

Gas Transmission

Transmission Workgroup Meeting: 1st October 2020

Agenda Item 4.0 - Cost Recovery Arrangements for Gas Quality Limit Changes at NTS Entry Points

Action 0901: Requests to Change Gas Quality Limits at Individual Entry Points:

PH to provide further clarity on the cost elements and regulations of how the costs are broken down in order to provide assurance that National Grid will not be recovering costs twice. PH is also to include the previously asked PARCA element as part of his response.

National Grid Response

At the September 2020 Workgroup meeting, National Grid communicated its proposal to recover all its manpower costs associated with facilitating a change to a gas quality limit at an NTS System Entry Point from the party requesting the change. These costs would typically include:

- bilateral discussions with the requesting party
- UNC workgroup time
- Network analysts' time to conduct NTS 'penetration / heat map' analysis
- Facilitating works on-site to give effect to the change following UNC approval.

A number of different teams within National Grid are involved at different stages of the process and the appropriateness of direct cost-recovery from the requesting party or, by default, from all shippers via transportation charges depends on the funding basis for a particular team. The relevant National Grid teams for gas quality limit changes fall into one of two categories:

- 1) Teams whose human resource is funded solely from OPEX, i.e. people who are funded 100% from regulated allowed revenues; or
- 2) Teams whose human resource is funded partly from regulated allowed revenues and partly from customer-driven work. We make assumptions about the volumes of this work because we are not set up to recruit / dismiss people as and when projects arise and complete.

The relevant teams and our revised proposals for cost recovery are summarised in the table below.

Team	Gas quality limit change activities	Current Funding Basis	Proposed cost recovery arrangements for gas quality limit changes
Market Change Delivery Team	Customer liaison / project manager / UNC workgroups	Exclusively from allowed revenues (opex)	This team is funded for its 'market facilitation' role which includes an expectation that there will be some UNC gas quality modifications. Therefore, as a general rule, we <u>do not</u> propose to recover manpower costs for this team directly from the requesting party. However, where a proposal goes beyond the activities that we would expect to perform – such as with UNC 0714 where we need to develop new ways of working at Bacton, identify and implement new risk mitigations, apply to HSE for a change to our Safety Case etc. these are activities that we did not envisage, thus go beyond the assumed funding basis for this team and in these cases we do propose to recover our time directly from the requesting party.
Connections Team	Customer liaison / liaison with operational teams to implement on-site changes	Part allowed revenues, part from customer-driven projects	This team's activities in relation to gas quality limit changes are assumed to be directly funded by the customer, therefore we propose to recover manpower costs from this team directly from the requesting party.
Network Capability Team	NTS penetration analysis / heat maps	Part allowed revenues, part from customer-driven projects	This team is expected to be funded partly from customer-driven work, therefore we propose to recover these network analyst costs directly from the requesting party. This would be consistent with the work done by this team in relation to PARCAs.
Engineering and Asset Management	On-site works post UNC approval	Part allowed revenues, part from customer-driven projects	This team's activities in relation to gas quality limit changes are assumed to be directly funded by the customer, therefore we propose to continue to recover manpower costs within this team directly from the requesting party.
Other GSO teams	SCADA system changes, GNCC alarm settings, end to end testing post siteworks	Exclusively from allowed revenues (opex)	Whilst these teams are 100% opex funded, these types of activities are additional to those that the allowed revenues cover. We therefore propose to recover these manpower costs directly from the requesting party.

Regulatory Accounting for Customer-funded Work

All costs and revenues received by National Grid directly from the requesting party in relation to a gas quality limit change are accounted for within 'excluded services' income. This is consistent with the accounting treatment of costs and revenues received from customers in relation to PARCA applications.

More broadly, wherever National Grid provides services to third parties that are additional to its licenced activities, the commercial terms for those services are set in accordance with a pricing and governance framework that ensures we can demonstrate to Ofgem that they are appropriate and we are not making 'super-normal' profits by virtue of our status as a monopoly gas transporter.

Action 0902: Requests to Change Gas Quality Limits at Individual Entry Points:

PH to review what the framework would look like for setting up a Service Line. PH to provide further clarity on a proposed framework and clarify how this change in policy would manifest.

National Grid Response

We agree with the Workgroup that it is important that prospective customers are clear on the service that they can expect to receive from National Grid when considering a proposal for a gas quality limit change. We propose that this would be set out with indicative costs and timescales in a guidance document that is published on our website. This is already emerging as a recommendation from the Gas Quality Gas Markets Plan (GMaP) project that we are currently working on with a small group of customers and stakeholders.

In the meantime, we will be consulting on changes to our Connection Charging Statement in Autumn 2020 and we propose include greater clarity on the cost recovery arrangements for gas quality limit changes within that document.