nationalgrid

# *NTS GCD11R - Updating the Cost Inputs to the NTS Optional Commodity Charge Function*

# Discussion Report

**30 December 2015**

# Contents

# 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 GCD11[1] - Updating the Cost Inputs to the NTS Optional Commodity charge Function(NTS GCD11), we outlined for comment, proposals regarding making updates to the NTS Optional Commodity charge formula unit cost inputs. NTS GCD11 set out for discussion and sought industry opinions on the two options proposed, to update the cost inputs to the NTS Optional Commodity charge. This charging discussion report considers the responses received, any subsequent updates based on industry developments and outlines our next steps.

After initial discussions with the industry there were 3 key issues that were identified with the NTS Optional Commodity charge:

- The increased interaction with Commodity charges;
- How the NTS Optional Commodity charge is used; and
- Unit cost inputs utilised by the formula being out of date.

Following on from discussions within the National Transmission System Charging Methodology Forum (NTSCMF) meetings[2] from September 2014 onwards, where revising the NTS Optional Commodity charge was discussed, on the 13 July 2015 National Grid issued a discussion document - NTS GCD11 - Updating the Cost Inputs to the NTS Optional Commodity charge Function. It presented two options for making updates to the cost inputs which we believed more accurately reflected the costs involved that, whilst recognising that there were still changes that we believe are necessary to address, would reflect a positive step in updating the NTS Optional Commodity charge.

The NTS GCD11 discussion document requested responses to the following questions:

1. Do respondents prefer Option One or Option Two as the most reasonable approach, and most consistent with facilitating the relevant objectives, to update the underlying costs of the formula in an effort to bring the NTS Optional Commodity charge formula more up to date?
2. Do you agree with the proposal to delay reviewing the methodology / access and flexibility of the NTS Optional Commodity charge until the EU Tariff Network Code (EU TAR) and Ofgem's Gas Transmission Charging Review (GTCR) is more certain?
3. Do respondents agree with our proposed approach on timescales for notifying a change to NTS Optional Commodity charges, following the same notice periods as for other NTS charges? If not what do you believe these should be?
4. Do respondents believe 1 April 2016 is an appropriate implementation date? If not what do you believe the implementation date should be and why?
5. Are there any elements that you feel we should take into consideration, or that you believe we have missed and should take into account, in the two options being considered for reviewing the NTS Optional Commodity charge?

[1] http://www2.nationalgrid.com/UK/Industry-information/System-charges/Gas-transmission/Charging-methodology/Gas-Charging-Discussion-papers
[2] http://www.gasgovernance.co.uk/ntscmf

This report:

- Brings together the responses received to the discussion document;
- Identifies and addresses the key themes raised;
- Proposes a way forward in addressing the cost inputs underpinning the NTS Optional Commodity charge whilst recognising that UNC Modification 0563S has been raised.

**Summary of Responses**

There are a number of key themes brought out in the responses we received. Whilst most respondents acknowledged the need for a review of the NTS Optional Commodity charge in some capacity, there are mixed reasons as to why some support and others oppose the proposals put forward. The key themes, in no particular order, are as follows:

- Timing (April versus October) for the implementation of any change;
- Governance of making such an update to cost inputs;
- Transparency in deriving the NTS Optional Commodity charge formula;
- Considering wider impacts beyond NTS Charges;
- Interaction and impact of the EU TAR NC and GTCR;
- Putting more of the NTS Optional Commodity charge process / methodology into the UNC.

National Grid received eighteen responses to NTS GCD11, of which four were confidential. Whilst there were mixed responses to the proposed implementation of changes to the NTS Optional Commodity charge, most respondents supported a review of the NTS Optional Commodity in some capacity. All the non-confidential responses can be found on the National Grid website[3]. We have a summary of the questions and the number of responses to each question in Appendix A.

As part of the response to some of the comments received for NTS GCD11 National Grid published:

- a spreadsheet that details the mechanics behind the derivation of the NTS Optional Commodity charge formula;
- the historical documents from when the NTS Optional Commodity charge was introduced that outlined the key objectives of the NTS Optional Commodity charge

In combination these documents provide the industry with the opportunity to see how the formula is derived and the principles underpinning the NTS Optional Commodity charge. These can all be found alongside the discussion document on the National Grid website.

The key driver behind showing the spreadsheet that shows the mechanics behind producing the NTS Optional Commodity charge formula, particularly in deriving the constants, was to provide transparency on the method used in producing the formula. In an effort to maximise transparency, we used all the publicly available input data in the historical documentation that was used when calculating the original formula in 1998, however please note the constants in the original formula found in the Transportation Statement[4] compared to the published model have a slight mismatch.

[3] http://www2.nationalgrid.com/UK/Industry-information/System-charges/Gas-transmission/Charging-methodology/Gas-Charging-Discussion-papers

[4] http://www2.nationalgrid.com/UK/Industry-information/System-charges/Gas-transmission/Charging-Statements/

**UNC Modification 0563S – Moving the NTS Optional Commodity charge Formula into the UNC**

UNC Modification 0563S [5](UNC 0563S) proposes to move the existing NTS Optional Commodity charge formula which is specified in the NTS Transportation Charging Statement[6] (The Statement of Gas Transmission Transportation Charges) into TPD Section Y (Charging Methodologies) of the UNC[7].

UNC 0563S was raised after the publication of NTS GCD11 and has been discussed at NTSCMF alongside NTS GCD11. Should UNC 0563S be implemented then it will change the governance regarding making updates to the NTS Optional Commodity charge.

Whilst National Grid believes that there is merit in including the NTS Optional Commodity charge formula in the UNC we believe that UNC 0563S essentially places a fixed price into the UNC for the NTS Optional Commodity charge and that this is not in keeping with the existing principles as applied to other charges such as NTS Exit/Entry Capacity charges and NTS Exit/Entry Commodity charges. We continue to believe that further discussion should be had regarding updating the NTS Optional Commodity charge and will explore such options once UNC 0563S has concluded.

**Proposed Approach**

National Grid has carefully considered the responses to the charging discussion document NTS GCD11 and is proposing the following approach:

1. Not to elect either of the two options proposed in NTS GCD11 and allow the UNC Modification process for UNC 0563S to conclude before making any further proposals for potential changes to the NTS Optional Commodity charge.
2. Subsequently make proposals to update the NTS Optional Commodity charge, within the relevant governance framework. Potentially raise a UNC modification assuming that UNC Modification 0563S is implemented that would look to ensure the NTS Optional Commodity charge is in keeping with the original principles, to make it more compliant with the overall framework and the relevant charging objectives. Any such proposal could include EU TAR NC / GTCR impacts, any other issues identified and raise UNC Modifications if required.

Whilst we are not proceeding with either of the proposed options given under NTS GCD11 we appreciate the time and effort given by industry stakeholders in discussing/providing comments on the NTS Optional Commodity charge and NTS GCD11.

We believe that there is more to do in seeking to address issues with the NTS Optional Commodity charge. Whilst we are not proposing to implement either of the options under NTS GCD11 at this time, the conclusion of NTS GCD11 does not represent the end of our discussions proposals to review the NTS Optional Commodity charge and ensure that it is fit for purpose as part of the overall charging framework.

More detail on these steps can be found in Section 5 of this report. There will be further opportunities for industry to discuss these steps at future NTSCMF meetings and as part of any modification workgroup discussions.

[5] http://www.gasgovernance.co.uk/0563
[6] http://www2.nationalgrid.com/UK/Industry-information/System-charges/Gas-transmission/Charging-Statements/
[7] http://www.gasgovernance.co.uk/TPD

# 2 Background

The NTS Optional Commodity charge is available to all shippers and was originally designed as an incentive to avoid inefficient market investment where the associated flow bypassed the NTS. Upon requesting the NTS Optional Commodity charge a shipper specific rate is calculated using the NTS Optional Commodity charge formula. Where selected the NTS Optional Commodity charge provides an alternative charge to commodity. The formula to derive the shipper specific rates has not been updated since the NTS Optional Commodity charge was originally introduced. As a result the costs included are based on values from 1998 and are therefore, we believe in need of updating.

NTS GCD11 set out for discussion and sought industry opinions on, proposals to update the cost inputs to the NTS Optional Commodity charge to bring them more up to date.

After raising the issues in September 2014, National Grid has been discussing making an update to the NTS Optional Commodity charge with industry through the National Transmission System Charging Methodology Forum (NTSCMF).

The key issues identified with the NTS Optional Commodity charge are:

- The increased interaction with Commodity charges;
- How the NTS Optional Commodity charge is used; and
- Unit cost inputs utilised by the formula being out of date.

Through discussions at NTSCMF and as outlined in NTS GCD11, National Grid's original intention was to review the NTS Optional Commodity charge methodology, its flexibility, the access to the charge, the cost inputs and how the mechanics of the charge aligns with the GB Transmission charging framework. During these discussions with the industry we understood that there was a preference to defer reviewing the broader objectives of the NTS Optional Commodity charge until there was more certainty regarding GTCR and EU TAR NC however, a review of the costs would be worthwhile as a first step towards addressing the issues highlighted.

As part of this process it was identified that changes to the cost inputs that are utilised by the Optional Commodity charge formula calculation do not require a UNC modification.

The rational of raising the NTS GCD11 discussion document:

- As a cost input update does not require a change to the UNC, National Grid recognised there may be concerns on making an update to the cost inputs to the NTS Optional Commodity charge formula without an opportunity for the industry to provide their opinions.
- National Grid wanted to fully engage with and provide an opportunity for industry to provide their views and raise any issues they may have regarding the proposals through NTS GCD11. In combination with continued discussions at NTSCMF, this provided the opportunity to provide views and raise issues.

We therefore set out industry views with regards to updating the relevant costs and following subsequent discussions at NTSCMF[8], National Grid issued NTS GCD11 on 13 July 2015[9]. We invited responses to be provided by 21 August 2015.

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[8] http://www.gasgovernance.co.uk/ntscmf
[9] http://www2.nationalgrid.com/UK/Industry-information/System-charges/Gas-transmission/Charging-methodology/Gas-Charging-Discussion-papers/

NTS GCD11 requested responses to the following questions:

1. Do respondents prefer Option One or Option Two as the most reasonable approach, and most consistent with facilitating the relevant objectives, to update the underlying costs of the formula in an effort to bring the NTS Optional Commodity charge formula more up to date?
2. Do you agree with the proposal to delay reviewing the methodology / access and flexibility of the NTS Optional Commodity charge until EU TAR / GTCR is more certain?
3. Do respondents agree with our proposed approach on timescales for notifying a change to NTS Optional Commodity charges, following the same notice periods as for other NTS charges? If not what do you believe these should be?
4. Do respondents believe 1 April 2016 is an appropriate implementation date? If not what do you believe the implementation date should be and why?
5. Are there any elements that you feel we should take into consideration, or that you believe we have missed and should take into account, in the two options being considered for reviewing the NTS Optional Commodity charge?

# 3 Summary of Responses

National Grid received eighteen responses to NTS GCD11, of which four were confidential.

Non confidential responses were received from the 14 respondents listed below (in alphabetical order):

- BG Group
- BP
- Centrica
- EDF
- Energy UK
- Eni. Trading
- EON
- GasTerra
- Gazprom Energy
- Immingham
- RWE Supply and Trading (RWE)
- Scottish Power
- Shell
- SSE

Whilst there were mixed responses to the proposed implementation of changes to the NTS Optional Commodity charge, most respondents supported a review of the NTS Optional Commodity charge in some capacity to bring it more up to date. More detail regarding each of the responses can be found in Section 4 of this document. In this section we summarise the key themes that were raised.

There were differing reasons as to why some respondents offered support and others opposed the idea of updating costs and / or the proposals put forward in the options presented. The key themes, in no particular order, are as follows:

- Timing (April versus October) for the implementation of any change;
- Governance of making such an update to cost inputs;
- Transparency in deriving the NTS Optional Commodity charge formula;
- Considering wider impacts beyond NTS Charges;
- Interaction and impact of EU TAR NC / GTCR;
- Putting more of the NTS Optional Commodity charge process / methodology into the UNC.

**Q1 - Do respondents prefer Option One or Option Two as the most reasonable approach, and most consistent with facilitating the relevant objectives, to update the underlying costs of the formula in an effort to bring the NTS Optional Commodity charge formula more up to date?**

Though most respondents agreed with the principle of reviewing the inputs to the NTS Optional Commodity charge formula, a lot of the respondents preferred not to select an option from the two proposed options. For those that did not prefer either of the proposed options, they provided the following reasons:

One respondent (RWE) raised concerns that the proposed approach of keeping the same assumptions and only updating the four numerical constants in the equation is an over simplification of the approach and would compromise the integrity of the formula. This could then result in the proposed options conflicting with the original NTS Optional Commodity charge principles.

Two respondents (Immingham and SSE) raised their concerns in regards to the transparency of the proposed options. They mentioned that there was no description or explanation of how the inputs have been transposed into the parameters of the proposed formulae and how the constants in the formula calculated.

Four respondents (BG group, BP, RWE and Shell) raised concerns about "why now" in terms of reviewing the NTS Optional Commodity charge now since it had not been reviewed since 1998.

One respondent (Eni) suggested that looking at the NTS Optional Commodity charge was not going to have much of an impact because the main issues are caused by the high commodity charges.

One respondent (Scottish Power) suggested that updating the cost by RPI seemed a more sensible thing to do rather than using either of the two options proposed in NTS GCD11.

**National Grid's comments:**

We believe that the principles of the NTS Optional Commodity charge remain unchanged by the proposals we put forward, as the formula and assumptions remain unchanged even though the rates increase. Such an increase would still make the NTS Optional Commodity charge less than the combined commodity charge. Therefore, in our view the NTS Optional Commodity charge would remain an attractive alternative to the combined commodity charge for those using the NTS rather than making their own investment to bypass the NTS.

During the build up to publication of NTS GCD11 we provided analysis and support to help understand the formula and impacts resulting from the current NTS Optional Commodity charge. To further aid transparency we also published the formula derivation spreadsheet and the historical consultation papers for the NTS Optional Commodity charge. Whilst there has been no update of the cost since 1998, to leave it unchanged prolongs the issues identified via NTSCMF and NTS GCD11 whereby the difference between those who are paying the NTS Optional Commodity charge and those paying commodity is exacerbated. Any charge should be reviewed to ensure it is in keeping with the relevant objectives and National Grid believes that this change to the NTS Optional Commodity charge could better meet the relevant objectives, along with further changes to update the methodology, flexibility, access and cost inputs. The fact there has been no change to this point, does not mean it must remain as a fixed price, and as this is linked to investment cost this would not suggest an indefinite fixed price. There was also a proposal to review the NTS Optional Commodity charge in 2009/2010.

We also believe that as the market changes, the methodology should reflect such changes. Given the link between the NTS Optional Commodity charge and commodity rates, the increasing commodity rates cannot be ignored. As the NTS Optional Commodity charge assumes out of date project costs it leaves the NTS Optional Commodity charge less cost reflective if it remains unchanged.

With regards to indexation, we believe that applying RPI rather than the alternatives would not paint a true reflection of the major costs contributing to a pipeline investment specifically with regards to the steel costs. This is why we considered the steel Index and RPI combination as they are more reflective of the costs incurred. We have included how the RPI and Steel Index would be applied in updating the input costs in Appendix B.

**Q2. - Do you agree with the proposal to delay reviewing the methodology / access and flexibility of the NTS Optional Commodity charge until EU TAR / GTCR is more certain**

The majority of the respondents agreed with the principle of delaying the overall methodology review until there was more certainty with regards to the EU TAR and GTCR. Respondents made suggestions and comments regarding the timing of the proposed review.

Seven respondents (BG Group, BP, Centrica, EDF, Eni Trading, Shell and SSE) suggested that any review including the cost input updates should be done after EU TAR NC/GTCR was more certain.

Three respondents (Energy UK, EON and SSE) suggested that the review should be carried out after the formula has been included in the UNC to enable better governance.

**National Grid's comments:**

The EU TAR NC and GTCR may not be implemented until at least 2017. National Grid believes that the cost inputs, or indeed any review of the NTS Optional Commodity charge can and should be reviewed now as all charges should be reviewed against the relevant objectives. This is an ongoing activity and whilst other industry developments may be considered in any such review as might be necessary, they should not prevent development of the charging framework to be in keeping with the relevant objectives. A review of cost inputs and a further charging review can and in our view should be carried out ahead of wider developments. We recognise that the NTS Optional Commodity charge will potentially need to be reviewed as part of EU TAR NC and GTCR however we believe it can be done ahead of, and alongside these wider developments.

National Grid agrees that the NTS Optional Commodity charge formula should be included in the UNC. UNC 0563S – Moving the NTS Optional Commodity Charge Formula into the UNC was raised by SSE and proposes to include the formula in the UNC in its current state. Whilst National Grid believes that there is merit in including the NTS Optional Commodity charge formula in the UNC we believe that UNC 0563S essentially places a fixed price into the UNC that is not in keeping with the existing principles as applied to other charges such as NTS Exit/Entry Capacity charges and the NTS Exit/Entry Commodity charges. We still believe that further discussions should be held regarding updating the NTS Optional Commodity charge and will explore options once UNC 0563S has concluded.

**Q3. Do respondents agree with our proposed approach on timescales for notifying a change to NTS Optional Commodity charges, following the same notice periods as for other NTS charges? If not what do you believe these should be?**

Four of the respondents (EDF, Energy UK, EON and GasTerra) agreed with the proposed timelines. The majority of the respondents agreed with the proposed timelines which kept the same notice periods as the other NTS Charges.

For those that did not agree with this proposal:
Three respondents (Eni Trading, Immingham, and RWE) suggested that there should be a longer notice period.

One respondent (SSE) suggested that it should be in line with the start of the gas contracting year.

One respondent (EON) agreed on the proposed timelines and also suggested of staggering the changes to mitigate impact caused by the proposed review.

**National Grid's comments:**

National Grid proposed within the discussion document an implementation date of 1 April 2016 so that it aligned with the next available charge change and the full notice periods could be given which would then be in line with changing NTS Optional Commodity charges. However, we understand the rationale behind the requests for this to be 1 October 2016 as this would give shippers more time to prepare for any changes resulting from any proposed change which would also align with the start of the Gas Year. However in future when considering further developments for the NTS Optional Commodity charge, should changes be covered by the UNC Modification process, implementation dates for any change will form part of the Modification Proposal discussions.

With regards to notice periods being kept in line with the notice periods of other charges, it is worth noting that the GB Charging Framework has charges that change from different dates (e.g. April and October). National Grid recognises the need for a notice period, however with the different dates on which various charges change, any update to the NTS Optional Commodity charge must take timelines of other charges into account along with shippers' views on an implementation date.

**Q4 - Do respondents believe 1 April 2016 is an appropriate implementation date? If not what do you believe the implementation date should be and why?**

Two respondents did not respond to this question.

Three respondents (EDF, Energy UK and GasTerra) supported the proposed implementation date.

Eight respondents did not support the proposed implementation date and gave the following reasons to why:

Six respondents (EDF, Energy UK, EON, Gazprom, Scottish Power, and SSE) suggested 1 October 2016 as a better implementation date. A number of reasons were provided to support this view, for example:

- as this was in line with their contracts and
- gave them more time to prepare
- alignment to the Gas Year

Two respondents (Eni Trading, Shell) suggested that the implementation should only occur after the GTCR and EU TAR NC was completed.

**National Grid's comments:**

We understand the rationale for the implementation date to be moved from 1 April 2016 to 1 October 2016 as this gives shippers more time to prepare for any changes resulting from the proposed change and this would also align with the start of the Gas Year. However in future when considering further developments for the NTS Optional Commodity charge, should changes be covered by the UNC Modification process, implementation dates for any change will form part of the Modification Proposal discussions.

There is still a lot of uncertainty around the completion/implementation of the EU TAR NC and GTCR, so National Grid believes that the cost inputs, and any broader review of the charge, should be undertaken and implemented as soon as possible as we believe that all charges should always be reviewed against the relevant objectives.

**Q5 Are there any elements that you feel we should take into consideration, or that you believe we have missed and should take into account, in the two options being considered for reviewing the NTS Optional Commodity charge?**

A number of respondents raised other items for consideration and those that are not addressed in other questions are listed below.

EON pointed out that there is a need for a wider impact assessment (on the market impact) of implementing either of the options.

EON also suggested that National Grid should have a clearer proposal on future updates, as publishing a discussion paper at random time intervals does not provide certainty for market participants.

Eni Trading suggested that it would have been preferable for this proposal to have been taken forward within a UNC governance framework as they believed that this would have facilitated a fuller identification, consideration and analysis of further implications and impacts.

Shell feared that the changes that would result from these proposals are too big and they would not facilitate fair competition.

**National Grid's comments:**

National Grid does not have the ability or information available to assess the impact on shipper's customers', so we cannot comment on how the proposal would impact individual shippers. It is also worth pointing out that due to the interaction between the NTS Optional Commodity charge and the commodity charges by updating the cost inputs to the NTS Optional Commodity charge formula it would in turn reduce the commodity rates.

The changes which we have proposed have been discussed since September 2014 within NTSCMF meetings and the proposed changes follow the notice periods within the UNC and our Licence.

When the principles of the NTS Optional Commodity charge are discussed again the future updates to the prices will also be considered.

Within the current framework, recognising this may change as a result of UNC 0563S, National Grid can update the cost inputs by providing notice in accordance with our Licence. Through NTS GCD11 we have tried to mirror as closely as possible the UNC Modification process to ensure we capture stakeholders' views, as we recognise this could impact on shippers. Implementation of UNC 0563S will change the governance arrangements so any future change to the formula will follow the UNC Modification process.

Detailed comments from responses and NG NTS' responses are provided in Section 4 of this document. In order to keep this report to a manageable length, responses may have been edited. Copies of all non-confidential responses have been posted on National Grid's website at [http://www2.nationalgrid.com/UK/Industry-information/System-charges/Gas-transmission/Charging-methodology/Gas-Charging-Discussion-papers/](http://www2.nationalgrid.com/UK/Industry-information/System-charges/Gas-transmission/Charging-methodology/Gas-Charging-Discussion-papers/) under the section headed "NTS GCD11: Optional Commodity Charge Change".

The individual scoring of a specific questions based on the non-confidential responses can be seen in Appendix A.

## 4 Response Quotes[10] and NG NTS Comments

| Q1 - Do respondents prefer Option One or Option Two as the most reasonable approach, and most consistent with facilitating the relevant objectives, to update the underlying costs of the formula in an effort to bring the NTS Optional Commodity charge formula more up to date? | | | |
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| **Party** | **Quote** | **Response Quotes** | **NG NTS Response** |
| RWE | 1.1 | We do not support implementation of either option. | N/A |
| RWE | 1.2 | National Grid proposed updates are based around ensuring the underlying assumptions in generating the current NTS Optional Commodity charge formula, where possible, remain unchanged and using the same structure in the formula resulting only in updates to the four numerical constants in the equation. This is an over-simplification and we think that the validity of the charging function will be undermined. | We acknowledge that a broader review would make sense. From industry discussions it was agreed that keeping as many of the assumptions, parameters and structure the same as the current formula whilst only updating the cost inputs would be a first step towards a more fundamental review. If a broader review is to be considered this could re-assess the principles of the NTS Optional Commodity charge to attain the relevant licence objectives. |
| RWE | 1.3 | The current NTS Optional Commodity charge has not been reviewed since 1998 despite other significant developments. We question whether now is the right time to implement changes? | The issues regarding the NTS Optional Commodity charge were discussed in 2009/10 but no changes were implemented as a consensus was not reached with the industry and it was felt this should be delayed until after RIIO-T1.<br>Whilst there has been no update to the costs since 1998, to leave it unchanged prolongs the time in which the issue between those paying NTS Optional Commodity charge and those paying commodity charges exists.<br>Any charge should be reviewed to ensure it is in keeping with the relevant objectives and National Grid believes that the NTS Optional Commodity charge could be changed to better meet the relevant objectives.<br>National Grid has where possible kept the same assumptions and parameters as in the original formula from 1998.<br>The NTS Optional Commodity charge is still based on cost values set in 1998 which are out of date and not in keeping with how indexation is used across |

[10] In no particular order.

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| | | | other charges, therefore National Grid believes that the NTS Optional Commodity charge should be updated based on the latest indexation values. If we look at the other commodity charges they are updated on an annual or six monthly basis and this keeps those charges up to date and meets our licence obligations. As we are ensuring that the charges are up to date we think now is as good a time as any to start reviewing the input costs and the changes being proposed in the discussion document will provide a foundation upon which to adjust cost inputs to update future year's NTS Optional Commodity charges through amending the formula. It is also worth noting that there is some disparity between the underlying principles that calculate all the other charges (e.g. they are based on the current allowed revenues, forecast demand and forecast flows for a given year). |
| RWE | 1.4 | In making these changes it is important that the principle behind shorthaul is not lost as the change, coupled with high combined Commodity charges will give strong incentives to bypass the NTS, increasing charges and reducing competition for those connected to the NTS. | The principles of the NTS Optional Commodity Charge are unchanged by the proposals we are putting forward. The formula and assumptions remain unchanged even though the rates increase, please note that despite this increase the NTS Optional Commodity Charge is less than the combined commodity charge. This would seem to leave the NTS Optional Commodity charge as an attractive alternative to the combined commodity charge for those using the NTS rather than making their own investment to bypass the NTS. |
| SSE | 1.5 | SSE does not support implementation of either option. | N/A |
| SSE | 1.6 | We feel there has been no description or explanation of how the inputs have been transposed into the parameters of the proposed formulae. | National Grid published the model that details how the cost inputs are utilised by the formula and how the charges are derived[11]<br><br>National Grid asked Ofgem to review and approve the assumptions and indices used in the cost updates.<br>The calculation of the constants is the same as the current formula calculation and the structure of the formula remains the same. We have only updated/changed the values that are being utilised in the calculation of the |

[11] http://www2.nationalgrid.com/UK/Industry-information/System-charges/Gas-transmission/Charging-methodology/Gas-Charging-Discussion-papers

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| | | | constants; the scope of the discussion document was focused on updating these inputs as agreed with NTSCMF. |
| SSE | 1.7 | Timeliness of investments; if the shorthaul rate were now to be changed by going back over 18 years this could be considered a retrospective change and would devalue any historic investment decision not to build a private pipeline and to make use of the NTS Optional Commodity charge. | Updating the NTS Optional Commodity charge now would not be a retrospective change. We believe that investment is reviewed over time and if re-assessed this, in our view, would take account of inflationary changes.<br>To not review the investment does not seem in keeping with how other charges are calculated. |
| Immingham | 1.8 | We do not think it is appropriate that either of these two options should be implemented. Should the decision to make the change go ahead, we prefer Option Two. We think that it is more appropriate to retain the existing pipe sizes and inflate them to 2015 prices plus include the pipe sizes as included under RIIO-GT1 price control period. | N/A |
| Immingham | 1.8 | There is a lack of transparency regarding how the formula and the constants are calculated that we believe needs further review. | The calculation of the constants remains the same as the original formula and the structure of the formula also remains the same. What we have updated/changed in the proposed options are the values that are used to calculate the constants. National Grid published the model that shows how the formula is derived and detailed how the option impacted the constants. |
| Energy UK | 1.10 | Given the information provided it is not possible to express a preference as to which option is most consistent with facilitating the relevant objectives. | N/A |
| Centrica | 1.11 | Both approaches take a very narrow perspective of how the Optional Commodity Charge (OCC) should be calculated and applied. If National Grid were to completely overhaul and replace the NTS then Option 1 would seem appropriate but this is wholly unrealistic. To the extent possible, National Grid should reflect the historical/ actual costs of constructing the NTS in its charges and Option 2 would be more in keeping with this. | The scope of updating the costs has deliberately been kept narrow to keep it in line with the existing formula minimising the changes by focusing solely on updating the cost inputs through indexation. If a broader review is to be considered this would be assessed against the principles of the NTS Optional Commodity charge and the relevant licence objectives. |
| GasTerra | 1.12 | GasTerra prefers Option Two. | N/A |
| EDF | 1.13 | Option 1 better facilitates NG's licence objectives to ensure that charging methodologies:<br>Reflect the costs incurred by the licensee in its transportation | N/A |

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| | | business.<br>So far as is consistent with (1) properly take account of developments in the transportation business.<br>So far as is consistent with (1) and (2) facilitate effective competition between gas shippers and between gas suppliers. | |
| Gazprom Energy | 1..15 | Whilst we do not support either option we would prefer Option Two as the least worst option. | N/A |
| E.ON | 1.16 | In our view, the changes proposed here by NGG have the effect of altering the calculation in such a significant manner that it cannot be simply updated, as proposed. We are not able to express a preference at this stage, as we find both Options proposed unsatisfactory. | The proposed changes are only updating the current cost inputs by using RPI and the Steel Index. These options do not alter the calculation itself. |
| Scottish Power | 1.17 | As stated in the body of our response we would not favour implementation of this review at this time, so do not have a preference for either of these options. However, we would have thought that the simple RPI indexation that is quoted only for comparison purposes should have been given more substantive consideration as this also aligns more with National Grid Price Control arrangements over the majority of the period that the charge has existed. | RPI was discussed via the NTS CMF forum and was discounted on the basis that there were more factors that influenced the cost inputs than just RPI. |
| Eni Trading | 1.18 | We do not support either of the proposed two Options to update the Optional Commodity charge because we believe that the underlying issue is not with the NTS Optional Commodity charge but with the very high level of TO and SO Commodity charges that make the NTS Optional Commodity charge viable for use over even greater distances than originally expected. | All charges including the NTS Optional Commodity charge should be reviewed to ensure that they are fit for purpose.<br>Whilst we acknowledge that the commodity charge recovers a large proportion of entry revenues, we believe that this should not stop us from reviewing the cost inputs into the NTS Optional Commodity charge formula before completing a more fundamental review of the NTS Optional Commodity charge. |
| Shell | 1.19 | We do not support either option. That is not to suggest that the NTS Optional Commodity charge (OCC) will not require updating. However, the process and timeline by which this review is taking place is too hurried and at a time of significant regulatory uncertainty. | The process of discussing a change to the NTS Optional Commodity charge has been discussed in detail at NTSCMF meetings since September 2014. Industry developments should not stop the review of a charge to make sure it’s relevant and keeps the charging framework in date. If a change did not occur then this would leave the current distributional effect in place for a longer period.<br>Annual/six monthly charge updates are consistent with all other charges as |

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| | | | they are updated on this basis. |
| BP | 1.20 | We are not in favour of either option. Although we agree that the elements that make up the NTS Optional Commodity charge should be reviewed due to the fact that they have remained the same since the introduction of the charge in 1998, we do not think that the review should be carried out at this time of uncertainty within the tariffing framework of both the GB and European markets. | See response to 1.19. |

| **Q2 - Do you agree with the proposal to delay reviewing the methodology / access and flexibility of the NTS Optional Commodity charge until EU TAR / GTCR is more certain?** | | | |
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| **Party** | **Quote** | **Response Quotes** | **NG NTS Response** |
| RWE | 2.1 | We agree that it does not make sense to undertake a fundamental review of the NTS Optional Commodity charge until there is certainty about the EU TAR and Ofgem's GTCR as both could have a significant impact. | EU TAR NC / GTCR are not likely to be implemented until at least 2017, so National Grid believe that the cost inputs should be reviewed now as all charges should be regularly reviewed against the relevant objectives. National Grid also believes that now is the best time because the RIIO framework has been fully embedded. Cost input review and further charge review can and should be assessed ahead of wider industry developments. However we recognise that the NTS Optional Commodity charge will potentially also need to be reviewed as part of EU TAR NC and GTCR. This is one reason why the scope was limited to updating the cost inputs rather than a more fundamental review. |
| SSE | 2.2 | Yes, this is clearly the right thing to do as a policy change driven by EU TAR NC or Ofgem's GTCR to remove commodity charges or materially reduce them will impact the usage of the NTS Optional Commodity charge. Frequent and unnecessary changes to charges are unhelpful in offering stable prices to customers and as such we would prefer for only one change to the NTS Optional Commodity charge formula and principles once the EU TAR NC has been determined through Comitology | See response to 2.1 |

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| | | and implementation into the UNC. | |
| SSE | 2.3 | In addition, this will allow time for the methodology and charge function to be incorporated into the UNC. | National Grid agrees that more information should be included in the UNC but feels that there would need to be some work done on what is specified within the UNC as in our view any changes should be based on variables rather than fixed figures being specified within the UNC. Subsequently UNC0563S has been raised and we will wait until the completion of the UNC 0563S process before moving forward or discussing any further developments. |
| Immingham | 2.4 | We agree with the proposal to delay reviewing the methodology / access and flexibility of the charge until any changes that are required as a result of the EU Tariff Network Code and Gas Transmission Charging Review are understood. | See response to 2.1 |
| Energy UK | 2.5 | Yes – but we consider the whole issue should be reviewed under UNC governance by incorporating the charge function and methodology for determining the indices into the UNC. | See response to 2.1 and 2.3 |
| Centrica | 2.6 | There should be no change to the OCC methodology or formula until there is a full understanding of how the EU Tariff Code and Gas Transmission Charging Review will impact on wider transportation charging arrangements. Whilst we recognise that National Grid is obliged to review its charges and charging methodologies from time to time, the current focus on the NTS Optional Commodity charge is premature. | The updating of the inputs to the cost elements of the formula was based on industry feedback at the NTSCMF meetings.<br>This decision was seen as a step in the right direction towards a more comprehensive review.<br>Delaying any potential changes or review due to the uncertainty regarding the timing of any EU changes would only prolong the impacts of the existing NTS Optional Commodity charge issues. |
| Centrica | 2.7 | Any concerns that National Grid might have over appropriate means of revenue recovery might disappear or be considerably lessened should a new charging framework be introduced in a few years' time. | National Grid's concern is with regards to the appropriate distribution of the charges to recover our allowed revenues and ensuring there is a charging framework in place that facilitates our Licence obligations. |
| Gas Terra | 2.8 | Yes, GasTerra agrees | N/A |
| EDF | 2.9 | We agree that there are a number of other charging regime changes currently being considered, such as Ofgem's charging review (GTCR) and the EU Tariffs code that should be taken into account in any review of the principles behind the NTS Optional Commodity charge. For these reasons, we agree the review | See response to 2.1 |

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| | | should only take place once certainty is gained from EU Tariff's code and Ofgem's GTCR. | |
| BG Group | 2.10 | While we appreciate that the formula has remained the same since its introduction in 1998, we do not believe that now is an appropriate time to make any adjustments. BG's preference would be for any review to be conducted once there is clarity on the requirements of the EU TAR NC. | See response to 2.1 |
| E.ON | 2.12 | Yes, although we consider that the changes proposed here are significant enough to warrant a delay by National Grid in making a final decision, in order to fully understand the impact; particularly on the wholesale gas market. As noted above, we consider this would be best carried out under established UNC governance procedures. | See response to 2.3 |
| Scottish Power | 2.13 | We agree with the proposal to defer reviewing the methodology / access and flexibility of the NTS Optional Commodity charge until the EU TAR NC and Ofgem's GTCR are more certain. However, we would extend that deferral to these current proposals to allow a more holistic approach. This would allow due account to be taken of the overall charging context and the place that the NTS Optional Commodity charge may have in that, if any. | See response to 2.1 and 2.6 |
| Eni Trading | 2.14 | We agree that reviewing the methodology/access and flexibility of the NTS Optional Commodity charge should be delayed until EU TAR NC is more certain; in the same way it deems that it is not appropriate even to review the cost inputs to the NTS Optional Commodity charge at this stage. | See response to 2.1 and 2.6 |
| Shell | 2.15 | We believe there should be no change until there is greater certainty regarding the EU TAR NC and the basis on which the optional or other tariffs may be offered. | See response to 2.1 and 2.6 |
| BP | 2.16 | We believe that any review of charging should be delayed until there is more clarity surrounding the GTCR and the EU TAR NC. | See response to 2.1 |

| Q3 - Do respondents agree with our proposed approach on timescales for notifying a change to NTS Optional Commodity charges, following the same notice periods as for other NTS charges? If not what do you believe these should be? | | | |
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| **Party** | **Quote** | **Response Quotes** | **NG NTS Response** |
| RWE | 3.1 | No, we do not agree. In our view, the tariff should be fixed at the time of election. However, where changes are made, any notice period should reflect the nature of the NTS Optional Commodity charge as a proxy for the alternative cost of building a dedicated pipeline and be at least 18 months. | We believe that investment decisions would be continually assessed and if so this would not support keeping the original NTS Optional Commodity charge fixed for those already on the charge. |
| SSE | 3.2 | Considering this case and the impact it will have on existing bi-lateral contracts and the consequential impact on customers, it will be more appropriate to commence any changes in October 2016, at the start of the gas contracting year, rather than mid contract year in April. | National Grid had proposed within the discussion document an implementation date of 1 April 2016 so that it aligns the NTS Optional Commodity charge rate with the next charge setting timelines. However, we understand the rationale for this to be 1 October 2016 as this gives shippers more time to prepare for any changes which would result from the proposed options and that this would also align with the start of the Gas year. However in future when considering further developments for the NTS Optional Commodity charge, assuming UNC 0563S is implemented, the implementation dates for any change will form part of the discussions. |
| Immingham | 3.3 | Yes, we agree that all notification should be aligned. However, notification periods are too short and we believe that a longer notification period is required. | We were proposing utilising the existing commodity charge notification period i.e. 1 April 2016. This would have been achieved if the original proposal had been implemented in the original timelines. If the 1 October 2016 implementation had been taken forward this would have increased the indicative notice period. Although we recognise the formal NTS Optional Commodity charge for 1 October 2016 would have still been set in May 2016. When considering further developments for the NTS Optional Commodity charge, assuming UNC 0563S is implemented, the implementation dates for any change will form part of the discussions. It is also worth noting that the NTS Optional Commodity charge and potential changes have been discussed with industry since September 2014. |
| Energy UK | 3.4 | Yes the notification periods are consistent with other charges. | N/A |
| Energy UK | 3.5 | But the changes to the methodology for determining the cost inputs and indices, we believe should be considered under UNC | See response to 2.3 |

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| | | governance. | |
| Centrica | 3.6 | We do not agree with the proposed approach. | N/A |
| Centrica | 3.7 | We are very concerned about the lack of formal governance for the NTS Optional Commodity charge and believe that a more rigorous approach should be taken before any change is made. | See response to 2.3 |
| Gas Terra | 3.8 | Yes, GasTerra agrees. | N/A |
| EDF | 3.9 | Yes, we agree that this change if implemented should follow the same notice periods as other NTS charges – i.e. 150 days (Indicative notice). We do not believe this change is sufficiently material to warrant a different notice period to he agreed charging processes. | N/A |
| E.ON | 3.12 | Yes, the notification periods are consistent with other NTS charges. | N/A |
| E.ON | 3.13 | However, if National Grid chooses to pursue Options One or Two, it should explore the option of "staggering" the impact of the charges over a number of years, rather than introducing a full update to the input costs, as proposed. | National Grid does not believe that staggering the implementation is the best approach. Staggering changes would still mean that the product is out of date for a longer period. However in future when considering further developments for the NTS Optional Commodity charge, assuming UNC 0563S is implemented, the implementation dates for any change will form part of the discussions. |
| Scottish Power | 3.14 | In the event that the proposed changes were to proceed we would agree with this proposed approach. | N/A |
| Eni Trading | 3.15 | We disagree with the proposed approach on the timescale for notifying a change to NTS Optional Commodity charges. Due to the nature of the contracts that are associated with the Optional Commodity charges, the notice period needs to be at least one year. | See response to 3.3 |
| Shell | 3.16 | No | See response to 3.3 |
| BP | 3.17 | No, as we have stated above we believe that any review is delayed until there is more certainty around transmission charges. | See response to 2.1 |

| Q4 - Do respondents believe 1 April 2016 is an appropriate implementation date? If not what do you believe the implementation date should be and why? | | | |
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| **Party** | **Quote** | **Response Quotes** | **NG NTS Response** |
| RWE | 4.1 | No. The changes are much wider than simply an update to the relevant input costs. We believe that the proposed changes result in changes to the methodology which would require a UNC modification. From a practical perspective, counterparties have already entered into contracts to secure the NTS Optional Commodity change based on the current methodology. If the methodology changes prior to the expiry of these contracts then it is likely that they will be a significant impact on the economic value of these contracts. | Keeping the original NTS Optional Commodity charge for those already on the charge may not accommodate the flexibility of the original charge which was to be able to be reviewed at the same time as the annual review of the general transportation charges using an escalator of RPI-X. Although we recognise that any change may have contractual impacts on shippers, an October 2016 implementation would have given 12 months' notice, also the review of the NTS Optional Commodity charge has been discussed since September 2014. Also see response 2.3 |
| SSE | 4.2 | As stated above, to avoid adverse impacts on existing bilateral contractual agreements a 1st October implementation date would be preferred. | See response to 3.2 |
| Immingham | 4.3 | No, we do not believe that April 2016 is a suitable implementation date. With this likely to be less than 6 months from the date of any decision being published and likely to result in significant increases to costs for some gas shippers, when budgets may already be set, timeframes appear to be too short. | See response to 3.2 |
| Energy UK | 4.4 | Our Members have a range of views on this issue ranging from April 2016 to aligning with changes arising from the EU tariff code / Ofgem transmission charging review so that a more holistic approach can be taken. There is support for any change to take effect from October rather than April to align with the contract year. | See response to 3.2 |
| Centrica | 4.5 | For the reasons provided in answer to Question 2, we do not think that changes should be considered at this time with a view to implementing them next year. In the medium to long term, if changes were to be made to the OCC it would be natural to anchor them to 1 October, consistent with the commencement of the Gas Year and a typical check point for supply contract commencements or renewals. | See response to 3.2 |

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| Gas Terra | 4.6 | Yes, GasTerra believes 1 April 2016 is appropriate. | N/A |
| EDF | 4.7 | We would support a longer implementation lead time but the change is relatively immaterial. As such and for the reasons stated above, we believe 1 April 2016 is an appropriate implementation date as it provides the 150 days indicative notice lead time, if implemented by October 2015. | N/A |
| BG Group | 4.8 | If a change to the formula is to be introduced, a delay to the proposed implementation dates, so that any change comes into effect from the start of the following gas year (1st October 2016). Introducing a change part way through a gas year as is currently proposed causes unnecessary uncertainty for those parties finalising contracts for the upcoming gas year. | See response to 3.2 |
| Gazprom Energy | 4.9 | We would like to highlight our concerns over the proposed implementation date of April 2016. This provides less than 8 months' notice of a significant material changes to consumers charges and contracts. To avoid additional unnecessary disruption to consumers / suppliers we would prefer to see implementation aligned with the start of the Gas / Contract Year and therefore prefer implementation to be aligned with the 1st October 2016. | See response to 3.2 |
| EON | 4.10 | No. It is our strongly held view that any change to the NTS Optional Commodity charge calculation should be introduced at the start of a gas year to coincide with contractual changes within the gas market. As such, we would only wish to see any change taking effect from October other than April. | See response to 3.2 |
| Scottish Power | 4.11 | Implementation that was aligned with others that may be introduced via the EU Tariffs Network Code and/or Ofgem's Gas Transmission Charging Review would appear appropriate, with October being the preference to align with the Gas Year. | See response to 2.1 |
| Eni Trading | 4.12 | We believe that the appropriate date for implementing changes in the NTS Optional Commodity charge is the date when the GTCR implementation takes place. | See response to 2.1 |

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| Shell | 4.13 | We reiterate our view that there should not be any change until Ofgem has clearly signalled what will form its GTCR (and this depends on the EU NC TAR). Ahead of any subsequent implementation process, National Grid should make clear the results of discussions it has had with Ofgem regarding not only the governance-related framework applicable to any changes but also the proposed updating of inputs from 1998 to the current RIIO price control approach. | See response to 2.1 |
| BP | 4.14 | We do not believe 1 April 2016 is an appropriate implementation date for the reasons stated above. | See response to 2.1 and 3.2 |

| **Q5 - Are there any elements that you feel we should take into consideration, or that you believe we have missed and should take into account, in the two options being considered for reviewing the NTS Optional Commodity charge?** | | | |
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| **Party** | **Quote** | **Response Quotes** | **NG NTS Response** |
| RWE | 5.1 | There are a number of issues that we believe should be considered:<br>• Further explanation of the inclusion of connection costs in the methodology as they are funded outside of transportation charges;<br>• Derivation of the 0km element;<br>• A more appropriate annuitisation factor. | National Grid published the model that details how the cost inputs are utilised by the formula and how the charges are derived[12] |
| SSE | 5.2 | Indexing the NTS Optional Commodity charge formula inputs to the cost of steel for pipe and labour from 1998 to 2015 should be investigated. | The variable cost components are primarily the direct material costs for the pipelines which were set in 1998. Due to some of these pipeline sizes being distribution related and pipeline sizes for NTS being updated under RIIOT1. We did not have a directly comparable set of costs to enable us to bring these up to date. In an effort to ensure a consistent approach across both the old pipe diameters and the new proposed pipe diameters, we used a combination of |

[12] http://www2.nationalgrid.com/UK/Industry-information/System-charges/Gas-transmission/Charging-methodology/Gas-Charging-Discussion-papers

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| | | | both RPI and steel indices from the government website; more details around the indices can be seen in the discussion document and also in Appendix B. |
| SSE | 5.3 | We think there should only be one change to shorthaul charges once the EU TAR NC has been implemented and transposed into the UNC. | See response to 2.1 and 2.6 |
| Immingham | 5.4 | Given the substantial increase in costs likely to be incurred by many of those parties on Optional Commodity charge, we wonder whether a phased approach could be introduced, whereby the additional costs are introduced over a two year period. | See response to 3.13 |
| Energy UK | 5.5 | There are a number of elements that we consider need further attention:<br>• The impact on customers<br>• The impact on market efficiency<br>• Potential impact on electricity security of supply, if the economic viability of marginal CCGTs, currently on the shorthaul tariffs is affected, mothball / closure decisions may be brought forward.<br>• Impact on long term investments both past and future, the decision to build / or not to build an alternative pipeline is a one-off at a point in time. Consideration should be given to the OCC reflecting that decision.<br>• Whether the revised tariff should apply only to new points applying for the shorthaul tariff.<br>• Clearer definition and transparency of the methodology to determine the indices especially since paragraph 5.9 of the discussion document seems to suggest regular updates.<br>• Updating by RPI needs further consideration as to whether that is cost – reflective of material and labour costs. Other indices may be more appropriate.<br>• Further exploration of the impact of the change to the flow rate assumptions<br>• Establishment of better governance by including the formula | National Grid does not have the ability or information available to assess the impact on shipper’s customers, so we cannot comment on how the proposal would impact individual shippers. It is also worth pointing out that due to the interaction between the NTS Optional Commodity charge and the commodity charges by updating the cost inputs to the NTS Optional Commodity charge formula it would in turn reduce the commodity rates. We continue to seek and welcome shippers and customers providing further information so that together with the industry we can better understand the impacts in discussions.<br><br>There may be a potential positive impact on market efficiency as any change could be viewed as more accurately reflecting the balance of charges between NTS Optional Commodity and standard commodity charges.<br><br>NTS Optional Commodity charge is not the only charge levied to shippers. Changes to charges are not uncommon and we understand the need for shippers to be able to have greater certainty around their charges. Changes should be possible under the framework and there are many reasons why charges change, be they for capacity or commodity. Changes to charges should not exclude the NTS Optional Commodity charge as it forms part of the overall charging framework for GB.<br><br>NTS GCD11 looked at applying changes equitably and to keep change relatively simple, applying to all those on the NTS Optional Commodity charge. The |

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| | | and methodology for determining the indices in the UNC. | original product did envisage changes, at the very least by reviewing them at the same time as the review of general transportation charges and it was proposed to update them using RPI-X. Any future review of the NTS Optional Commodity charge would look at flexibility, accessibility, criteria, etc.<br>The indices used are explained in more detail in Appendix B and in the published formula spreadsheets.<br><br>We believe it is appropriate to combine RPI and Steel Index and any future review will consider how best to update any relevant cost inputs in regards to the application of indexation.<br><br>We have produced additional explanation and transparency of the calculation to the update of adding new flow rates in the published formula spreadsheets.<br><br>We believe that there should always be an opportunity to feed in any industry impacts as a result of any proposal and as such welcome views on the issues raised, although to date no further impacts have been identified through this process.<br><br>NTS GCD11 is not looking at changing any principles of the NTS Optional Commodity charge just simply updating the inputs utilised to calculate the charges. Even after updating the cost input the NTS Optional Commodity charge remains a cheaper alternative to the combined commodity rate for most who are currently taking advantage of the NTS Optional Commodity charge. We did not have any impacts identified via the NTS GCD11 responses so at this point we do not see any wider impacts as a result of the review.<br><br>From NTSCMF feedback we understood the potential consequences of the proposed change which is why we published the discussion document to gather further industry views.<br><br>We support the inclusion of the NTS Optional Commodity charge within the UNC if UNC 0563S is implemented. Any change to the NTS Optional |

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| | | | Commodity charge formula will then go through the normal UNC change process. |
| Centrica | 5.6 | Impact Assessment as part of the decision-making process. Such an assessment should consider:<br>The impact on large NTS consumers generally.<br>More specifically, whether gas-fired generating plant might become uneconomic with consequences for the security of supply for electricity.<br>The effects that changes to the NTS Optional Commodity charge might have on the gas market, noting especially how gas flows via the three interconnectors might be impacted. | See response to 5.5 |
| GasTerra | 5.7 | No, there aren't any elements GasTerra thinks should also be taken into account. | N/A |
| EON | 5.11 | We consider that RPI is the most cost-reflective inflation measure to use and future work on the NTS Optional Commodity charge methodology should be focused on this. | As the charge is related to investment and steel costs are a large proportion of the overall cost, we believe that a combination of RPI and Steel Indices is most appropriate. |
| EON | 5.12 | In addition, as this is a NGG discussion paper, it (perhaps not unreasonably) does not consider in sufficient detail, the impact on market participants and focusing primarily on revenue recovery principles. | See response to 5.5 |
| E.ON | 5.13 | Needs to be a clearer proposal on future updates, as publishing a discussion paper at random time intervals does not provide certainty for market participants. | The changes which we have proposed have been discussed since September 2014 within NTSCMF meetings and the proposed changes follow the notice periods detailed within the Licence.<br>When the principles of the NTS Optional Commodity charge are discussed with industry future updates to the prices will be considered. |
| Scottish Power | 5.14 | It would have been preferable for this proposal to have been taken forward within a UNC governance framework that we believe would have facilitated a fuller identification, consideration and analysis of further implications and impacts. | At the time that this proposal was being developed the NTS Optional Commodity charge methodology was not included within the UNC. Subsequently UNC 0563S has been raised to include the formula within the UNC, Please see Section 1 regarding how this affects NTS GCD11.<br><br>In future when considering further developments for the NTS Optional Commodity charge, should Modification 0563 be implemented, a full range of impacts would be assessed. |

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| Eni Trading | 5.15 | NG should take in account historical records that show that the current NTS Optional Commodity charge is adequate for the regime with moderate commodity charges. | It is unclear to us what is meant by a moderate commodity charge but TO Entry Commodity is circa 70% of recovery of TO Entry revenues and circa 30% of TO Exit revenue is recovered on Exit Commodity. |
| Shell | 5.16 | We do not see how tariff changes of the scale suggested in the paper will help facilitate competition between shippers and suppliers. In particular, the scale of tariff changes is likely to have the opposite effect.<br>In that context, it is worth noting Article 42 (2) of the EU NC TAR as recently submitted by ENTSOG to ACER and the significance it places on tariff increases of more than 20%. In short, an increase in excess of this figure can trigger a delay in implementation of the Code. As National Grid will be required to implement this Code, we wonder why it is willing to countenance optional tariff changes of more than 100%. | The EU TAR NC has not formally been ratified or passed through comitology. As such the EU TAR code is currently not in place, although we recognise that changes to the charges could cause the charges to increase/decrease by more than 20%. Changes to charges are not uncommon and whilst we understand the need for shippers to be able to have greater certainty around their charges, changes should be possible under the framework. There are many reasons why charges change, be they for capacity or commodity and percentage changes in excess of 20% can happen and the TAR Code does not currently preclude this. Changes to charges should not exclude the NTS Optional Commodity charge as it is part of the overall charging framework for GB. Once the EU TAR Code is implemented the rules will be transposed into the GB framework to ensure compliance.<br><br>The inputs into the NTS Optional Commodity charge formula have not changed since 1998, as the change in costs over these years has increased this is going to have a noticeable change in prices as it covers a longer period of time. The EU TAR Code is driven by the 3rd energy package regulation EC 715/2009 where article 13requires tariffs to reflect the actual costs incurred.<br>Update covers a long period of time (1998 – 2015). This charge also impacts the commodity charge. |
| BP | 5.17 | Although the EU TAR NC contains the provision for the application of an NTS Optional Commodity charge the tariff will be applied to the capacity element of the charge. When the EU TAR NC is implemented within the GB market it would appear that the application of the NTS Optional Commodity charge will have to cease and a capacity related charge will have to be introduced. We believe that National Grid should clarify if this is indeed the case. This would appear to be another reason why it is inappropriate to commence a review of the NTS Optional Commodity charge at this time. | See response to 5.16 and 2.1 |

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| | | The two proposed options both see significant increases in the optional commodity charge of over 150% yet Within the EU TAR NC that has been re-presented to ACER there is the provision for the TSO to delay the implementation of the code for 24 months if the tariffs are to increase by over 20% due to the introduction of the EU TAR NC. | |

# 5 Proposal and Next Steps

National Grid has carefully considered the responses to the charging discussion document NTS GCD11 and is proposing the following approach at this time:

1. Not to elect one of the two options proposed in NTS GCD11 and allow the UNC Modification process for UNC 0563S to conclude before making any further proposals for potential changes to the NTS Optional Commodity charge. Depending on the outcome of UNC 0563S we propose to raise a UNC Modification to ensure the NTS Optional Commodity charge is in keeping with the original objectives and to make it more compliant with the overall framework and relevant charging objectives.
2. Subsequently make proposals to update the NTS Optional Commodity charge, within the relevant governance framework. Potentially raise a UNC modification, assuming that UNC 0563S is implemented, that would look to ensure the NTS Optional Commodity charge is in keeping with the original principles, (to make it more compliant with the overall framework and the relevant charging objectives). Any such proposal will discuss the broader objectives and principles of the NTS Optional Commodity charge and could include EU TAR NC / GTCR impacts, other issues identified; UNC Modifications can be raised if required.

We believe that updating the NTS Optional Commodity charge is the right thing to do. Whilst we do not agree with fixed prices forming part of the UNC, we recognise that if UNC Mod 0563S completes and is implemented then it changes the governance process regarding the NTS Optional Commodity charge.

## Appendix A

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

Q1. Do respondents prefer Option One or Option Two as the most reasonable approach, and most consistent with facilitating the relevant objectives, to update the underlying costs of the formula in an effort to bring the NTS Optional Commodity charge formula more up to date?

| View | None | Option One | Option Two | Total |
|---|---|---|---|---|
| Number of respondents | 9 | 1 | 4 | 14 |

Q2. Do you agree with the proposal to delay reviewing the methodology / access and flexibility of the NTS Optional Commodity charge until EU TAR / GTCR is more certain

| View | None | Option One | Option Two | Total |
|---|---|---|---|---|
| Number of respondents | 13 | 0 | 1 | 14 |

Q3. Do respondents agree with our proposed approach on timescales for notifying a change to NTS Optional Commodity charges, following the same notice periods as for other NTS charges? If not what do you believe these should be?

| View | None | Option One | Option Two | Total |
|---|---|---|---|---|
| Number of respondents | 6 | 3 | 5 | 14 |

Q4. Do respondents believe 1 April 2016 is an appropriate implementation date? If not what do you believe the implementation date should be and why?

| View | None | Option One | Option Two | Total |
|---|---|---|---|---|
| Number of respondents | 2 | 8 | 4 | 14 |

Q5. Are there any elements that you feel we should take into consideration, or that you believe we have missed and should take into account, in the two options being considered for reviewing the NTS Optional Commodity charge?

| **View** | **Number of respondents** |
|---|---|
| Consideration of the wider market implications including customers' impacts should be taken into account | 3 |
| Preferable to take forward via UNC governance | 2 |
| RPI is most appropriate measure | 2 |
| Further explanation requested on elements of the calculation | 2 |
| Any review should wait until GTCR/EU is either more certain or concluded | 2 |
| Changes should only apply to new points rather than existing | 1 |
| Issue is more on high commodity charges and not the NTS Optional Commodity charge | 1 |

## Appendix B

The following approach was used in updating the values based on the indices:

- For all those pipe diameters in the current portfolio we indexed the variable unit costs using a Steel index (K3X5 :Basic Iron & Steel & of Ferro-alloys - Non EU Imports 13), to apply the adjustment from 1998 to 2009/10; then
- For all values either resulting from (a) or where 2009/10 prices are available (610mm, 915mm and 1220mm), we adjusted from 2009/10 to 2015/16 by indexing them using RPI to bring costs up date.

For the Steel Index we took the average for Q2, Q3, Q4, and Q1 for the relevant years in order to index between the two applicable years (1998/99 – 2009/10) and divided the latest year (2009/10) of the two by the older one (1998/99). The resulting values for the relevant periods are shown the table below.

| | 1998/99 | | 2009/10 | Steel Index |
|---|---|---|---|---|
| Q2 1997 | 37.3 | Q2 2009 | 70.2 | |
| Q3 1997 | 36.6 | Q3 2009 | 80.7 | |
| Q4 1997 | 36.8 | Q4 2009 | 80.4 | |
| Q1 1998 | 35.1 | Q1 2010 | 88.4 | |
| Average | 36.45 | Average | 79.925 | 2.19272977 (1998/99 – 2009/10) |

For RPI we took the same approach but instead of using the quarterly numbers we used the average of the monthly RPI Index values for the following two applicable years (1998/99 - 2009/10), (1998/99 – 2015/16) and divided the latest year of the two by the older one. The resulting values used for the relevant periods are shown in the table below.

| RPI Rates | |
|---|---|
| 1.35587318 | (1998/99 – 2009/10) |
| 1.22664930 | (2009/10 – 2015/16) |

Where costs are being adjusted from 2009/10 to 2015/16 we have indexed these costs to 2015/16 prices using the same RPI index that is applied when making RPI adjustments to allowances or revenues under the terms of the Licence in calculating the allowed revenues for recovery through Transmission charges.

Where we apply a different index, notably for variable costs adjusting from 1998/99 to 2009/10, the steel index used is the “K3X5: Basic Iron & Steel & of Ferro-alloys - Non EU Imports” index taken from the Office of National Statistics website. We feel this was a sensible approach as this gives us updated cost inputs based on using available reference values for the unit cost and the available market indices to updating the current costing values.

[13] Available as part of the “MM22 Producer Price Index Dataset” published under the “Produce Price Index” http://www.ons.gov.uk/ons/rel/ppi2/producer-price-index/index.html. Direct link to index: http://www.ons.gov.uk/ons/datasets-and-tables/data-selector.html?cdid=K3X5&dataset=mm22&table-id=5