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7<sup>th</sup> May 2019  
Your Reference: UNC Modification Proposal 0678 / 0678A /  
0678B / 0678C / 0678D / 0678E / 0678F / 0678G / 0678H /  
0678I and 0678J

UNC Modification Proposal  
0678/0678A/0678B/0678C/0678D/0678E/0678F/0678G/0678H/0678I/0678J (Urgent)  
– Amendments to Gas Transmission Charging Regime

Dear Bob,

Thank you for your invitation seeking representations with respect to the above Modification Proposals.

**Do you support or oppose implementation?**

0678 – Qualified Support

0678A – Oppose

0678B – Oppose

0678C – Oppose

0678D – Oppose

0678E – Oppose

0678F – Oppose

0678G – Oppose

0678H – Oppose

0678I – Oppose

0678J – Oppose

### Expression of Preference:

If either 0678; 0678A; 0678B; 0678C; 0678D; 0678E; 0678F; 0678G; 0678H; 0678I or 0678J were to be implemented, which **ONE** Modification would be your preference?

0678

### Standard Relevant Objective:

#### **0678**

- a) None
- b) None
- c) Positive
- d) Positive
- e) None
- f) None
- g) Positive

#### **0678A**

- a) None
- b) None
- c) Positive
- d) Positive
- e) None
- f) None
- g) Positive

#### **0678B**

- a) None
- b) None
- c) Positive
- d) Positive
- e) None
- f) None
- g) Positive

#### **0678C**

- a) Positive
- b) Positive
- c) Positive
- d) Positive
- e) None
- f) None
- g) Positive

**0678D**

- a) None
- b) None
- c) Positive
- d) Positive
- e) None
- f) None
- g) Positive

**0678E**

- a) Positive
- b) Positive
- c) Positive
- d) Positive
- e) None
- f) None
- g) Positive

**0678F**

- a) Positive
- b) Positive
- c) Positive
- d) Positive
- e) None
- f) None
- g) Positive

**0678G**

- a) Positive
- b) None
- c) Positive
- d) Positive
- e) None
- f) None
- g) Positive

**0678H**

- a) Positive
- b) None
- c) Positive
- d) Positive
- e) None
- f) None
- g) Positive

**0678I**

- a) Positive
- b) None
- c) Positive
- d) Positive

- e) None
- f) None
- g) Positive

**0678J**

- a) Positive
- b) None
- c) Positive
- d) Positive
- e) None
- f) None
- g) Positive

**Charging Methodology Relevant Objective:**

**0678**

- a) Positive
- aa) Positive
- b) Positive
- c) Positive
- d) None
- e) Positive

**0678A**

- a) None
- aa) None
- b) Positive
- c) None
- d) None
- e) Positive

**0678B**

- a) Positive
- aa) Positive
- b) Positive
- c) Positive
- d) None
- e) Positive

**0678C**

- a) Positive
- aa) None
- b) Positive
- c) Positive
- d) None
- e) Positive

**0678D**

- a) Positive

- aa) Positive
- b) Positive
- c) Positive
- d) None
- e) Positive

**0678E**

- a) Positive
- aa) Positive
- b) Positive
- c) Positive
- d) None
- e) Positive

**0678F**

- a) Positive
- aa) Positive
- b) Positive
- c) Positive
- d) None
- e) Positive

**0678G**

- a) Positive
- aa) Positive
- b) Positive
- c) Positive
- d) None
- e) Positive

**0678H**

- a) Positive
- aa) Positive
- b) Positive
- c) Positive
- d) None
- e) Positive

**0678I**

- a) Positive
- aa) Positive
- b) Positive
- c) Positive
- d) None
- e) Positive

**0678J**

- a) Positive
- aa) Positive

- b) Positive
- c) Positive
- d) None
- e) Positive

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

In arriving at our view, Cadent has considered the key variable components of the core methodology change, and how these are treated in each modification variant.

## Summary

- Qualified Support for Capacity Weighted Distance (CWD) as the most cost reflective reserve price methodology (0678, 0678B, 0678D, 0678E, 0678F, 0678G and 0678I)
  - Oppose all others (0678A, 0678C, 0678H and 0678J)
- Support the removal of the optional commodity (shorthaul) charge (0678, 0678E, 0678F)
- Support a Specific Reserve Price Discount of 50% for Storage (0678 remains)
- Support an interruptible discount of 10% subject to ongoing review

### Main Component Points

**Capacity Weighted Distance (CWD):** Cadent supports this as the most cost reflective approach as both distance and load size are taken into consideration. There may be opportunities to further enhance the approach by modelling actual gas flows and comparing it to the theoretical movement of gas.

**Forecasted Contractual Capacity (FCC):** Cadent is of the opinion that the proposed FCC approach for GDNs provides the best forward projection of actual bookings as it can be, resulting in more appropriate reserve price calculations with reduced need for revenue recovery mechanisms. An FCC based upon Annual Capacity Bookings (for the GDNs) should result in more stable NTS charges when compared to an FCC based upon Actual flows. Whilst it is proposed that the FCC methodology is not contained within code, we recommend that this is kept under transparent annual review via the Transmission Charging Methodology Forum, whilst the new charging methodology beds in, and to take account of any relevant changes to the regulatory framework for RIIO-2.

**Reserve Price: Firm & Interruptible:** Although the possibility of interruption is quite low, the impact could be high. We therefore support a discount of 10% but recommend that this is reviewed periodically.

**Reserve Price: Specific Discounts:** we support the minimum level of discount required by EU TAR of 50%.

**Revenue Recovery:** A capacity based charge promotes stability and certainty in revenue collection, and therefore minimises in year over / under recovery. We consider that the charging methodology could be further enhanced at a later stage by introducing over / under recovery adjustments targeted to the entry and exit points that have driven the variance. This should help reinforce the desired predictability in booking behaviour.

**NTS Optional Charge:** To the extent that users subscribe to the optional charge, the discount provided is absorbed by other users. Growth in the uptake of the optional charge, coupled with its parameters being anchored to a historical point in time creates cross subsidy between user classes. Given that the proposed CWD reserve price methodology takes distance into account, we consider that this negates the need for the optional commodity charge, and its retention may risk in double counting and the perpetuation of cross subsidy

**0678:**

This modification contains the combination of variables that could result in the most cost reflective outcome. We have stated qualified support, as we believe there are further opportunities to enhance the methodology.

**0678A:**

Only load size is taken into account in the Postage Stamp methodology, and we consider this to be less cost reflective than CWD.

**0678B:**

We do not support retention on the optional commodity charge.

**0678C:**

As with 0678A, we consider the Postage Stamp approach to be less cost reflective than CWD.

**0678D:**

We do not support retention on the optional commodity charge.

**0678E:**

No justified reasons for a higher level of Storage discount.

**0678F:**

No justified reasons for a higher level of Storage discount.

**0678G:**

As with 0678A, we consider the Postage Stamp approach to be less cost reflective than CWD.

**0678H:**

As with 0678A, we consider the Postage Stamp approach to be less cost reflective than CWD

**0678I:**

Oppose this variation of the FCC Methodology.

**0678J:**

As with 0678A, we consider the Postage Stamp approach to be less cost reflective than CWD

Taking all things into consideration, Cadent offers Qualified Support for Modification Proposal 0678. A matrix has been produced that provides more detail about each individual component that make up the numerous Proposals. This can be found under 'further information'.

**Implementation:** What lead-time do you **wish** to see prior to implementation and why? Please specify which Modification if you are highlighting any issues.

In the event of an Ofgem direction, implementation should take place on 1<sup>st</sup> October 2019, with advance price notification requirements as per licence and code.

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

At this point in time, it is unclear what the charges are likely to be and therefore, any redistributive impact on the relevant parties and their customers. This should be examined at the earliest opportunity.

Whilst sensitivity tools for some modification variants were provided by National Grid, we cannot be fully certain of the level of charges the revised methodology will generate, or the redistributive impacts regionally or to classes of customers, due to changes in National Grids allowed revenue, and consequential changes to booking behaviour. We recommend that National Grid introduces an additional indicative price notification process each October to help users better understand and forecast the change to the charging methodology going forwards. This will also help to ensure that opening regulatory cost allowances for RII0-2 are set at an appropriate level.

**Legal Text:** Are you satisfied that the Legal Text will deliver the intent of the Solutions for each Modification? Please specify which Modification if you are highlighting any issues.

We are satisfied that the Legal Text provided meets the intent of the solution.

**Are there any errors or omissions in this Modification Report that you think should be further considered?** Include details of any impacts/costs to your organisation that are directly related to this.

We have not identified any errors or omissions.

**Please provide below any additional analysis or information to support your representation**



**CADENT 0678 MODIFICATION APPRAISAL MATRIX**

[illegible]

Component	Element	Variant	Cadent Position	Rationale	678	0678A	0678B	0678C	0678D	0678E	0678F	0678G	0678H	0678I	0678J
Reserve Price: Firm & Interruptible	Multiplier (Annual Capacity Product)	1.0	Support		x	x	x	x	x	x	x	x	x	x	x
	Multiplier (Quarterly Capacity Product)	1.0	Support		x	x	x	x	x	x	x	x	x	x	x
	Multiplier (Monthly Capacity Product)	1.0	Support		x	x	x	x	x	x	x	x	x	x	x
	Multiplier (Daily Capacity Product)	1.0	Support		x	x	x	x	x	x	x	x	x	x	x
	Interruptible / Off-peak adjustment (entry)	10%	Support	Although the possibility of a interruption is quite low, the impact could be high so 10% seems appropriate for now but should be reviewed going forward	x	x	x	x	x	x	x	x	x	x	x
	Interruptible / Off-peak adjustment (exit)	10%	Support	Although the possibility of a interruption is quite low, the impact could be high so 10% seems appropriate for now but should be reviewed going forward	x	x	x	x	x	x	x	x	x	x	x
	Interruptible /off-peak adjustments from Year 2 onwards	10%	Support	Although the possibility of a interruption is quite low, the impact could be high so 10% seems appropriate for now but should be reviewed going forward	x	x	x	x	x	x	x	x	x	x	x
	Fixed or floating price	Floating	Support		x	x	x	x	x	x	x	x	x	x	x
Reserve Price Specific Discounts	Storage	50%	Support	Storage provides a security of supply in extreme events therefore it seems appropriate to apply a level of discount. As the minimum level is 50%, there needs to be full justification for a discount level beyond this	x	x	x		x			x	x	x	x
		80%	Oppose	No credible reasons for such a high discount				x		x	x				
	LNG	0%	Support		x	x	x	x	x	x	x	x	x	x	x
	Ireland Security Discount	N/A	Support		x	x	x	x	x	x	x	x	x		x
		95%	Oppose											x	
	Minimum Reserve Price	0.0001 p/kwh/d	Support		x	x		x	x	x	x	x	x	x	x
		0.0001p/kWh/d except the Optional Capacity Charge which is 0.000001p/kWh/d	Oppose	Not supportive of an Optional Charge											
Revenue Recovery	Application	Capacity charge (applied to fully adjusted capacity)	Support	A capacity based charge promotes stability and certainty in revenue collection, and therefore minimises in year over / under recovery	x	x	x	x	x	x	x	x	x	x	x
	Exclusions	Existing Contracts	Support		x	x	x		x					x	x
		Storage Connection Point capacity (except where booked for own use purposes)	Oppose					x							
		Storage Connection Point capacity	Oppose							x	x				
		Existing Contracts for capacity at Storage Connection Points	Oppose									x	x		
	Change Frequency	At any point in Gas Year with notice			x	x	x	x	x	x	x	x	x	x	
	Status of 'Existing Contract'	Lost if traded post 5/4/17			x	x	x		x			x	x	x	x
		N/A						x		x	x				



Component	Element	Variant	Cadent Position	Rationale	678	0678A	0678B	0678C	0678D	0678E	0678F	0678G	0678H	0678I	0678J
Publication of Variables	Multipliers		Support		x	x	x	x	x	x	x	x	x	x	x
		Transportation Statement													
	Interruptible Adjustment		Support		x	x	x	x	x	x	x	x	x	x	x
		Transportation Statement													
	LNG Discount		Support		x	x	x	x	x	x	x	x	x	x	x
		Transportation Statement													
	CWD Distances		Support		x	x	x	x	x	x	x	x	x	x	x
		Charging Model													
	FCCs	Charging Model	Support		x	x	x	x	x	x	x	x	x	x	
		Charging Model. Published a minimum of one month ahead of the tariff period	Support												x
Capacity Surrender Rule	Unprotected Capacity (allocated 2/18 to 12/18)	No additional rights proposed			x	x	x	x	x	x		x	x	x	x
		User may surrender all or part where floating reserve Price is >5% of that at allocation									x				
Publication of Reserve Prices	NTS Entry Capacity - QSEC (Unprotected Capacity)	No proposed obligations			x	x	x	x	x	x		x	x	x	x
		Additional indicative and final notices of Reserve and step prices									x				
Implementation	Effective Date	First day of third month following decision date (or as determined by Ofgem)	Oppose	1st October 2019 should be the effective date	x	x			x	x	x	x	x		x
		A date directed by Ofgem	Oppose				x								
		1 October in a year (with at least 4 months notice)	Oppose					x						x	

## Consultation Questions Requested by the Authority

The Authority has requested that the following questions be considered by Respondents when writing their responses.

1. *What impact, if any, do you think tariff differentials between existing and new contracts will have on users booking behaviour?*

If the existing contracts are more favourable than the new contracts this will impact the utilisation of network. The new contracts with less favourable tariffs may limit the use of the network so the volume of booking will not be as high as originally envisaged. This could lead to a under recover of revenues.

2. *What date should the changes proposed by the modifications become effective and why?*

The changes should come into effect from 1st October 2019 in line with the New Gas Year. This will provide a continuation of charge changes in line with previous years.

3. *The proposals have different specific capacity discounts for storage sites. What level of storage discount do you consider is appropriate and can you provide clear justification if the discount is greater than 50%?*

There is a requirement under the EU tariff code to apply discounts to storage capacity, where the discount is at least 50%. Storage provides a security of supply in extreme events therefore it seems appropriate to apply a level of discount. As the minimum level is 50%, there needs to be full justification for a discount level beyond this. Therefore 50% seems to be the right level at the moment unless there is concentrate evidence to suggest otherwise going forward.

4. *Can you provide reasons why an NTS Optional Charge is or is not justified? If you consider an NTS Optional Charge is justified, which proposal do you prefer and why is it compliant with TAR NC?*

There has been a significant increase in the use of the Optional Charge. This has had impact on other charges which was not originally envisaged. This can result in certain users subsidising other parts/use of the network. If the CWD approach is implemented, it could be argued there is no longer a need for Optional Charge as distance is taking into consideration. Also, currently there is no formal well thought out process for the qualification requirements for the Optional Charge which leads to risks of inappropriate use of it. Finally, under the proposed changes, the chances of parties using the Optional Charge can be considered to be lower. Therefore, it seems appropriate to remove the Optional Charge.

5. *Do you consider the proposals to be compliant with relevant legally binding decisions of the European Commission and/or the Agency for the Co-Operation of Energy Regulators?*

There are elements within the proposal that we are broadly in support of that Cadent believe to be compliant. The introduction of a 10% discount on Interruptible capacity supports this, as does the proposal for a discount of 50% for Storage sites.

6. *It is proposed that National Grid Gas may review or update the Forecasted Contracted Capacity (FCC) Methodology following consultation with stakeholders, unless Ofgem (upon application by any Shipper or Distribution Network Operator) directs that the change is not made as per its powers under Standard Special Condition A11(18) of National Grid's Licence. Do you believe that this governance framework is fit for purpose? Please provide reasons for your answer.*

There are existing National Grid Methodologies that are consulted on every 2 years and this works well for established frameworks. With the higher level of uncertainty concerning the Pricing regime, it may be more prudent to consult with stakeholders on an annual basis. The frequency of consultation may be one of the discussion points as part of the review.

We trust that this information will assist in the compilation of the Final Modification Report. Please contact me on 07580 999287 ([shiv.singh1@cadentgas.com](mailto:shiv.singh1@cadentgas.com)) should you require any further information.

Yours sincerely,

Shiv Singh  
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