

***NTS GCD 12 – Informal consultation on
Modifications raised to introduce a
Conditional Discount to Avoid Inefficient
Bypass of the NTS***

Discussion Report

04 June 2020

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1 Executive Summary

This document is being issued by National Grid Gas plc (“National Grid”) in its role as holder of the Gas Transporter Licence (the “Licence”) in respect of the National Transmission System (NTS).

Within the previously issued NTS Gas Charging Discussion Document NTS GCD12¹ - Informal consultation on Modifications raised to introduce a Conditional Discount to Avoid Inefficient Bypass of the NTS (NTS GCD12), we outlined for comment, proposals regarding a replacement for the NTS Optional Commodity Charge (OCC), due to be removed from the UNC by the expected implementation of Modification 0678A. NTS GCD12 set out for discussion and sought industry opinions on the four options proposed under Modification 0718/A/B/C, to create a new capacity based discount compliant with the EU Tariff Network Code (TAR NC). This charging discussion report considers the responses received, and outlines our next steps.

This informal consultation was carried out prior to the 28 May 2020 decision on Modification 0678. This was done in light of the tight timescales which could, and subsequently have arisen from the decision, with an 01 October 2020 implementation date. To ease the pressures in this short period, Modifications 0718/A/B/C were initially raised with an element of conditionality, based on the assumption that Modification 0678A, the preferred option expressed in the Minded-to-Position published by Ofgem on 23 December 2019. They were subsequently rejected by Ofgem on procedural grounds due to the conditional aspects. By running this informal consultation prior to the Ofgem Decision on Modification 0678A, the expectation was that the industry would be able to prepare in advance of a formal proposal, to be raised with an Urgency request and reduced timeline, meaning the Formal Consultation could be justifiably shorter than the standard 15 days.

The NTS GCD12 discussion document requested responses to the following questions:

1. Reason for support/opposition: Please summarise (in one paragraph) the key reason(s)
2. Implementation: What lead-time do you wish to see prior to implementation and why?
3. Impacts and Costs: What analysis, development and ongoing costs would you face?
4. Legal Text: Are you satisfied that the legal text will deliver the intent of the Solution?

Specific emphasis was requested on the following topics:

- a) Whether respondents believe the proposals further the relevant objectives
- b) Whether respondents had a preference for any of the four options proposed
- c) Any other comments respondents wish to make on the existing proposals

This report:

- Brings together the responses received to the discussion document;
- Identifies and addresses the key themes raised;
- Provides next steps for the proposal

¹ <http://www2.nationalgrid.com/UK/Industry-information/System-charges/Gas-transmission/Charging-methodology/Gas-Charging-Discussion-papers>

Summary of Responses

There are a number of key themes brought out in the responses we received. Whilst all respondents acknowledged the need for a replacement for the NTS Optional Commodity charge in some capacity, there are mixed reasons as to which, if any, of the current proposals address the problem of managing inefficient bypass through the charging framework satisfactorily. The key themes, in no particular order, are as follows:

- Timing for the implementation of any change;
- Treatment of Traded Capacity;
- Compliance with EU TAR NC;
- Robustness of the proposals and future development;

National Grid received fifteen responses to NTS GCD12, of which two were confidential. All the non-confidential responses can be found on the National Grid website². We have a summary of the questions and the number of responses to each question in [Appendix A](#).

² <http://www.nationalgrid.com/UK/Industry-information/System-charges/Gas-transmission/Charging-methodology/Gas-Charging-Discussion-papers>

2 Background

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.

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 taken place at Request 0670R and/or the NTSCMF.

The Modifications 0718/A/B/C proposed a new product to build on Modification 0678A or 0678, where there is no such product for managing inefficient bypass as part of the proposed Charging Methodology.

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.

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.

Modifications 0718/A/B/C proposed to introduce a new Transmission Services capacity (0718/A/B/C) based and General Non-Transmission Services commodity based (0718A/B) discounts for sites deemed to be at high risk of Bypassing the NTS. These were proposed on the condition that one of the two compliant 0678 Modifications, 0678 or 0678A, would be implemented. 0718/A/B/C also requested for urgency to expedite the change process recognising that UNC0678 (and alternatives) had yet to be decided on and the ambition for a potential 01 October 2020 implementation date. UNC0718/A/B/C were therefore conditional on UNC0678 or UNC0678A and a positive decision for implementation.

Due to the conditional aspect of the proposals, Ofgem rejected the urgency request on procedural grounds³. No comment was made on the validity of the Modification solutions themselves or on the requirement for urgency. The Proposers each believe that the proposed modifications are compliant with TAR NC and that Urgency is still a requirement to enable implementation as soon as possible however preferably alongside Modification 0678A. Following the urgency rejection, and being informed that once the Urgency Status had been requested and rejected it could not be re-requested under the same modification number, UNC0718/A/B/C were withdrawn, and expected to be resubmitted under a new Modification following a decision on UNC0678 (and alternatives).

With the expectation that any change process would likely be short to accommodate the best opportunity to conclude the UNC change process as quickly as possible, the new proposals would follow urgency and will need to consider the UNC consultation timescales. National Grid run this informal consultation (GCD12) on the four proposals, originally raised under the banner of Modification 0718/A/B/C, to enable parties to form their views on them so they would be in a better prepared state to provide a response to the formal UNC consultation (when it comes) which could therefore be justifiably shorter than normal timescales (i.e. 15 days).

³ <https://www.gasgovernance.co.uk/0718> - Ofgem Decision Letter on Urgency 0718/A/B/C (19 March 2020)

The discussion document was issued to seek views and comments on the four proposed options for a new Capacity based discount to Avoid Inefficient Bypass of the NTS.

The NTS GCD12 discussion document requested responses to the following questions:

1. Reason for support/opposition: Please summarise (in one paragraph) the key reason(s)
2. Implementation: What lead-time do you wish to see prior to implementation and why?
3. Impacts and Costs: What analysis, development and ongoing costs would you face?
4. Legal Text: Are you satisfied that the legal text will deliver the intent of the Solution?

Specific emphasis was requested on the following topics:

- a) Whether respondents believe the proposals further the relevant objectives
- b) Whether respondents had a preference for any of the four options proposed
- c) Any other comments respondents wish to make on the existing proposals

3 Summary of Responses

National Grid received fifteen responses to NTS GCD12, of which two were confidential.

Non-confidential responses were received from the thirteen respondents listed below (in alphabetical order):

- Conoco Phillips
- Energy UK
- EP UK Investments
- ESB
- Gazprom Marketing & Trading
- IUK
- Shell Energy Europe Limited
- South Hook Gas
- SSE
- Triton Power
- Uniper
- Vermillion
- Vitol

Confidential responses were received from BOC (who were happy to be named) and one other party.

Q1 Reason for support/opposition: Please summarise (in one paragraph) the key reason(s)

Overwhelmingly, respondents recognised the need for a new product to address the potential for bypass of the NTS. There was no such unanimity when selecting the option that best recognised and minimised the risks.

Support for Modifications 0718A & 0718B came from respondents who felt that it would be appropriate to apply a discount to the General Non-Transmission Services (GNTS) element of the new Charging regime. Those who selected Modification 0718B over Modification 0718A did so because they felt the 28km was more appropriate than 18km.

A varying level of support was expressed for Modification 0718C by four different parties (ESB, IUK, SSE, Vermillion). Comments in favour suggested the Capacity based discount could potentially be seen as more compliant with TAR. The reasoning suggested, that it provides a discount to all Capacity, not just utilised capacity, meant there is no element of flow matching required to the help derive the utilised (eligible) capacity quantities.

One of the four respondents remarked that applying the discount in the way outlined in Modification 0718C was comparable to the OCUC product, currently available in Belgium, which has already been assessed by both ACER and the NRA who have implemented the product.

Another of the four respondents suggested that before they could fully support Modification 0718C there would need to be an adjustment to incorporate a method of ensuring that the product couldn't be used to ship to or from the NBP and that it was truly being used only where potential for bypass was demonstrable.

One concern for a number of respondents was the treatment of Traded Capacity. Under the proposals, Capacity purchased by a party, but traded on to a second party before use, would not be eligible for discount. Of those respondents who cited concerns on this, reference was made to sterilisation of previously acquired capacity, double booking of capacity, potential for network congestion and artificial system constraints.

A number of respondents requested that the impact of Existing Contracts (EC) be modelled and included in updated proposals as it could reduce the level of socialisation reported, which would in turn reduce the scale of Revenue Recovery Charges (RRC) to be applied in the event that the new proposals are implemented for October 2020, but the decision is made after the prices under the revised methodology have been set.

There was call from some respondents to develop a product which was less generic and more reflective of specific site considerations. One respondent suggested that bilateral agreements would be preferable to the products offered. Reasons for this included geographical concerns, either physical or where there may be further instances of user co-operation to form clusters which could potentially become more viable than individual sites choosing to bypass.

Three respondents referenced a Socialisation Cap, a feature in the development of the proposals. They believed the socialisation should be an output of the product rather than an input used to determine the distance limitation.

One respondent specifically stated that the distance limitations were too low, citing a pipeline they had built over a longer distance. A second respondent provided detail of a further example where the generic as-the-crow-flies distance limitation doesn't account for local quirks in geography which would affect likelihood of bypass.

Three respondents also requested further information about the change from 28km to 18km in one of the previous drafts which resulted in Modification 0718B being raised with the original distance limitation.

National Grid's comments:

National Grid recognises the strength of feeling for a suitable product to be created and implemented. Options for a new charging product to manage inefficient bypass as part of the charging framework will divide opinion. From the responses, there is no consensus for one of the options. All options do share the same underlying method, to a point, with some aspects differing across them such as the distance over which it is to be available and the application, or not, of a General Non-Transmission Services Charges Discount in addition to a Transmission Services Charges Discount.

Some comments refer to the "socialisation limit". Whilst socialisation has been extensively discussed and was a criterion in an earlier draft proposal, the final proposals for all options under Modifications 0718/A/B/C do not have a revenue socialisation limit as a feature.

During development, we amended the threshold for likelihood of bypass, and in doing so this moved the distance limitation from 28km to 18km. Proposals can and should undergo continuous review prior to being formally raised with updates presented accordingly. National Grid updated the distance limit over which the product is to be accessible to 18km as we believed this provides a

better reflection of those projects likely to bypass. Most of the alternatives share the 18km limit, with one, Modification 0718B, proposing a 28km limit on the accessibility to the product.

The charging product is intended to be workable as a generic product, which means it can't take in to account every specific scenario which will include things like planning, local geography, financing and many more. Discussion within workgroups around how to accommodate site specific details quickly demonstrated how complex it would be and the difficulty with fairly administering across parties. For that reason, bilateral agreements and application checklists & roadblocks were not incorporated in the product. Instead the updated pipeline costs provided by ACER were used to try and simulate costs only.

Regarding compliance with the EU Tariff Code (TAR NC), all options presented offer a Capacity based discount in line with TAR NC as TAR NC does not permit commodity charges. The difference between Modification 0718C and the Modifications 0718/A/B is only in the way we define what level of capacity is eligible for the discount, be that booked capacity (Modification 0718C) or utilised capacity (Modifications 0718/A/B). None of the options propose a flow based charge. Therefore, on compliance, whilst we appreciate this can be subjective, on Transmission Services all offer similar levels of compliance. As 0718/C do not offer a discount to General Non-Transmission Services, the same broad comment cannot be applied.

Taking cues from European nations who have already completed the review process is a worthwhile endeavour. We note the Belgian market differs significantly from the UK, adaptation of the OCUC product doesn't seem immediately viable and transferrable to GB. We would welcome suggestions for how this could work in future, but do not believe that it could be adapted, developed and implemented in such a short timescale. As with any future change we welcome the debate and development of ideas should they fulfil the relevant objectives of updating the UNC into the future.

Work is being done to provide analysis which incorporates the effect of Existing Contracts to provide a sensitivity and some potential ranges with respect to socialisation figures. This will be published to support the consultation process but may not form part of the proposals. It is important to stress however, that Existing Contracts are transitory, they will expire and taking in to account lessons learnt from the NTS Optional Commodity Charge (OCC) product, efforts are being made to develop a product whose efficacy which will not degrade to such a detriment of the charging regime as in the past.

The concerns around treatment of Traded Capacity are, we believe, wider than this discussion and impact the industry in more than just the output of this product for managing inefficient bypass. Whilst raised predominantly in the course of Modifications 0718/A/B/C's development, the aspect being discussed centres around the ability to move capacity between parties along with the liability for the capacity and other relevant charges. The sorts of arrangements being hinted at do not exist currently. If this is the issue then we encourage further discussion on this topic, using the appropriate forum (e.g. NTSCMF / Transmission Workgroup). We believe it is necessary to discuss this on its own timeline to ensure that the full extent of the topic is well understood before any formal changes may get raised.

As a topic of discussion, this has started in earnest via NTSCMF on this area and a scoping document has been presented for discussion at the June 2020 NTSCMF.

Q2. Implementation: What lead-time do you wish to see prior to implementation and why?

The date most respondents quoted for implementation was 01 October 2021. Many also stated that this needs to be done with; as much notice as possible, a minimum of 12 months' notice ideally.

All users agreed that the charging changes should be implemented holistically, with the Inefficient Bypass product being implemented on the same date as the wider charging changes covered in Modifications 0678A. For fourteen of fifteen respondents, this meant a delay to the implementation of Modification 0678A rather than speeding up implementation of the NTS OCC replacement.

One respondent believed that an Oct-20 implementation of both Modifications 0678A and the new product was vital for compliance with TAR NC and could be achieved with a 1 to 2 month turn around.

One respondent stated that they would prefer not to implement a partial solution with a view to further development, they would prefer that further development was undertaken to resolve any issues they felt prevented their full support before a product was implemented.

One respondent provided an opposing view, stating that given the short time scales it would be pragmatic to implement one of the existing solutions alongside Modification 0678A and propose a finessing modification at a later date.

National Grid's comments:

Two themes came over in the responses to this question; a requirement for a holistic approach to the charging review, i.e. this product to be implemented alongside Modification 0678A, and an October 2021 implementation with as much notice as possible ideally a minimum of 12 months.

The 01 October 2020 direction date for Modification 0678A now directly drives the timetable for change for the replacement modifications to propose the inefficient bypass product. To achieve the holistic approach favoured by all respondents, we believe urgency will be necessary. We also expect that, for those who favour a product, they would now express a preference for the implementation date to be the same as the Modification 0678A implementation date of 01 October 2020.

We note there are some topics that industry members would welcome further discussion and potential development on, being raised as topics that are somewhat intertwined with each other (e.g. with inefficient bypass). This we believe presents a risk and dependency if not managed carefully, potentially limiting the speed at which the change process can be progressed, hindering implementation of a product while not fully addressing the issues on those other topics. Therefore, we welcome and recommend further discussion on these topics separately so they are not dependent, although do recognise there will always be a charging input or consideration to other topics.

We refer to the development of other topics in our response to question 1.

Q3. Impacts and Costs: What analysis, development and ongoing costs would you face?

A number of respondents reiterated their concerns around the timing of implementation, specifically the direction date, notice time scales and co-ordination with the implementation of Modification 0678A.

Two respondents mentioned that the absence of a shorthaul product could mean increases in costs greater than those forecast in the analysis because users would be more likely to choose to bypass without a product being in place at the point of Modification 0678A implementation.

Respondents advised that further Internal Analysis will be required, in combination with wider charging reforms before they can fully assess the impacts. One respondent highlighted the potential issues for contractual arrangements with downstream counterparties.

One respondent cited concerns relating to the balancing of the UK Spot Gas Market and the inefficiencies in balancing likely to be a consequence of a delay between implementation of the wider charging regime and one of these new products. Their concern was that the impact on prices, if exporting becomes too costly, could lead to the financial collapse of UKCS Producers

Respondents also reiterated concerns around the trading arrangements and requested that National Grid pay close attention to forecasting of prices to minimise over and under recovery as a result of implementation of one of the proposals alongside the expected impacts of Modifications 0678/A.

National Grid's comments:

Given Modifications 0718/A/B/C's urgency request was rejected, then a full assessment may not have been carried out by all Users. National Grid will have impacts on processes and systems as a result of the new modifications to be raised in replacement of Modifications 0718/A/B/C. Formal communications on impacts would follow a timeline of change to be supported by National Grid and Xoserve as appropriate and Customers will be informed in line with business processes for changes to systems and processes.

Q4. Legal Text: Are you satisfied that the legal text will deliver the intent of the Solution?

One respondent confirmed they were satisfied that the legal texts provided met the intentions.

One respondent was concerned that the legal text for Modification 0718C contained a potential risk; that the discounted product could be used to ship from an Entry Point to the NBP, or from the NBP to an Exit Point.

All others provided no comment.

National Grid's comments:

Legal text was provided as part of the urgency request to Ofgem for all proposals and we appreciate this may not have been read in detail. Given the rejection of the urgency request this may have limited further interest in reading the legal text as the proposals were not proceeding to consultation.

Following the Modification 0678 decision by Ofgem to implement Modification 0678A, received on 28 May 2020, we expect these proposals to be re-raised under a new number. The legal drafting that has been provided as part of Modifications 0718/A/B/C provides useful reference material.

4 Response Quotes⁴ and NG NTS Comments

Q1. Reason for support/opposition: Please summarise (in one paragraph) the key reason(s)			
Party	Quote	Response Quote	NG Response
Conoco Phillips	1.01	We support the implementation of a product that incentivises shippers to utilise the NTS...	N/A
Conoco Phillips	1.02	ConocoPhillips has built a pipeline that bypassed the NTS from Theddlethorpe to Immingham, that was in excess of 40km and feel the limitations proposed are too low.	The charging product is intended to be workable as a generic product, which means it can't take in to account every specific scenario. A generic product, we believe, is the fairest way to accommodate this within the charging methodology.
Energy UK	1.03	Energy UK supports the introduction of shorthaul arrangements in parallel with the charging reforms likely to be introduced by UNC 0678A. Absent shorthaul arrangements of some kind many parties will be required to pay charges disproportionate to their use of the transmission system. Many of these parties are likely to further develop plans and progress bypass pipelines which would lead to a sizable loss of transmission revenue which will need to be recovered from customers who remain connected to the transmission system.	N/A
Energy UK	1.04	In this context we consider the likelihood of bypass and not the degree of socialisation of revenue to be a key factor. The latter should be an output of the arrangements rather than an input or constraining factor.	National Grid agreed with this point when raised, which is why following discussion with the review group the final product does not use a revenue Socialisation as a driver and instead uses the likelihood of bypass ratio calculated to inform the distance limitation.

⁴ In no particular order.

Energy UK	1.05	The proposals as outlined in 0718, A,B,C differ in a number of ways but it is fair to say the 718 proposal and the alternatives were all developed at a pace and have been subject to very limited discussion in charging workgroups. In fact a key parameter, the distance, changed between the initial draft and as issued version of 0718. The reasons for this were and remain unclear and this in itself led to the raising of an alternative proposal, due to the impact on a particular site and the peculiarities of the NTS configuration in the vicinity.	During development, we amended the threshold for likelihood of bypass, and in doing so this moved the distance limitation from 28km to 18km. Proposals can and should undergo continuous review prior to being formally raised with updates presented accordingly. National Grid updated the distance limit over which the product is to be accessible to 18km as we believed this provides a better reflection of those projects likely to bypass. Most of the alternatives share the 18km limit, with one, Modification 0718B, proposing a 28km limit on the accessibility to the product.
Energy UK	1.06	Other proposals include discounts to the non-transmission services charges which seem reasonable and some argue are necessary, else the arrangements will not deter bypass pipelines being financially attractive. This needs further consideration.	N/A
Energy UK	1.07	Another approach considers the discount should be capacity based rather than flow based, again this seems logical for a capacity-based charging system and could be said to be more consistent with reflecting alternative pipeline build. A pipeline would have a fixed capacity with variable utilisation, the cost of building the pipeline would relate to the capacity not the day to day use. This option may be more compliant with TAR NC and may provide for more stability in charges.	All proposals offer a discount to Capacity only and two offer an additional discount to commodity. The difference on capacity is in whether the discount is applied to booked capacity or utilised capacity which varies across the proposals. We note that all proposers believed their proposals to be TAR NC compliant.
Energy UK	1.08	The test for eligible capacity at entry excluding existing contracts and traded capacity is a further issue that needs to be addressed by the assignment of capacity, although this is not a factor in itself of the shorthaul arrangements the rules in conjunction with the implementation of 0678A will have a major impact on the commercial attractiveness of the shorthaul arrangements.	Discussions are now taking place within NTSCMF on the topic of Traded Capacity and we believe the subject of Existing Contracts will be an integral part to this.
Energy UK	1.09	To summarise it is fair to say that there are many outstanding issues with the proposals, but some kind of arrangement implemented in parallel with 0678 is preferable to none, and would demonstrate willingness to progress these concepts.	Following implementation of any arrangements for managing Inefficient bypass further development of potential changes can follow normal UNC change processes.

EP UK Investments	1.10	<p>EPUKI supports the introduction of a product to discourage inefficient bypass of the NTS (a 'Conditional Product') if such a product is not included in the UNCO678 gas charging reform option approved by Ofgem. We consider that without a Conditional Product, there is a strong possibility that some power stations and industrial sites may build private bypass pipelines or may face significant unrecoverable costs that could impact their lifetime and operations, reducing overall flows on the NTS. We therefore consider that a Conditional Product would support the efficient and economic operation of the pipeline system.</p>	N/A
EP UK Investments	1.11	<p>We consider that any Conditional Product should take into account the overall scale of transmission charges faced by users as this is what will determine whether they seek to bypass the NTS or not. The likelihood of bypass rather than level of socialisation should therefore be the primary consideration in the design of a Conditional Product.</p>	See response to 1.05
EP UK Investments	1.12	<p>... we support the two options (0718A and 0718B) which include a discount to Non-Transmission Service Charges. The Non-Transmission Service Charge is designed to recover SO allowed revenue. However, most of the costs associated with operating the NTS would not be incurred by operators of a private pipeline. If no discount is applied to the Non-Transmission Service Charge then users would continue to face disproportionately high costs for using the gas transmission network compared to building a private pipeline, which would increase the likelihood of them seeking to bypass the NTS.</p>	N/A

<p>EP UK Investments</p>	<p>1.13</p>	<p>The economics and method of system bypass will be determined by site-specific factors and a bypass option does not necessarily have to consist of a pipeline between a single exit and entry point. There is the potential for unintended consequences where a number of offtakes in close proximity could seek to share the costs of bypass infrastructure. We therefore consider that analysis should be undertaken of this cluster risk and any distance threshold under the Conditional Product should be set to avoid it. We consider that a 28 km distance cap would be more likely to avoid these unintended consequences than an 18 km distance cap and we therefore believe that 718B may be more effective at reducing the overall risk of NTS bypass.</p>	<p>See response to 1.02</p>
<p>EP UK Investments</p>	<p>1.14</p>	<p>We are concerned that the analysis of the proposals in the discussion document overstates the potential level of socialisation arising from the Conditional Product as the volumes have not been adjusted for Existing Contracts or traded capacity. The rules preventing the conditional discount being claimed against these forms of capacity could stop some users from realising the full value of the discount available. As these users would continue to face higher overall costs, there would still be an incentive for them to bypass the NTS. We are unclear why Existing Contracts are considered to be flowed against first or why traded capacity should not be eligible for the conditional discount, although we recognise this would require a small change to the capacity trading rules. If this is because of systems issues, then these should be addressed as a matter of urgency in order to allow the Conditional Product to work as effectively as possible.</p>	<p>Work is being done to provide analysis which incorporates the effect of Existing Contracts to provide a sensitivity and some potential ranges with respect to socialisation figures. This will be published to support the consultation process but may not form part of the proposals.</p>
<p>ESB</p>	<p>1.15</p>	<p>ESB is supportive of charging reform being complete, robust and transparent. We believe the proposals under the 0718/GCD12 banner as they stand at 15 May 2020 are not sufficiently robust and transparent. Specifically, the distance limit selected appears arbitrary, the change in distance from 28km to 18km was not transparently justified.</p>	<p>See response to 1.05</p>

ESB	1.16	... there is circularity within the calculation designed to manage the socialisation pot of money.	See response to 1.04
ESB	1.17	We agree that 718C's use of capacity discounting enhances TAR compliance and a flow-related discount may not be considered compliant.	See response to 1.07
Gazprom Marketing & Trading	1.18	GM&T is concerned that all the proposals are based on methodologies which in many cases overestimate the costs of building and operating an NTS bypass pipeline. The generic assumptions which underpin the discount methodologies do provide a degree of transparency but fail to reflect the individual cost-drivers specific to each route. On this basis, we believe that numerous offtakes will pursue bypass options if any of the proposals are implemented, resulting in a sub-optimal outcome for all UK customers.	See response to 1.02
Gazprom Marketing & Trading	1.19	Further to this, GM&T is unable to support a solution which does not permit discounts to be applied to transferred capacity. Exclusion of this capacity will artificially limit access to an optional charging product and create broader inefficiencies in the market, and therefore the risk of inefficient bypass will not be reduced where necessary. GM&T has set out detailed views in its letter sent to National Grid on 3 April and subsequently discussed at the April NTS CMF workgroup.	See response to 1.08
IUK	1.20	We agree a short haul capacity discount applied to the Entry Capacity Reserve Price and Exit Capacity Reserve Price is compliant with the European tariff network code and note other countries have approved short haul capacity discounts e.g. The OCUC1 in Belgium.	N/A

IUK	1.21	We believe it would be more appropriate to apply a discount to capacity bookings only and note this is currently only proposed in UNC718c. The OCUC in Belgium as an example provides a discount only taking account of capacity bookings. Applying the discount to capacity bookings (rather than take account of flows also) would be simpler to implement. It also reflects the fact that capacity bookings are not always in line with actual flows, which are dependent on a number of market variables. The technical capacity and “capacity bookings” of any bypass pipeline would also most likely not always match actual flows yet all of this capacity would bypass the NTS.	Should the proposals remain the same when reissued, further development beyond implementation of one of these proposals can be discussed and progressed via the normal UNC changes process.
IUK	1.22	We support the proposal to start a short haul transmission services discount at 90% and reduce the discount as distance increases.	N/A
IUK	1.23	The application and disapplication rules appear overly restrictive. Companies would not be restricted to construct or acquire capacity in only one bypass pipeline so should be permitted to have short haul discounts on more than one eligible route. The OCUC in Belgium for example allows multiple routes.	We believe the flexibility afforded within the proposed solutions is sufficient as a reasonable balance between what might be possible in terms of bypass.
IUK	1.24	To ensure the effective functioning of the market and utilisation of capacity, the short haul discount should continue to apply when capacity is traded in the secondary market. The OCUC in Belgium as an example does allow this. We note concerns have been raised by some shippers at recent NTS charging methodology forum meetings about the impact of this omission from the current proposals.	See response to 1.08
Shell Energy Europe Limited	1.25	Shell Energy Europe Limited (SEEL) supports Ofgem’s minded to decision to implement 0678A on the basis that the proposal better reflects the characteristics of the GB gas transportation system. However, we recognise the shortcomings associated with implementation of either modification 0678 or 0678A and we welcome the opportunity to address these shortcomings through implementation of a Conditional Discount to Avoid Inefficient Bypass of the NTS.	N/A

<p>Shell Energy Europe Limited</p>	<p>1.26</p>	<p>As we have explained in previous responses to proposed changes to the UK charging regime, removing a discount, which mitigates the risk of network users bypassing the NTS, could have a material impact on competition in and commercial activities related to the shipping, transportation or supply of gas. Removal of a conditional discount could lead to a fall in demand at Interconnection Points and risks diverting gas flows to other markets as the attractiveness of the GB gas market is undermined, with a consequential detrimental impact on liquidity in the GB market.</p>	<p>N/A</p>
<p>Shell Energy Europe Limited</p>	<p>1.27</p>	<p>In our view, each proposal, to a greater or lesser degree, targets routes where there is a genuine risk of construction or use of a competing pipeline. Without a conditional discount, the level of charges for remaining consumers would consequently increase as National Grid would have to recover its allowed revenue from smaller volumes of gas transported on its system.</p>	<p>N/A</p>
<p>Shell Energy Europe Limited</p>	<p>1.28</p>	<p>In response to this discussion paper, we should particularly welcome initial guidance or views from Ofgem to ensure that proposals to introduce a conditional discount, following implementation of 678 / 0678A, do in Ofgem’s view, meet with the relevant Licence objectives and NC TAR obligations, thereby ensuring that industry time is appropriately targeted and utilised to ensure timely implementation of a proposal, which best serves to mitigate the risk of inefficient bypass the NTS.</p>	<p>N/A</p>
<p>South Hook Gas</p>	<p>1.29</p>	<p>Ofgem’s minded-to decision on UNC Modification 0678 and alternatives determined that only two of the proposals, Modifications 0678 and 0678A, would be compliant with the EU Tariff Code and stated a preference between such Modifications for implementation of Modification 0678A. Neither of these Modifications, if implemented, would provide a solution to prevent potential inefficient bypass of the NTS. In anticipation that either Modification 0678 or 0678A would be implemented, industry has been separately progressing the development of such a solution as part of</p>	<p>N/A</p>

		Modification 0670R, with the eventual solution proposed to be implemented alongside Modification 0678 or 0678A.	
South Hook Gas	1.30	SHG's reasons for raising Modification 0718A are set out in full in the Modification itself. However, to summarise, SHG believes that a solution is required to prevent users inefficiently developing private pipelines and thereby bypassing the NTS. In the absence of such a solution supplementing Modification 0678 or 0678A, the significant savings that could be realised by bypassing the NTS are likely to interest a number of users. SHG believes that the solution contained in Modification 0718A recognises the risk of these users bypassing the NTS and appropriately incentivises them to remain connected to the NTS, avoiding any inefficient bypass.	N/A
SSE	1.31	SSE considers it to be essential that a new shorthaul arrangement is re-introduced at the same time as the charging reforms of UNC 0678A. Without a shorthaul product of some kind approximately 25 entry/exit combinations will be required to pay charges disproportionate to their use of the transmission system. These parties are likely to build bypass pipelines which would lead to a material (over 10%) loss of transmission and non-transmission revenue which will need to be recovered from customers who remain connected to the transmission system. This would represent an inefficient outcome for customers and society.	N/A
SSE	1.32	The key determinant for SSE and other customers on whether to bypass the NTS will be a commercial NPV assessment of the cost of building and operating a private pipeline versus the proposed shorthaul transmission and non-transmission costs. If the avoided costs of building our own pipeline and bypassing the NTS are less than NTS charges then bypass will occur. SSE has built private pipelines at four CCGT sites and will if necessary extend pipelines at Peterhead and Medway to nearby entry points if economic to do so.	See response to 1.02

SSE	1.33	We consider the economic assessment of bypass described above and not the amount of socialisation of revenue to be the determining factor in the shorthaul solution. Focus on the latter will not reflect customer costs and choice and may encourage inefficient bypass. The degree of socialisation should be an output of the arrangements rather than an input or constraining factor.	See response to 1.04
SSE	1.34	We support all the modifications as it is essential to have a shorthaul solution in place.	N/A
SSE	1.35	We have a preference for 0718C because it is a capacity based shorthaul product and the other flow based shorthaul modifications may not be compliant with Article 4 of the TAR Code given Ofgem's previous decision on Modification 621.	See response to 1.07
SSE	1.36	Some proposals include discounts to the non-transmission services charges which seems reasonable given the avoided cost based comparison described above. However, the capacity based solution does not. Given the lack of time until 1st October 2020 it might be necessary to implement one of the existing solutions at the same point as 678A and then propose another finessing modification at a later time.	See response to 1.07
SSE	1.37	The eligibility criteria based on distance is potentially arbitrary, but SSE does not have a more pragmatic solution other than an NPV avoided cost model which would be more complicated for Ofgem/NG to administer.	N/A
Triton Power	1.38	Triton Power is concerned that the proposals are far too generic and will fail to achieve the primary objective of ensuring that customers will remain connected to the NTS where it is economic for them to do so. It is not practical to apply a simplistic costing methodology to fit all circumstances and we expect that on implementation of any of the proposals the outcome will be sub-optimal and not in the interests of GB customers.	See response to 1.02

Triton Power	1.39	The application of an arbitrary distance cap, configured to achieve a desired level of cross-subsidy, built upon a methodology which assumes that all connecting pipelines will incur the same level of costs, is both discriminatory and inefficient.	See response to 1.04 & 1.05
Triton Power	1.40	In particular, the methodology fails to recognise that in many cases offtakes will be able to redirect routes to enable multiple connections and a sharing of capital costs. To assume that bypass costs can be derived by applying unit costs to specific point to point routes is so removed from reality that it will create clear winners and losers and distort competition.	See response to 1.02
Triton Power	1.41	In order to correctly deter bypass, Triton believes that National Grid should be permitted to enter into bilateral arrangements with large NTS offtakes which more reasonably reflect the costs and probability of bypass. Such an approach would ensure that charges are cost reflective and benefits accrued to all Users of the NTS. Clearly, in the interests of transparency and equitability, the terms of these arrangements should be made available for industry scrutiny.	See response to 1.02
Triton Power	1.42	In addition to these methodological limitations common to all proposals, Triton is concerned that at a practical level they are too restrictive. By excluding secondary capacity from capacity discounts Users will incur higher costs and capacity will become sterilised. It is illogical that a User should be forced to acquire capacity directly from National Grid in order to qualify for a discount, rather than utilise capacity which has already been sold, but held by a third party. This restriction is highly inefficient and will result in capacity overbooking, the costs of which will end up in customer bills.	See response to 1.08

<p>Triton Power</p>	<p>1.43</p>	<p>The only aspect of the proposals we do believe to be sensible is the concept of discounted Non-Transmission Charges, as set out in UNC 0718A/B. Certainly, when reviewing the possibility of bypass, Users will consider all NTS costs and as such will compare the costs of operation, as well as construction. In this instance, we believe that the methodology described in the two proposals is practical. A standardised discount to the base element of National Grid’s allowed revenue based on the maximum, aggregate distance of the identified routes will produce a reasonable cost estimate which might reasonably be applied to all shorthauled throughput.</p>	<p>N/A</p>
<p>Uniper</p>	<p>1.44</p>	<p>An enduring shorthaul product must allow traded capacity to qualify for a shorthaul discount, by NGG implementing capacity assignment within GEMINI. This issue was raised in industry workgroups by Shippers as long ago as 2007 and remains a key customer requirement. It is clear that delivering such a change by October 2020 is unrealistic, based on our understanding that it would require a significant systems change for NGG. We consider that October 2021 would be a more realistic target, but we request that NGG provides more detail on the delivery timeframe for this change. The absence of this information will inevitably lead to a Shipper forcing the change process via a UNC Proposal. We believe that a more collaborative approach by NGG would be much appreciated by industry, given this issue is longstanding and unresolved.</p>	<p>See response to 1.08</p>

<p style="text-align: center;">Uniper</p>	<p style="text-align: center;">1.45</p>	<p>NGG’s approach of starting with an amount of shorthaul charge ‘socialisation’ as a percentage of Maximum Allowed Revenue and then dividing that by eligible shorthaul users is fundamentally flawed. It will result in shorthaul rates floating, perhaps unpredictably and some routes changing in eligibility on an annual basis. The alternative of building a pipeline would result in costs which would be much more predictable and stable. As a result, we would seriously question whether this product would be a true alternative to pipeline bypass. Whilst the amount of socialisation is clearly important to the integrity of the overall charging arrangements, availability of shorthaul to Users should be driven primarily by likelihood of NTS bypass. Stable shorthaul charging year-to-year is also important to allow efficient contracting.</p>	<p>See response to 1.04</p>
<p style="text-align: center;">Uniper</p>	<p style="text-align: center;">1.46</p>	<p>It is critical to the success of a shorthaul product that a discount is provided to both TO and SO (i.e. future Transmission and Non-Transmission Services (Non-Tx)) charges. This is a fundamental aspect of the current shorthaul product and moving away from it requires compelling evidence, which is currently missing from both the NGG and RWE proposals. Put simply, not providing a discount to Non-Tx charges will provide an insufficient incentive to discourage NTS bypass. The credible risk is that the sites most likely to bypass the NTS will do so, defeating NGG’s stated aim of shorthaul. This would then leave only a handful of marginal sites taking advantage of the discount, including some where there may not be significant likelihood of actual bypass. This would be a cross-subsidy that would be difficult to defend. The incentive not to bypass, therefore, needs to be strong and this can be achieved by providing a suitable discount for Non-Tx charges. On this basis, we will not support any future shorthaul proposal which does not include a Non-Tx charge discount.</p>	<p>N/A</p>

Uniper	1.47	As none of the proposals raised to date address all of our concerns, we are unable offer our full support for any of them. Our hope is that a pragmatic postponement of all charging reforms until October 2021 will allow industry to deliver a robust, enduring shorthaul solution. We would not want to see an incomplete shorthaul product implemented in October 2020 which then requires further development, introducing yet more regulatory and market uncertainty.	N/A
Vermillion	1.48	Vermillion understands that there is a risk of NTS bypass pipelines being constructed in cases where larger volumes are transported over shorter distances between entry and exit points if there is no provision of a conditional product that provides a discounted tariff, when compared to the standard tariffs.	N/A
Vermillion	1.49	Ideally such a conditional product would mimic the situation where parties would build their own (bypass) pipeline and would fulfill the following four conditions: 1. being cost reflective i.e. represent the cost (capex and opex) of a bypass pipeline; 2. facing fixed yearly costs for multiple years; 3. being independent from the actual flow through the bypass pipeline; 4. assuring that this product cannot be used to either directly access the NBP from entry or to directly source gas from NBP to exit.	It will be for each of the proposers to consider whether any updates may be necessary.
Vermillion	1.50	All four modifications can be seen as a pragmatic approach to lower the risk of bypass pipelines being constructed, but none of the four modifications fulfill all the four conditions outlined above.	It will be for each of the proposers to consider whether any updates may be necessary.
Vermillion	1.51	For a distance of zero km (“wheeling”), all four proposals have a 90% discount on the capacity tariff and 718A and 718B also provide a discount on the commodity tariff (80% and 69% respectively). For example, in the Netherlands, the wheeling service has a charge equal to a discount of 94% of the standard entry and exit tariffs. We therefore consider the discount for zero km as proposed in all four proposals as being reasonable.	N/A

Vermillion	1.52	The four alternatives consider a distance cap of 18 or 28 kilometers. Looking at the entry-exit combinations that fall within the maximum distance cap, we believe that the vast majority, if not all combinations, could be seen as candidates for considering a bypass pipeline (or a bypass network for a group of exits) where a conditional product with a discounted tariff is not provided. As the proposed discount decreases with the distance, we consider all four proposals as a pragmatic approach for a conditional product in GB.	N/A
Vermillion	1.53	With the current description of 718C, we believe that this alternative does not fulfill our condition 4 i.e. in our opinion the discounted product can be used to reach NBP from entry or reach exit from NBP. See our examples further down at "Legal Text". In its current form we therefore do not support 718C, but if this issue is solved, this alternative meets our condition 3, while the others don't.	N/A
Vermillion	1.54	Vermillion considers implementation of the general tariff reform (678 or 678A) as per 1st October 2020 as crucial for having a compliant system in GB. Vermillion therefore suggests to have one of the modifications (preferably 718C with an amendment as indicated in the paragraph above) implemented as soon as possible (ideally as per 1st October 2020). To have a better alignment with the four conditions as described above we suggest considering future refinements of the conditional product in the near future (e.g. early 2021).	N/A
Vitol	1.55	Vitol S.A is the proposer of 0718B which sets a maximum route distance of 28km and applies a 69% discount in transmission services charges. Vitol owns and operates VPI Immingham CHP which is located on the south bank of the Humber Estuary.	N/A
Vitol	1.56	Vitol does not support 0718, 0718A or 0718C which all cap eligible routes at 18km. A previous draft of 0718 included a maximum eligible route capped at 28km, but it is unclear why it was amended.	See response to 1.05

Vitol	1.57	As the owner and operator of VPI, excluding sites eligible for short haul between 18-28km creates significant investment signals. These are exacerbated by the punitive nature of postage stamp on sites close to entry points. As an example, at Immingham, gas capacity charges could increase by 17100%, with equivalent commodity charges also rising by 61%. The large increase in baseline costs means that independent pipeline infrastructure can be justified within operational timescales.	N/A
Vitol	1.58	Further to the above, as optional commodity charges are calculated on a straight-line basis from entry to exit, the shape of the NTS and location of different connection points means that, with an 18km cap, adjacent sites on the south bank of the Humber Estuary are treated very differently. This creates signals for inefficient low-cost investment which could be paid back in a matter of months (e.g. unnecessarily redirecting pipeline infrastructure short distances to different exist points, which are geographically closer to entry points as the crow flies).	See response to 1.02
Vitol	1.59	Other capex alternatives are commercially confidential however, at a high level, include bringing forward new types of supply, capitalising on coastal locations and repurposing existing infrastructure.	N/A
	1.60	As mentioned above, a previous 0718 draft included a 28km cap. it is unclear why this was amended however Vitol is concerned that this was done to minimise cross subsidisation, rather than to manage actual risks around inefficient bypass. As stated, an 18km cap, will have the impact of treating adjacent sites with almost identical risk profiles very differently. It is also unclear whether impacts to businesses are fully appreciated when considering likely payback periods and capex costs.	See response to 1.05

Vitol	1.61	With regards to a discount to transmission service charges, Vitol believes that in principle it makes sense that optional charge users do not pay the full ESO cost. 0718B differs from 0718A as a smaller discount is applied. This seeks to manage the level of cross-subsidisation between NTS users (in line with NG), which granted is still unknown given expected changes to bookings etc.	N/A
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Q2. Implementation: What lead-time do you wish to see prior to implementation and why?			
Party	Quote	Response Quote	NG Response
Conoco Phillips	2.01	There is currently a lot of uncertainty over the timing of the decision and implementation of the new charging regime in the UK layered on top of that we are operating in a pandemic environment which is putting a lot of stresses on the industry.	N/A
Conoco Phillips	2.02	As a business we need to agree a variety of contractual relationships for the next Gas Year now and so from a practical standpoint, any new short-haul product should have the same implementation start date, as it forms part of the charging regime.	N/A
Conoco Phillips	2.03	Our preference would be for the new charging regime and any short haul product to start together on October 1st, 2021.	We note that Modification 0678A is now due to be implemented in line with the Ofgem decision for October 2020.
Energy UK	2.04	Ideally the lead time for implementation should be at least 5-6 months ahead of time under normal operating circumstances. This would allow the indicative charges published by National Grid to be a good reflection of the actual charges that will apply. The time will also allow for updating contracts, capacity strategies, operating procedures, staff training, system changes etc.	See response 2.03
Energy UK	2.05	Clearly if Ofgem decided to implement 0678A from October this year this will be even more challenging, due to social distancing and remote working however we would still consider it important to progress shorthaul arrangements in this timescale, due to the impacts above.	N/A

Energy UK	2.06	Indicative charges and ‘final’ charges for exit capacity have already been published. Although if Ofgem issues its decision on 0678A during May then further, very different values will be published before the beginning of June. As there is insufficient time for any shorthaul proposal to be raised and implemented before the end of May the entry and exit capacity charges will not take account of any shorthaul arrangements.	Should it be necessary on implementation charges that can be amended to accommodate any potential under recovery from inefficient bypass arrangements would be made.
Energy UK	2.07	If shorthaul arrangements are implemented before the end of July, we understand the revenues required to support shorthaul will be included in the capacity-based revenue recovery charge. The analysis included in the proposals reflects a maximum uptake scenario and hence overstates the revenue for shorthaul due to the impacts of the eligible capacity rules. Setting charges on this basis will lead to an over recovery. To set charges on a more realistic basis National Grid will need to undertake a detailed assessment of each route, with a range of assumptions in order to determine the revenue recovery charge. Whilst we accept that this is normally opaque to industry, it would be helpful to include this analysis in the proposals when they are issued, to provide a more realistic assessment.	Each of the proposals contains analysis in the appendices and where it may be helpful to support the consultation process, additional analysis may be presented to assist participant’s responses.
Energy UK	2.08	A better scenario would be for implementation of 0678A and shorthaul arrangements to be effective from October 2021, as requested in an Energy UK letter to Ofgem due to the current COVID 19 working arrangements. The additional time would give more time to understand and refine the options and be more likely to deliver a robust enduring solution that does not prompt further incremental development whilst also providing a reasonable lead time for implementation, although we appreciate this is not National Grid’s decision.	N/A

EP UK Investments	2.09	We consider it essential that the Conditional Product is implemented on the same timescale as UNC0678. Without the Conditional Product in place, some users currently benefiting from the Optional Commodity Charge will see large increases in their network charges and will start investing to bypass the NTS at the earliest opportunity. Given the restricted timescale to implement any changes by October 2020 and the additional pressures being placed on companies as a result of the coronavirus pandemic, we consider that the ideal outcome would be for both the implementation of UNC0678 and the introduction of the Conditional Product to be delayed until October 2021.	See response 2.03
ESB	2.10	The lead time should be as long as possible. We would prefer holistic charging reform to be implemented Oct 2021 at the earliest, or Oct 2022. This would provide more time for development of a robust solution and sufficient notice to industry parties.	See response 2.03
Gazprom Marketing & Trading	2.11	An optional charging product is critical to the GB gas market. If correctly designed and applied, it will optimise the use of the NTS bringing benefits to all consumers and the wider economy. In light of this, any change to the NTS Charging Methodology, such as that envisaged in UNC 0678/A should not be progressed until such time as a suitable product has been developed.	See response 2.03
Gazprom Marketing & Trading	2.12	More specifically, we are concerned that any lead time shorter than 12 months will have undesirable impacts: Users and customers require a reasonable period to agree and execute contracts to accommodate a new optional charging product; National Grid will need to forecast its utilisation in order to set NTS Capacity charges with any accuracy, any deviation from forecast utilisation will have a knock-on impact on revenues and result in the application of a Revenue Recovery Charge, which needs to be well communicated in advance to ensure end-consumers can assess the cost implications.	See response 2.06

		We believe these activities will need a minimum of 6 months lead time between Ofgem decision and implementation.	
IUK	2.13	Whether Ofgem determine the new GB charging regime should be implemented this October or perhaps in October 2021, it is vital that the new charging regime is complete. It must include an appropriate short haul charging solution from implementation of the new charging regime. It is prudent therefore for the industry to take a conservative approach to ensure regulatory approval can be achieved in a timely manner.	See response 2.03
Shell Energy Europe Limited	2.14	A delay to implementation of the wider charging proposal, i.e. 0678 / 0678A would be more conducive to enabling networks users to take full consideration of the proposed changes in their capacity booking strategies, system changes and contract negotiations, amongst other challenges and in addition, to develop conditional discount proposals on a non-urgent basis.	See response 2.03
Shell Energy Europe Limited	2.15	However, should Ofgem choose to implement modification 0678 / 0678A this October, it is imperative that implementation of a proposal to introduce a conditional discount, follows the same implementation timeline to mitigate the risk of inefficient bypass of the NTS at the earliest stage possible.	See response 2.03
South Hook Gas	2.16	As per the reasons stated above in the answer to Question 8.1, SHG believes that these proposals should be implemented in parallel with Modification 0678 or 0678A to ensure there is no window in which there is an incentive for NTS users to inefficiently bypass the NTS.	See response 2.03
SSE	2.17	NG has a reasonable endeavours licence condition to publish tariffs at least 5-6 months ahead of time. This would allow the indicative charges published by National Grid to be an accurate reflection of the actual charges that will apply. The time will also allow for updating: customer contracts, capacity booking strategies, operating procedures, staff training and system changes. This is why SSE has requested a delay in implementation of 678A until October 2021.	See response 2.03

SSE	2.18	Clearly if Ofgem decided to implement 0678A from October 2020 this will be even more challenging, due to social distancing and remote working however we would still consider it important to progress shorthaul arrangements in the same timescale.	See response 2.03
SSE	2.19	Indicative charges and 'final' charges for exit capacity have already been published. Although if Ofgem issues its decision on 0678A during May then further, very different values will be published before the beginning of June. As there is insufficient time for any shorthaul proposal to be raised and implemented before the end of May the entry and exit capacity charges will not take account of any shorthaul arrangements.	See response 2.06
SSE	2.20	Consequently, if shorthaul arrangements are implemented before the end of July, we understand the revenues required to support shorthaul will be included in the capacity-based revenue recovery charge. The analysis included in the proposals reflects a maximum uptake scenario and hence overstates the revenue for shorthaul due to the impacts of the eligible capacity rules. Setting charges on this basis will lead to an over recovery. To set charges on a more realistic basis National Grid will need to undertake a detailed assessment of each route, with a range of assumptions in order to determine the revenue recovery charge. Whilst we accept that this should be opaque to industry, it is essential to include this analysis in the proposals at an aggregate level when they are issued, to provide a more realistic assessment.	See response 2.06
SSE	2.21	Our preference, would be for implementation of 0678A and shorthaul arrangements to be effective from October 2021, as requested by SSE to Ofgem due to the current COVID 19 working arrangements. The additional time would give more time to understand and refine the options and be more likely to deliver a robust enduring solution that does not prompt further incremental development whilst also providing a reasonable lead time for implementation.	See response 2.03

Triton Power	2.22	The importance of a shorthaul product should not be underplayed. Historically, access to discounted transportation charges has been a factor in determining locational decisions for large customers and not unreasonably there is an expectation that the service will not be removed in such an abrupt manner as envisaged by UNC 678/A. In order to develop a shorthaul product which deters bypass, while delivering tangible benefits to all customers and the wider economy, it is essential that industry is afforded sufficient time to develop a replacement product which fulfils these finely balanced objectives. As stated above, the proposals currently under consideration fall short of this ambition and more time is needed to consider more radical alternatives.	N/A
Triton Power	2.23	To this end, we recommend one of the two following options: - Delay in implementation of UNC 0678 until such time as a workable shorthaul product is ready for implementation - The continuation of the current shorthaul arrangements for a transition period, until its replacement by a longer term solution	See response 2.03
Triton Power	2.24	In terms of lead times, we propose that at least 12 months is needed to arrive at an appropriate shorthaul solution, however, it should be borne in mind that Users and customers will require a minimum of 6 months to accommodate the new service within supply contracts.	See response 2.03
Uniper	2.25	As a member of Energy UK, we fully support the recent letter sent by Energy UK to Ofgem. On this basis, we believe that implementation of all gas transmission charging reform should now be postponed until 1 October 2021. Implementation in October 2021 would likely help address our concerns about the shorthaul proposals raised to date.	See response 2.03
Uniper	2.26	Our hope is that a pragmatic postponement of all charging reforms until October 2021 will allow industry to deliver a robust, enduring shorthaul solution. We would not want to see an incomplete shorthaul product implemented in October 2020 which then requires	See response 2.03

		further development, introducing yet more regulatory and market uncertainty.	
Vermillion	2.27	We would suggest a very short lead time (1-2 months) could be managed.	N/A
Vitol	2.28	Vitol supports the implementation of new charging arrangements in line with the likely introduction of 0678A. Failure to do so will mean that some users experience short term investment signals and exit the network, to the detriment of all other users.	N/A
Vitol	2.29	The longer the lead time, the easier it is for Boards to plan and take investment decisions on behalf of shareholders. Ideally, Vitol strongly believes that there should be several years before implementing new charging arrangements (i.e. in line with the capacity market). However, given the background of the gas charging review, this appears extremely unlikely without additional intervention.	See response 2.03
Vitol	2.30	If an 18km distance cap was introduced at short notice, this would obviously create immediate winners and losers on the network, as well as a change in behaviour versus the status quo. Gas users the need time to react and, given current COVID working arrangements, there is already additional levels of complexity (e.g. implementing new operating procedures, updating contracts, changing capacity strategies, testing operating procedures, further staff training, IT etc.	See response 2.03
Vitol	2.31	For the above reasons, Vitol has therefore supported wider deferral of any changes to the gas charging regime until October 2021.	See response 2.03

Q3. Impacts and Costs: What analysis, development and ongoing costs would you face?

Party	Quote	Response Quote	NG Response
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Conoco Phillips	3.01	As the UK Spot Gas Market is regularly balanced via the ebb and flow of the Bacton IPs, the short-haul discount mechanism is an important aspect of this UK balancing tool. ConocoPhillips is active in this market, and we believe that any timing differences in the introduction of this element of the charging methodology, will lead to inefficiencies in balancing the UK Market. The costs to the UK Gas Market could be extreme if it is too costly to export gas, as any further depression of UK prices could potentially lead to the financial collapse of some UKCS Producers.	N/A
Energy UK	3.02	As a trade association none	N/A
EP UK Investments	3.03	The implementation of the Conditional Product may require users to renegotiate agreements with counterparties and update internal analysis. However, in the absence of a Conditional Product then there would be larger costs incurred in the development of bypass pipelines.	N/A
ESB	3.04	We would require a review of costs and operations in line with any change to charging levels and products, which in combination with wider charging reform would be significant.	N/A
Gazprom Marketing & Trading	3.05	If any of the current modifications were to be implemented, the network would be faced with double bookings as shippers would be forced to acquire entry capacity from National Grid due to the exclusion of secondary capacity from accessing an optional charging discount. Where capacity could previously be transferred from an existing holder, either a third party, or related sister company, then the duplication of capacity purchases will result in overall higher costs, as well as sterilisation of previously acquired capacity. This could lead to network congestion and artificial system constraints.	See response to 1.08

Gazprom Marketing & Trading	3.06	In terms of analysis, we refer you to the point raised in the previous answer relating to forecasting aggregate transmission charges. If National Grid incorrectly forecasts the take-up and utilisation of the optional charging product then collected revenues will deviate from allowed revenues. Consequently, shippers and their customers will face uncertainty in future transmission charges on the expectation that National Grid will recover/redistribute revenue via the Revenue Recovery Charge/Capacity compensation mechanism. This outcome runs contrary to the objectives underpinning NTS Charging Reform which seeks to provide stability and certainty in NTS charges.	N/A
Shell Energy Europe Limited	3.07	SEEL has previously shared a commercially confidential assessment of costs through an Ofgem Call for Evidence.	N/A
South Hook Gas	3.08	While SHG feels the priority should be for a solution under GCD12 to be implemented alongside the implementation of 0678 or 0678A, the proposed solutions would ultimately change the NTS Charging Arrangements and the prices set for the relevant gas year, therefore as much notice as reasonably possible should be given to allow for parties to respond appropriately to these changes.	N/A
SSE	3.09	The potential costs of inefficient bypass of the NTS are orders of magnitude more than the cost categories above. It is better to have Shorthaul users paying a contribution to the NTS than say an additional 10 % of revenue or £100 million/yr being levied on remaining customers, once private pipelines are constructed.	N/A
Triton Power	3.10	As stated above, the exclusion of secondary capacity for shorthaul will generate additional costs for all customers, as Users are required to acquire additional capacity in order to obtain a shorthaul discount.	N/A

Triton Power	3.11	The timing of the implementation of any of the proposals is critical. Not only should it be aligned with UNC 0678, but it should also provide sufficient lead time to enable National Grid to accurately forecast take-up and utilisation. Any deviation from actual utilisation will necessarily feed through to Revenue Recovery Charges, which goes against the primary objectives of charging reform; to facilitate stability and predictability. As stated by Ofgem, the recovery of revenue associated with fixed and sunk costs should be via capacity charges; an over-emphasis on commodity-based charges results in the misdirection of costs, economic inefficiencies and market distortions.	N/A
Vermillion	3.12	Vermillion does not foresee development nor ongoing costs associated with an inefficient by-pass option. Rather the continued delay and associated uncertainty is causing ongoing costs.	N/A
Vitol	3.13	Vitol has already described the potential impact of the changes proposed. Depending on the outcome, we will also incur other additional operational costs which it is not appropriate to disclose in this consultation.	N/A

Q4. Legal Text: Are you satisfied that the legal text will deliver the intent of the Solution?			
Party	Quote	Response Quote	NG Response
Conoco Phillips	4.01	We do not have any comments to make on the legal text.	N/A
Energy UK	4.02	We have not reviewed the legal text	N/A
EP UK Investments	4.03	Yes, we are satisfied with the legal texts.	N/A
ESB	4.04	We have not reviewed the legal text.	N/A
Gazprom Marketing & Trading	4.05	No comment	N/A
IUK	4.06	-	N/A
Shell Energy Europe Limited	4.07	We have not reviewed the legal text at this stage.	N/A

South Hook Gas	4.08	SHG has not completed its full legal review of the legal text for all proposals but is reviewing this in parallel with this informal consultation.	N/A
SSE	4.09	We have not reviewed the legal text as the modifications have been withdrawn.	N/A
Triton Power	4.10	No comment	N/A
Uniper	4.11	-	N/A
Vermillion	4.12	For 718C we see as a risk that the discounted product can be used to reach NBP from entry or to source gas from NBP at exit.	It will be for the proposer of Modification 0718C to consider if any changes are necessary.
Vitol	4.13	Vitol has not commented on the legal text at this stage.	N/A

5 Proposal and Next Steps

Following publication of the Modification 0678A decision by Ofgem on 28 May 2020, National Grid intends to take a short period of reflection before re-raising the proposal previously labelled Modification 0718. Any changes to the proposals will likely be cosmetic.

The proposals will reflect a sequential change to the UNC and not be based on any conditionality following the urgency rejection of Modifications 0718/A/B/C. We will work with proposers of the alternatives to Modification 0718 should they also wish to re-raise their proposals to assist with their own resubmission and to help speed up the process.

We expect that urgency will be necessary, the precise timeline for this will be subject to discussions with Ofgem and the Joint Office of Gas Transporters.

Separate to the modification, we have launched a scoping document to begin discussions around the queries relating to the capacity elements raised in this discussion and previous workgroups. Completing this work in parallel to, rather than intertwined with, the implementation of a product to manage inefficient bypass allows the subject to be fully explored and a thorough assessment of its interactions with the rest of the Capacity and Charging regimes to be completed without the potential to negatively impact the timelines associated with implementation of the new product.

6 Contacts

If you wish to discuss any matter relating to this report, please contact:

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Appendix A

Below are the questions and the number of responses received for each question (excluding confidential responses):

Q1. All respondents supported the need for a product. Below are the preferences (where stated):

View	None of the options presented	0718	0718A	0718B	0718C	No Preference Expressed
Number of respondents*	4	0	2	3	4	3

*If a respondent expressed a preference for more than one, a preference has been noted against each of these.

Q2. Preferred Implementation date and approach in relation to 0678A:

View	Oct-2020	Oct-2021	Oct-2022	In-line with 0678A	Total
Number of respondents	1	13	1	15	15

Q4. Legal Text: Are you satisfied that the legal text will deliver the intent of the Solution?

View	Yes	No	Not Reviewed	Total
Number of respondents	1	1	13	15