

**Representation - Draft Modification Report**

**UNC 0621; 0621A; 0621B; 0621C; 0621D; 0621E; 0621F; 0621H; 0621J; 0621K\*; 0621L**

**Amendments to Gas Transmission Charging Regime**

**\* Amendments to Gas Transmission Charging Regime and the treatment of Gas Storage**

**Responses invited by: 5pm on 22 June 2018**

To: [enquiries@gasgovernance.co.uk](mailto:enquiries@gasgovernance.co.uk)

<b>Representative:</b>	Joanna Ferguson
<b>Organisation:</b>	Northern Gas Networks
<b>Date of Representation:</b>	22 June 2018
<b>Support or oppose implementation?</b>	<p>0621 – Qualified Support</p> <p>0621A - Oppose</p> <p>0621B - Oppose</p> <p>0621C - Oppose</p> <p>0621D – Qualified Support</p> <p>0621E - Oppose</p> <p>0621F - Oppose</p> <p>0621H - Oppose</p> <p>0621J – Qualified Support</p> <p>0621K - Oppose</p> <p>0621L - Oppose</p>
<b>Expression of Preference:</b>	<p><i>If either 0621; 0621A; 0621B; 0621C; 0621D; 0621E; 0621F; 0621H; 0621J; 0621K or 0621L were to be implemented, which <u>ONE</u> modification would be your preference?</i></p> <p>0621</p>

**Standard Relevant Objective:**

0621  
a) Positive  
c) Positive  
d) Positive  
g) Positive

0621A  
a) None  
c) None  
d) None  
g) Positive

0621B  
a) None  
c) None  
d) None  
g) Positive

0621C  
a) None  
c) None  
d) None  
g) Positive

0621D  
a) Positive  
c) Positive  
d) Positive  
g) Positive

0621E  
a) None  
c) None  
d) None  
g) Positive

0621F  
a) None  
c) None  
d) None  
g) Positive

0621H  
a) None  
c) None  
d) None  
g) Positive

0621J  
a) Positive  
c) Positive  
d) None  
g) Positive

0621K  
a) None  
c) None  
d) None  
g) Positive

0621L  
a) None  
c) None  
d) None  
g) Positive

<b>Charging Methodology Relevant Objective:</b>	0621 a) Positive aa) Positive b) Positive c) Positive e) Positive
	0621A a) None aa) None b) Positive c) None e) Positive
	0621B a) None aa) None b) Positive c) None e) Positive
	0621C a) None aa) None b) Positive c) None e) Positive
	0621D a) Positive aa) Positive b) Positive c) Positive e) Positive
	0621E a) None aa) None b) Positive c) None e) Positive
	0621F a) None aa) None b) Positive c) None e) Positive
	0621H a) None aa) None b) Positive c) None e) Positive
	(continued overleaf)

<b>Charging Methodology Relevant Objective (continued):</b>	0621J
	a) None
	aa) None
	b) None
	c) Positive
	e) Positive
	0621K
	a) None
	aa) None
b) Positive	
c) None	
e) Positive	
0621L	
a) None	
aa) None	
b) Positive	
c) None	
e) Positive	

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

These comments apply to all Alternatives and we have set out additional specific comments below on each Alternative where appropriate.

NGN believe that it was timely for National Grid Gas Transmission to undertake a full review of pricing principles and methods, and is generally supportive that the broad outcomes applicable to all of these Modifications offers a more cost reflective and up to date manner of calculating prices from NGGTs perspective.

Use of actual and forecast flows rather than Licence baselines ensures that changes to the use of the pipeline system are reflected in prices more accurately and the adjustment to capacity bases in those alternatives that retain this from the original is consistent with changes made by the Distribution Networks who also believe that the costs of operating a physical network is mainly driven by capacity rather than commodity based use.

We are, however, concerned by the impact these changes will have on our customers who will see a significant increase in this element of charges and may find it difficult to understand how this has come about given that the physical operation of the network has not changed.

We do have concerns that many of the alternates are specifically site or organisation specific in order to achieve commercial benefit, and while we appreciate the current UNC arrangements facilitate this the number of Alternatives and timing of them leads us to believe that such a significant piece of work would have been better facilitated through a Significant Code Review where the options could be discussed, but an additional layer of Ofgem supervision would have applied.

**0621**

*No additional comments*

**0621A**

*No additional comments*

**0621B**

*No additional comments*

**0621C**

*No additional comments*

**0621D**

*We have sympathy with the principles behind WWUs Alternative as the use of Optional (Shorthaul) Tariffs appear to create long term cross subsidy as the discounts are applied in perpetuity.*

**0621E**

*No additional comments*

**0621F**

*No additional comments*

**0621H**

*No additional comments*

**0621J**

*We believe that there could be some merit in a “postage stamp” methodology from a customer perspective as it is simple to understand and ensures that location does not disadvantage gas users. While this customer friendly approach could be preferable in the long term, it does not enable NGGT to apply any locational signals and is likely to reduce cost reflectivity of charges.*

**0621K**

*No additional comments*

**0621L**

*No additional comments*

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

Our preference would be a longer, gradual transition to the charges proposed rather than the initial proposal of October 2019 implementation. All Modification Alternatives would see a significant step change in costs which would then apply to customers bills. A longer transition could enable a more gradually build for our customers, thus providing the least adverse impact.

Aligning the implementation of costs increases with the start of the RIIO-GD2 price control period would be our preference.

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

We have provided comments that apply to all Alternatives below and included a specific Appendix showing the impacts of each version on our costs and domestic customer bills.

NGN is concerned about the step change in cost base that would then be passed onto customers as a result of these changes, and as noted previously would prefer an implementation method that would allow a more gradual transition.

We have previously published customer impacts through the Modification 0621 Workgroup, but have undertaken further analysis and have included an appendix that sets out the impacts of each Alternative on our costs and, more importantly, on domestic customers within our network. This shows a step change increase in costs for all Alternatives. The recovery methodology means that although a smaller increase applies to customers in year 1, this significantly increases in the second year and then settles to a more stable position on an enduring basis.

It is important to bear in mind that any efficiencies intended to reduce customer bills that are included in the NGN RIIO-GD2 business plan may be completely countered by increases that these Modifications could impose. For example, using the NGGT original, a reduction of £7 in a domestic customer bill would only have a net effect of £0.50 from 2023/24, but would see an increase of £2.40 for the 2022/23 year based on the current cost recovery lag within the DN pricing arrangements.

Operationally, NGN offtake capacity bookings are managed in such a way that we have sufficient capacity available at each offtake to provide cover for a 1 in 20 forecast winter period. Historically we have held headroom within each offtake and we have been working throughout RIIO-GD1 to reduce these bookings where possible and therefore free up the capacity for other NTS users while ensuring that we continue to meet our obligations to meet the 1 in 20 demand should it occur. This reduction in capacity bookings has had a positive effect on reducing the charges that are passed through to our customer bills throughout the RIIO-GD1 period.

Unexpected high demand at an offtake could lead us to overrun on our booked capacity if we are not able to manage the increase through other means. Increased use of arrangements such as flow swapping and short term additional capacity can mitigate this. The increases in price that these Modifications would impose means that the risks associated with overruns also increase and therefore we are currently considering how this impacts on our strategy of releasing capacity back to NGGT.

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

Yes.

**Modification Panel Members have requested that the following questions are addressed:**  
*Please specify which Modification your views relate to.*

1. *Do you believe there is specific issues that should be considered by Ofgem's Regulatory Impact Assessment?*

*As noted in our response, the impact on customer bills is a significant concern for NGN and we believe that consideration of whether a more gradual approach should be applied to making changes is included within the impact assessment.*

Ofgem requested that the following questions be included as part of the consultation. Panel agreed to include these:

2. *The rationale in the report for having an interim period and using the obligated capacity as the Forecasted Contracted Capacity (FCC) is to avoid significant changes to charges and have a period to understand how booking behaviour changes. How does this compare to having two structural changes to charges (one at the start of the interim period and another at the enduring period)?*

*No comments in relation to this*

3. *What (if any) consequences do you see from 'interim contracts' being allocated at QSEC and AMSEC auctions in 2019 given the timings of these auctions in the UNC and possible*

*date of Ofgem decision on UNC621? What options are there to deal with these consequences and what impact would these options have?*

No comments in relation to this.

4. *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?*

Yes.

5. *In what way do you consider the reference price methodologies proposed (Capacity Weighted Distance (CWD), CWD using square root of distance and Postage Stamp) to be cost reflective and meet the criteria in Article 7 of TAR?*

Please see comments above.

6. *The proposals have different combinations of specific capacity discounts for storage sites and bilateral interconnection points. In what way do you consider the different combinations facilitate effective competition between gas shippers and gas suppliers?*

We note that individual commercial considerations have driven a number of the Alternatives, but other than considering the specific price impacts onto NGN have no further comments.

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

**0621**

No

**0621A**

No

**0621B**

No

**0621C**

No

**0621D**

No

**0621E**

No

**0621F**

No

**0621H**

*No*

**0621J**

*No*

**0621K**

*No*

**0621L**

*No*

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

Please see appendix of customer impacts and costs

### UNC Modification Proposal 0621 and Alternative Proposals - Customer Bill Impact - £ increase from current

Domestic (0 - 73.2 Kwh) : £ increase from current	0621	0621A	0621B	0621C	0621D	0621E	0621F	0621H	0621J	0621K	0621L
	N Grid	Storengy	SSE	Centrica	WWU	Uniper	IUK	ENI	RWE	Gateway LNG	Shell
21/22	5.8	5.8	5.8	5.8	6.8	4.7	5.9	5.8	7.9	5.8	5.8
22/23	9.4	9.4	9.4	9.4	11.0	8.2	9.6	9.4	12.8	9.4	9.4
23/24	6.5	6.6	6.6	6.6	7.8	6.5	6.7	6.5	9.1	6.6	6.5
24/25	6.5	6.6	6.6	6.6	7.8	6.5	6.7	6.5	9.1	6.6	6.5
25/26	6.6	6.6	6.6	6.6	7.8	6.6	6.7	6.6	9.1	6.6	6.6

\* based on average AQ of 13,894 Kwh in this band and average NGN network unit rates

Industrial (73.2 - 732 Kwh) : £ increase from current	0621	0621A	0621B	0621C	0621D	0621E	0621F	0621H	0621J	0621K	0621L
	N Grid	Storengy	SSE	Centrica	WWU	Uniper	IUK	ENI	RWE	Gateway LNG	Shell
21/22	81	81	81	81	95	65	82	81	110	81	81
22/23	130	131	131	131	153	114	133	130	178	131	130
23/24	91	92	92	92	108	91	94	91	127	92	91
24/25	91	92	92	92	108	91	94	91	127	92	91
25/26	91	92	92	92	108	91	94	91	127	92	91

\* based on average AQ of 192,204 Kwh in this band and average NGN network unit rates

Industrial (732 - 5861 Kwh) : £ increase from current	0621	0621A	0621B	0621C	0621D	0621E	0621F	0621H	0621J	0621K	0621L
	N Grid	Storengy	SSE	Centrica	WWU	Uniper	IUK	ENI	RWE	Gateway LNG	Shell
21/22	661	664	664	664	776	529	671	661	895	665	661
22/23	1,066	1,072	1,072	1,072	1,253	934	1,087	1,066	1,452	1,074	1,066
23/24	744	750	750	750	882	744	766	744	1,036	752	744
24/25	744	750	750	750	882	744	766	744	1,036	752	744
25/26	745	752	752	752	883	745	767	745	1,038	753	745

\* based on average AQ of 1,721,966 Kwh in this band and average NGN network unit rates

Industrial (> 5861 Kwh) : £ increase from current	0621	0621A	0621B	0621C	0621D	0621E	0621F	0621H	0621J	0621K	0621L
	N Grid	Storengy	SSE	Centrica	WWU	Uniper	IUK	ENI	RWE	Gateway LNG	Shell
21/22	9,574	9,618	9,618	9,618	11,245	7,673	9,730	9,574	12,973	9,632	9,574
22/23	15,444	15,532	15,532	15,532	18,159	13,533	15,758	15,444	21,048	15,560	15,444
23/24	10,788	10,876	10,876	10,876	12,784	10,788	11,101	10,788	15,017	10,904	10,788
24/25	10,788	10,876	10,876	10,876	12,784	10,788	11,101	10,788	15,017	10,904	10,788
25/26	10,804	10,891	10,891	10,891	12,802	10,804	11,117	10,804	15,038	10,919	10,804

\* based on average AQ of 33,617,928 Kwh in this band and average NGN network unit rates

## UNC Modification Proposal 0621 and Alternative Proposals

£m cost increase from current forecast levels	0621	0621A	0621B	0621C	0621D	0621E	0621F	0621H	0621J	0621K	0621L
	N Grid	Storengy	SSE	Centrica	WWU	Uniper	IUK	ENI	RWE	Gateway LNG	Shell
19/20	1.9	1.9	1.9	1.9	2.7	1.9	1.9	1.9	3.5	1.9	1.9
20/21	11.0	11.0	11.0	11.0	12.8	11.0	11.0	11.0	14.3	11.0	11.0
21/22	23.8	24.0	24.0	24.0	27.4	18.7	24.3	23.8	31.2	24.0	23.8
22/23	29.3	29.6	29.6	29.6	34.7	24.1	30.2	29.3	40.8	29.6	29.3
23/24	29.3	29.5	29.5	29.5	34.7	29.3	30.1	29.3	40.8	29.6	29.3
24/25	29.3	29.5	29.5	29.5	34.7	29.3	30.1	29.3	40.8	29.6	29.3
25/26	29.3	29.6	29.6	29.6	34.7	29.3	30.2	29.3	40.8	29.6	29.3

\* Current forecast levels are based on latest available long term NTS prices and assume same NGN bookings throughout

£m cash flow gap movement (deficit)/surplus	0621	0621A	0621B	0621C	0621D	0621E	0621F	0621H	0621J	0621K	0621L
	N Grid	Storengy	SSE	Centrica	WWU	Uniper	IUK	ENI	RWE	Gateway LNG	Shell
19/20	(1.9)	(1.9)	(1.9)	(1.9)	(2.7)	(1.9)	(1.9)	(1.9)	(3.5)	(1.9)	(1.9)
20/21	(11.0)	(11.0)	(11.0)	(11.0)	(12.8)	(11.0)	(11.0)	(11.0)	(14.3)	(11.0)	(11.0)
21/22	2.1	2.1	2.1	2.1	3.1	2.1	2.1	2.1	4.0	2.1	2.1
22/23	12.6	12.6	12.6	12.6	14.5	12.6	12.6	12.6	16.3	12.6	12.6
23/24	-	-	-	-	-	-	-	-	-	-	-
24/25	-	-	-	-	-	-	-	-	-	-	-
25/26	-	-	-	-	-	-	-	-	-	-	-

\* assumes same 2 year lag mechanism continues into GD2