We have not included the operational costs as we have considered the NTS operational charges (made predominantly via General Non-Transmission Services Entry and Exit Commodity Charges) are considered to be a good proxy for operational charges for operating a pipeline. This also is consistent with the generic nature of the product and ambitions to keep it simple and proportionate for all those accessing and using the NTS.

3.30. The graph below (fig.1) plots these ratios determined as a measure of build costs versus NTS Charges against the distance between Entry and Exit points to inform the likelihood of bypass. Each marker on the graph represents a route from an Eligible Entry Point to an Eligible Exit Point

³ <https://www.ceer.eu/1767>



3.31. The graph demonstrates a curve and suggests a correlation between distance and likelihood of bypass. The highest calculated ratio of bypass costs against NTS usage costs is at 0km, the ratio at that point is 9.973:1, this implies the most likely bypass User, over a ten-year period could achieve an 89.97% reduction on NTS Transmission costs. We have rounded this up to the nearest whole % value, 90%, to inform the Maximum Discount we be offered under the new proposed arrangement.

3.32. Using a curve, the discount level is scaled down dependant on distance from the Entry point to a minimum of 10% discount. This limit of 10% discount is also informed by the likelihood of bypass, the ratios suggest that no User beyond 27.2km would consider investing the time, effort and capital required to bypass when the benefits over 10 years are not significant.

3.33. The curve used to calculate the discount is an inverse exponential, starting at 90%, the calculated discount without any limitation would run to 0% eventually, but it is proposed to limit the discount to 10%. Below this point (ie. Less than 10% discount), a larger discount is available via the regular interruptible auction and so all Users could find equal or better value outside of the offered bypass avoidance product. It is assumed that the most economic decision would be made by the relevant party to access the lower priced capacity. This therefore informs a 'cut-off' for the distance over which this product is available.

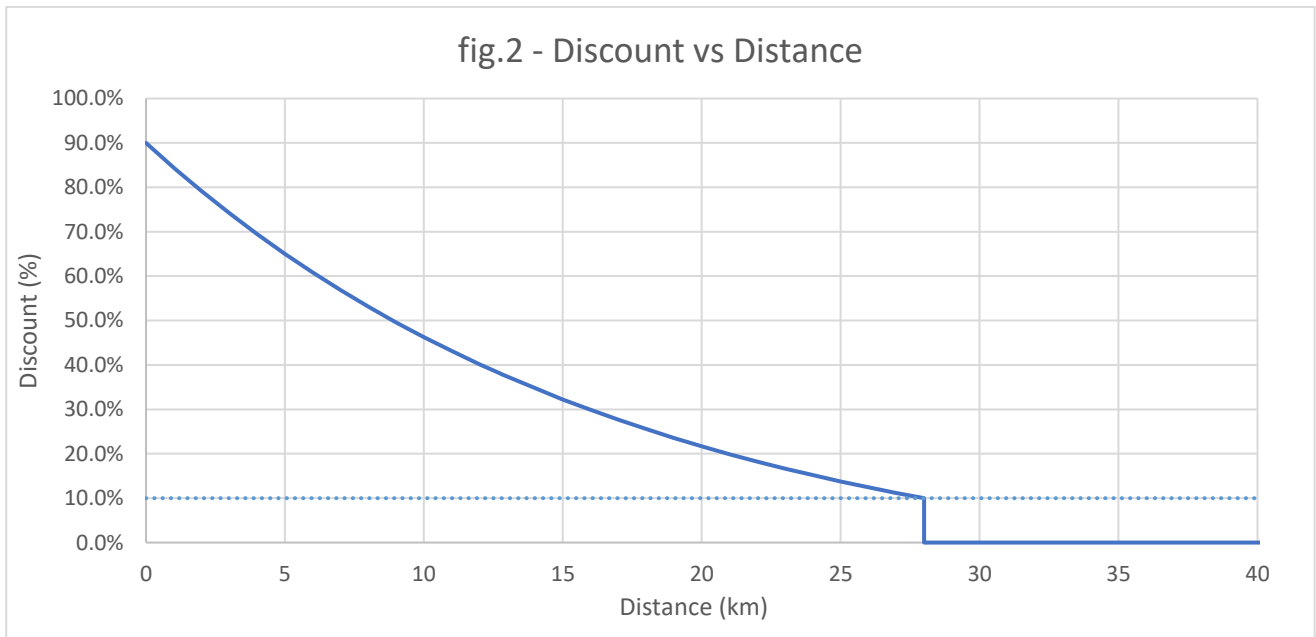
3.34. The maximum distance, or due cross subsidy limitation, is therefore 27.2km. We are proposing to round this up to the nearest whole km, 28km. In order to determine the specific discount, it is proposed to use a curve that matches the inverse exponential curve that provides a higher discount over a small distance. The maximum discount will be 90% as outlined above. As the distance increases, the discount reduces until it reaches 10%. Beyond the maximum distance permitted of 28km, any nomination would be ineligible for the conditional discount.

Applying the discount curve - Route Specific Discount

3.35. The scaling of the Route Specific Discount at any point between 0km and the Due Cross Subsidy Limitation is based on a curve. The curve is designed to peak at 0km with a discount of 90%, and meet the calculated distance cap at 10%. Immediately after this point the discount drops to zero.

$$PCD_r = \left(\left(\frac{1}{IFERROR(e^{1.6094 * (CSL^{-1}), 1)} \right)^{SLDr} \right) - \left(1 - \left(\frac{MDA}{100} \right) \right)$$

3.36. Using the established guidance points; 90% Max Discount Available (MDA), 10% Minimum Discount Available (which informs the constant: 1.6094) and a distance limitation of 28km, this plots a curve as demonstrated in fig.2 below:



3.37. The Cross Subsidy Limitation (CSL) of 28km could translate to an approximate socialisation of 7.8% of Transmission Services Revenue. This level of socialisation in addition to the distance limitation, will be kept under review over time so that there remains an attractive option for those more likely to consider a bypass and also does not unduly levy too high an impact (i.e. increase) in charges to other Users.

	Prevailing OCC		NG Discount Proposal
OCC Contribution	£28,695,987.33	OCC Contribution	£29,932,749.22
Potential TO Socialisation	£97,559,664.09	Potential TS Socialisation	£59,230,544.91
TO Socialisation as % of MAR	12.9%	TS Socialisation as % of MAR	7.8%
SO Socialisation	£57,983,030.86	Gen Non-TS Socialisation	£0.00
SO Socialisation as % of MAR	7.7%	Gen Non-TS Socialisation as %	0.0%
Total Socialisation as % of MAR	20.6%	Total Socialisation as % of MAR	7.8%
Routes Considered	37	Routes Considered	22
Max TS Discount	N/A	Max TS Discount	90.0%
Max Gen Non-TS Discount	N/A	Max Gen Non-TS Discount	0.0%
Max Effective Rate Discount	99.3%	Max Effective Rate Discount	61.7%
Longest Route Considered	244.0	Longest Route Considered	27.2

Details of the 22 routes considered, and those within the limitation which haven't been considered are detailed in the Appendix, sections 18-20.

Eligible Quantity

- 3.38. The Route Specific Discount will only be applicable in respect of the Eligible Quantity
- 3.39. The Eligible Quantity (EQ) calculation is fully defined in the Business Rules (Section E) and examples are provided in paragraph 54 of the Analysis & Methodology document in the Appendix. There is potential for a different value for Entry EQ and Exit EQ in the same nominated route.
- 3.40. In summary, this is based on the minimum of four values:
- the Firm Capacity at Entry
 - the Firm Capacity at Exit
 - the Flow at Entry
 - the Flow at Exit.
- (Appendix Paragraph 54. Example 1 provides a step through of a basic scenario.)
- 3.41. It will be assumed that at an Entry Point, Existing Contracts (EC) will be flowed against first, and therefore as Existing Contracts are a fixed price which cannot be changed, any discount will not be applied to Existing Contracts. Only flows above the level of Existing Contracts will become Eligible, providing that there is also enough Firm Capacity in excess of the Existing Contract to match the flows. (See Appendix Paragraph 54. Example 2)
- 3.42. Capacity acquired via secondary transfers will not be considered for discount, this is due to the liability for traded capacity remaining with the initial purchaser rather than transferring to the new holder making it impossible to discount under current trading rules. (See Appendix Paragraph 54. Example 3)
- 3.43. For Entry, Capacity acquired via secondary transfers and Existing Contracts as per Modification 0678A, whilst ineligible for a discount on the Entry Reserve prices, these can be used to calculate a discount to Exit Reserve Prices.
- 3.44. For Exit, Capacity acquired via secondary transfers, whilst ineligible for a discount on the Exit Reserve prices, these can be used to calculate a discount to Entry Reserve Prices.
- 3.45. Capacity sold via secondary transfers will also adjust the amount available for discount. Should there be transfers out equivalent to firm capacity purchased by that Shipper (as primary capacity, bought direct from National Grid Gas), then these two values offset each-other and no discount is available.
- 3.46. Where a Shipper has two eligible routes which start at the same Entry Point, the capacity and flow recorded at the Entry Point, will be split between the eligible Exit Points, proportional to the Exit capacity and Exit flows. Existing Contracts will also be apportioned between the two routes to ensure neither routes are disproportionately impacted. (See Appendix Paragraph 54. Examples 4 and 5)
- 3.47. For any volumes in excess of the Eligible Quantities, these will pay the standard charges applicable (i.e. non-discounted Transmission Services capacity reserve charges, and any other Transmission Services and Non-Transmission Services Charges).

Application and Disapplication

- 3.48. Once applied for, a nomination is considered to be enduring and will roll over for each Gas Year unless there is a disapplication.
- 3.49. A nomination is only valid should it be for a route permitted in the rules for eligibility.
- 3.50. Should a User wish to change the nominated route they can change the Entry Point flowing to an Exit point for example, but cannot revert to the original nominated route within a Gas Year.
- 3.51. Once dis-applied for a route then a User can't nominate that route again in that Gas Year.
- 3.52. Once on the route, the payable price, for Eligible Quantities will always be the lower of the discounted rate or the "standard" rates.

Review

- 3.53. It is proposed that the distance established for the purposes of this Modification as the maximum distance eligible, will remain in place until a suitable time for review. At the very least we propose this to before the end of the next regulatory period, RIIO2, due to end 31 March 2026. However, we consider it prudent to continually monitor the uptake, and impacts of this conditional product and will propose amendments should it be considered necessary via normal UNC change processes. Examples of what may drive a review may include and not be limited to, assessing the level of cross subsidisation, uptake, any other related modification that may require a change. Any change would follow UNC governance for changes.
- 3.54. Applications for new routes will be assessed based on the same criteria.

Implementation

- 3.55. Proposed arrangements need to refer to the effective date as given by any Ofgem direction.

Incorporation / Impacts on other charges

- 3.56. Where possible, any anticipated Shortfall in revenues as a result of applying this conditional discount will be accommodated into the Reference Price Methodology in determining the reference prices to apply for the tariff year.
- 3.57. Transmission Services Revenue Recovery Charges, when set or updated, will also take into account the anticipated and actual recovery of revenues from the conditional discount product.

4 Code Specific Matters

Reference Documents

[UNC Request 0670R: https://www.gasgovernance.co.uk/0670](https://www.gasgovernance.co.uk/0670)

[EU Tariff Code \(Regulation 2017/460\): https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32017R0460](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32017R0460)

[UNC Modification Proposal 0678 and Alternatives: https://www.gasgovernance.co.uk/0678](https://www.gasgovernance.co.uk/0678)

Existing NTS Optional Commodity Charge (NTS OCC) Methodology (Part A1 of [UNC TPD Y](#)): <https://www.gasgovernance.co.uk/TPD>

[Gas Transmission Charging Review \(GTCR\) and associated update letters: https://www.ofgem.gov.uk/gas/transmission-networks/gas-transmission-charging-review](https://www.ofgem.gov.uk/gas/transmission-networks/gas-transmission-charging-review)

[Customer and Stakeholder Objectives developed within NTSCMF: http://www.gasgovernance.co.uk/ntscmf/060916](http://www.gasgovernance.co.uk/ntscmf/060916)

Knowledge/Skills

An understanding of Request 0670R, Modification 0678 (and alternatives), UNC TPD Section Y Part A, the EU Tariff Code, Gas Transmission Charging Review (GTCR) documentation and the customer / stakeholder objectives developed within NTSCMF would be beneficial.

5 Solution

See Business Rules.



New Conditional
Discount Business R

6 Impacts & Other Considerations

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

None

The ongoing Capacity Access Review under Request 0705R⁴ will not be directly affected by this Modification as it has its own objectives and structure. There could be some topics of discussion within that context that may be re-prioritised or discussed based on the outcome of this modification.

Consumer Impacts

There is likely to be impact on different consumer groups (e.g. those directly connected to the NTS who may not be a Shipper, Shippers, Distribution Networks, and ultimately end consumers). Due to the nature of potential bypass, in some circumstances it may not be Shipper who would bypass and the charging relationship for capacity (and the responsibility to nominate for the conditional discount) remains with the Shipper.

⁴ <https://www.gasgovernance.co.uk/0705>

It should be noted that the allowed revenue collected by National Grid NTS will not change, only the parties that pay and in what quantity. The Gas Transportation Charges recover a set amount of monies from Users of the NTS and these allowed revenues are determined in line with National Grid’s Licence. This Modification is proposing a set of changes whereby it places the most appropriate levels of charges on those accessing and using the NTS, and in this case, this also considers those where it may be more likely to bypass the NTS.

This Modification provides a discounted transportation charge for relevant Users at a subset of Exit points (fulfilling the relevant criteria) that will essentially require the value of the discount to be recovered from Users at those points *not* electing to or not in a position to incur the Conditional Discount. This will seek to ensure that in a given Formula Year, the actual revenue recovered by National Grid is as close as possible to its allowed revenue by appropriate adjustments to the Scaling Factor, thereby minimising the value of any Revenue Recovery Charges.

The precise nature of how the User recovers the transportation charges it pays to National Grid NTS is dependent upon the downstream contractual arrangements Users have in place with their various counterparties. This may vary between individual Users.

Due to the complex arrangements highlighted above, it is prudent from National Grid’s perspective to highlight the general picture for the impacts. This high-level impact is highlighted in Section 3 and the analysis contained in the Appendix (17). If any changes proposed impact the commercial arrangements between parties this will be for them to consider and how charges are ultimately levied to their customers.

Cross Code Impacts

None

EU Code Impacts

EU Tariff Code compliance (in respect of the proposed Conditional Discount) is considered as part of this Modification.

Central Systems Impacts

There will be impacts on Gemini and UK Link invoicing systems. These impacts are being assessed.

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.	None
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	Positive

(iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	
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

Demonstration of how the Relevant Objectives are furthered:

c) Efficient discharge of the licensee's obligations.

The proposed changes to the UNC support the implementation of the new NTS Conditional Discount. Standard Special Condition A5(5) of the NTS Licence sets out the relevant methodology objectives and National Grid NTS believes that these objectives are better facilitated for the reasons detailed below (Relevant Charging Methodology Objectives: Demonstration of how the Relevant Objectives are furthered)

d) Securing of effective competition between relevant shippers;

The proposed changes to the UNC support the implementation of the new NTS Conditional Discount. To the extent that this charge is expected to provide an incentive for large consumers located close to NTS points of entry to utilise (or continue to utilise) the NTS, thereby enhancing effective competition.

OR, for Section Y (Charging Methodology) Modifications

Impact of the modification on the Relevant Charging Methodology Objectives:	
Relevant Objective	Identified impact
a) Save in so far as paragraphs (aa) or (d) apply, that compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its transportation business;	Positive
aa) That, in so far as prices in respect of transportation arrangements are established by auction, either: (i) no reserve price is applied, or (ii) that reserve price is set at a level - (I) best calculated to promote efficiency and avoid undue preference in the supply of transportation services; and (II) best calculated to promote competition between gas suppliers and between gas shippers;	Positive
b) That, so far as is consistent with sub-paragraph (a), the charging methodology properly takes account of developments in the transportation business;	Positive
c) That, so far as is consistent with sub-paragraphs (a) and (b), compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers; and	Positive
d) That the charging methodology reflects any alternative arrangements put in place in accordance with a determination made by the Secretary of State	None

under paragraph 2A(a) of Standard Special Condition A27 (Disposal of Assets).	
e) 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.	Positive

This Modification proposal does not conflict with:

- (i) Paragraphs 8, 9, 10 and 11 of Standard Condition 4B of the Transporter's Licence; or
 - (ii) Paragraphs 2, 2A and 3 of Standard Special Condition A4 of the Transporter's Licence;
- as the charges will be changed at the required times and to the required notice periods.

Demonstration of how the Relevant Objectives are furthered:

a) Save in so far as paragraphs (aa) or (d) apply, that compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its transportation business;

The discussions under Request 0670R identified that it would be beneficial to have a product that helps manage potential inefficient bypass through the charging framework. Request 0670R is not closed at the time of this Modification. However, we expect this Modification will form the basis of further discussions on managing inefficient bypass via charging through industry discussions into the future.

Relevant charging methodology objective (a) is furthered by the introduction of a product that assists in providing an option to those more likely to consider a bypass of the NTS. This therefore provides a Charging Framework that is to the benefit of all Users by providing the infrastructure to access and use, maximising its use for all parties, limiting any additional costs (i.e. bypass costs) passing into the market and ultimately on to end consumers. Therefore, this is more 'cost-reflective' as it does provide an option over a bypass thereby, should parties continue to use the NTS, they contribute towards the NTS Costs and therefore do not result in the whole amount (ie. If they did bypass and not contribute to the NTS at all, all costs would be socialised) being levied on other Users.

c) That, so far as is consistent with sub-paragraphs (a) and (b), compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers

This Modification recognises the different Users of the NTS. Some Users, particularly those with direct or indirect links to the direct connections to the NTS that are near to an Entry Point, may actively consider a bypass to the NTS if it is, all things considered, economic and commercially preferable to do so. This Modification which builds on the UNC baseline that will be in place should 0678A be approved, would put in place a methodology for those Users who are considered more likely to bypass the NTS and provide an option to use the NTS in place of a bypass pipeline.

This option is available for them to factor into decision-making processes as it would not be the only consideration in a bypass decision. This Modification therefore furthers this objective as it provides an option for those Users who are more likely to consider a bypass based on costs and payback periods versus Transportation charges. It will therefore provide effective competition on access and use of the NTS. This Modification assumes that any discount does make its way to the end connectee who may pay for access to the NTS via a Shipper.

b) That, so far as is consistent with sub-paragraph (a), the charging methodology properly takes account of developments in the transportation business;

The proposed methodology relating to Transmission Services considers developments which have taken place in the transportation business, in particular that the network is no longer expanding.

The product proposed uses more up to date costing assessments from a recent CEER review and publication. It also takes on board elements from PARCA timelines to help inform the build period.

In putting this product in place, with more up to date costs and that provides an even level of access, this considers the updated Charging Framework to be delivered under Modification 0678A and also how the network is accessed and used. This provides an alternative to bypass for those within a specific distance informed by several factors, where it is economic to do so.

This, we believe takes into account the changing nature of how Users wish to access the NTS, and a desire to make the NTS an attractive option for those who may be more likely to consider a bypass, to use the existing NTS infrastructure.

Given the nature of cross subsidies inherent with any methodology that affords some discounts or alternative treatment (e.g. exemptions) this is also a factor that needs to be reflected on. Any amount, effectively not charged on one user, will be borne by another. In the case of the conditional discount the amount of the discount is by default levied on those ineligible (save for the use of Non-Transmission Charges, where applicable). By limiting the level of this amount, this provides a well-used NTS, competition amongst Users and avoids potential bypass costs being levied into the market, and ultimately end consumers, without undue levels being charged to those who are ineligible.

e) 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.

We believe that this Modification is also compliant with EU Tariff Code Article 4 (2) which states “Transmission tariffs may be set in a manner as to take into account the conditions for firm capacity products.”. This conditional discount is on firm capacity only. Any non-firm capacity is ineligible for a discount. This also does not create any undue cross subsidy for other Users with the use of limiting factors in the product.

8 Implementation

In order to maintain an appropriate mechanism within the NTS Charging Methodology to dis-incentivise bypass of the NTS, in practice achieved by a seamless transition between the existing NTS Optional Commodity Rate and the Conditional Discount advocated by this Modification. Implementation is proposed to take effect concurrent with the implementation of Modification 0678A.

9 Legal Text

Text Commentary

Insert text here

Text

Insert text here

10 Recommendations

Proposer's Recommendation to the Authority

The Authority is asked to:

Agree this Modification should be treated as Urgent and should proceed as such under a timetable agreed by the Authority.

11 Appendix



- 07XX - Conditional Discount Modificati