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Your Reference: UNC Modification Proposal 0621 / 0621A /
0621B / 0621C / 0621D / 0621E / 0621F / 0621H / 0621J /
0621K* and 0621L

UNC Modification Proposal
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

Dear Bob,

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

Do you support or oppose implementation?

0621 – Oppose

0621A – Qualified Support

0621B – Oppose

0621C – Oppose

0621D – Oppose

0621E – Oppose

0621F – Oppose

0621H – Oppose

0621J – Oppose

0621K – Oppose

0621L – Oppose

Expression of Preference:

If either 0621; 0621A; 0621B; 0621C; 0621D; 0621E; 0621F; 0621H; 0621J; 0621K or 0621L were to be implemented, which ONE modification would be your preference?

0621A

Relevant Objectives:

0621

- a) Positive
- c) None
- d) None
- g) Positive

0621A

- a) Positive
- c) None
- d) None
- g) Positive

0621B

- a) Positive
- c) None
- d) None
- g) Positive

0621C

- a) Positive
- c) None
- d) None
- g) Positive

0621D

- a) Positive
- c) None
- d) None
- g) Positive

0621E

- a) Positive
- c) None
- d) None
- g) Positive

0621F

- a) Positive
- c) None
- d) None
- g) Positive

0621H

- a) Positive
- c) None
- d) None
- g) Positive

0621J

- a) Positive
- c) None
- d) None
- g) Positive

0621K

- a) Positive
- c) None
- d) None
- g) Positive

0621L

- a) Positive
- c) None
- d) None
- g) Positive

Relevant Charging Methodology Objectives:**0621**

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

0621A

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

0621B

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

0621C

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

0621D

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

0621E

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

0621F

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

0621H

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

0621J

- a) Positive

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

0621K

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

0621L

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

Reason for support/opposition:

Cadent has based its approach to compiling this representation on a component-by-component basis, rather than Modification basis. This is due to the fact that there are many similarities between the Proposals, but also some subtleties in the detail.

Summary

- Qualified Support for Capacity Weighted Distance (CWD) during the Reference Price Methodology (RPM) Transitional period (0621, 0621A, 0621B, 0621C, 0621E, 0621F, 0621H, 0621K and 0621L)
 - Oppose all others
- Qualified Support for CWD with Revenue Recovery Adjustment during the RPM Enduring period (0621, 0621A and 0621C)
 - Oppose all others
- Support a Specific Reserve Price Discount of 86% for Storage (0621A and 0621C remain)
- Support Target Revenue Apportionment that is pro-rated according to Forecast Flows at IPs/Non-IPs vs Forecast Total Flows (0621A)
 - Oppose the above where Entry at IPs is pro-rated according to Forecast Flows against Existing/Non-Existing (0621C)

Main Component Points

Capacity Weighted Distance (CWD): Cadent broadly supports the principle that recognises both load size and distance, but there is potential to develop further to better model actual directional gas flows across the networks, and proximity between entry and exit points.

Forecasted Contractual Capacity (FCC): Accept that obligated capacity is an objective and transparent approach for the transitional period, but on an enduring basis would want the assumption to model actual bookings as closely as possible to reduce reliance on revenue recovery mechanisms. A National

Grid provided forecast may provide a better solution, but the specific process needs to be developed and must be transparent and open to industry comment.

Capacity vs Flow Based: Cadent is of the opinion that flow based mechanisms create more revenue collection uncertainty with downstream impact to future allowed revenue determinations. Capacity based charging (as can be observed in the GDN charging methodology) provide far greater stability and lower risk of over/under recovery.

Storage Discount: Cadent is of the opinion that Waters Wye Associates provided compelling analysis to support the 86% level of discount for storage.

Shorthaul (OCC): We support retention of shorthaul in transitional arrangements (existing formula RPI linked), but consider that the CWD provides a suitable arrangement for recognising load size and network utilisation, which in principle eliminates the need for such a mechanism in the long term.

K: Cadent considers that cost reflectivity could be improved by subsequent modifications if over/under recovery of revenue is targeted at the Entry/Exit point that created it. Currently, any overall level of over/under recovery would be smeared and allocated to users that have not driven it, and impacts overall allowed revenue determination.

The number of Entry and Exit points are of a level where this could be reasonably administered. However, we recognise that the aspiration is that over/under recovery is minimised through the core 0621 proposals.

Managing Uncertainty: National Grid, in collaboration with its Stakeholders, can play a greater role in providing timely and accurate revenue and unit price forecast information, which will better support the industry in managing the uncertainties associated with 0621, or any of the alternates.

0621:

Only differentiating factor is the Storage discount, for which Storengy provided a compelling analysis for in 0621A, and also adopted by the majority of variants.

0621A:

See above

0621B:

Retention of flow based revenue recovery, adopting obligated capacity for FCC on an enduring basis, enduring retention of Shorthaul.

0621C:

Overly complex, retains some flow based recovery mechanisms, and proposes a new and more complex enduring shorthaul arrangement. Would need more time for industry challenge and review.

0621D:

Whilst we appreciate what it was trying to achieve, seemingly arbitrary choice to square root the distance component of CWD, not supported by analysis. Oppose the immediate removal of shorthaul, as not in the spirit of the transitional arrangements.

0621E:

Oppose extended transitional arrangement for exit, as important to keep these in parity to be able to best manage uncertainty collectively, but appreciate that this proposal endeavoured to account for implications of changes in the electricity market.

0621F:

Main differentiating factor is Storage discount. Justification / implications of proposed interconnection point reserve price discount are unclear.

0621H:

Oppose 50% storage discounts, and exclusion of historical contracts from revenue recovery mechanisms.

0621J:

We do not believe that a postage stamp model is cost reflective because it does not take account of the degree of network utilisation.

0621K:

Oppose the 100% storage discount for interruptible, and consider that 0621A addresses Storage arrangements in a more balanced way.

0621L:

Oppose unadjusted CWD in the enduring arrangement, as this puts greater reliance on the recovery mechanism. From a calculative flow perspective, challenge the gross revenue choice for target revenue. Oppose the 50% storage discount.

Taking all things into consideration, Cadent offers Qualified Support for Modification Proposal 0621A. 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'.

Self-Governance Statement:

We agree with the Workgroup that these modifications should be considered likely to have a material impact and therefore should be sent to the Authority for direction.

Implementation

In the event of an Ofgem direction, implementation should take place as soon as possible.

Impacts and Costs

n/a

Legal Text

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 taken into account?

We have not identified any errors or omissions.

Component	Element	Variant	Cadent Position	Rationale	0621	0621A	0621B	0621C	0621D	0621E	0621F	0621H	0621J	0621K	0621L	
Revenue Recovery (Enduring)	Target Revenue Apportionment between IPs and non-IPs	N/A	Support		X	X			X		X	X	X	X	X	
		Pro-rated according to forecast flows at IPs / non-IPs vs forecast total flows	Oppose				X									
		Entry at IPs prorated according to forecast flows against Historical / Non-Historical vs forecast Total IP flow	Oppose						X							
	IP Application	Entry at non-IPs prorated according to forecast flows against Historical / Non-Historical vs forecast Total non-IP	Oppose								X					
		Capacity charge (applied to fully adjusted capacity)	Support	A capacity based charge creates the most stability and certainty in revenue collection, and therefore minimises in year over / under recovery impacting future allocated revenue determination.	X	X	X			X	X	X	X	X	X	X
	IP Exclusions	Capacity charge at Exit and Non-Historical Contracts at Entry. Flow based charge for Historical Contracts (such contracts utilised before non-historical)	Oppose	Cadent consider that retention of a flow based revenue recovery mechanism would mean enduring revenue collection risk resulting in downstream adjustment to future allocated revenue determinations.					X							
		None	Support		X	X	X	X	X	X	X			X	X	X
	Non-IP Application	Historical Contracts	Oppose	Cadent consider that the requirement for revenue recovery adjustments relate to uncertainty in volume conditions, from which historical contracts would not be precluded.									X			
		Capacity charge (applied to fully adjusted capacity)	Support	A capacity based charge creates the most stability and certainty in revenue collection, and therefore minimises in year over / under recovery impacting future allocated revenue determination.	X	X				X		X	X	X	X	X
		Flow based charge applied to allocations (flow)	Oppose	Cadent considers that retention of a flow based revenue recovery mechanism would mean enduring revenue collection risk resulting in downstream adjustment to future allocated revenue determinations.				X								
		Capacity charge at Exit and Non-Historical Contracts at Entry. Flow based charge for Historical Contracts (such contracts utilised before non-historical)	Oppose	Cadent consider that retention of a flow based revenue recovery mechanism would mean enduring revenue collection risk resulting in downstream adjustment to future allocated revenue determinations.							X					
		Capacity charge (applied to fully adjusted capacity) except for Historical Contracts which will accrue a commodity charge	Oppose	Cadent consider that retention of a flow based revenue recovery mechanism would mean enduring revenue collection risk resulting in downstream adjustment to future allocated revenue determinations.								X				
		Historical contracts for Capacity at Storage Connection Points	Support		X					X		X		X		X
		Fully adjusted capacity at Storage Connection Points not booked for Own Use purposes	Support	Cadent are not strongly opposed to any of the tabled exclusion options for Storage, but favour the specific definition provided for Non-Own Use Gas allocations				X				X				X
	Non-IP Exclusions	Non-Own Use Gas allocations at Storage Connection Points	Support	Cadent are not strongly opposed to any of the tabled exclusion options for Storage, but favour the specific definition provided for Non-Own Use Gas allocations				X								
Storage Connection Points		Support						X								
NTS Optional Charge	Application	Historical Contracts	Oppose	Cadent consider that the requirement for revenue recovery adjustments relate to uncertainty in volume conditions, from which historical contracts would not be precluded.								X				
		2 Years	Support	Cadent are supportive of a transitional arrangement for Shorthaul, after which point it is removed.	X	X				X	X	X	X	X	X	
		Enduring	Oppose	Cadent consider that enduring application of the short haul tariff perpetuates existing subsidisation concerns. Additionally the CWD methodology should in principle provide charges that are reflective of both load size and degree of network utilisation.				X	X							
	Method	None	Oppose	Immediate removal of the shorthaul tariff would not be in keeping with the spirit and intention of the transitional arrangements						X						
		Exiting formula, cost base subject to annual RPI adjustment	Support		X	X	X				X	X	X	X	X	X
		Discount of CWD derived reference price with Revenue Rebalance Adjustment	Oppose					X								
	Quantity (IPs)	Not applicable	Oppose						X							
		Capacity deemed to have been used	Support		X	X	X				X	X	X	X	X	X
		Lower of capacity and allocation (flow) at entry point and exit point	Oppose					X								
	Quantity (Non-IPs)	Not applicable	Oppose						X							
		Allocation (flow)	Support		X	X	X				X	X	X	X	X	X
		Lower of capacity and allocation (flow) at entry point and exit point	Oppose					X								
	Alternative Charges	Not applicable	Oppose						X							
		Transmission Services Revenue Recovery charges and non-Transmission (entry and exit) charges	Support		X	X	X				X	X	X	X	X	X
		Non-Transmission Services charges (Entry & Exit)	Oppose					X								
Limitations	Not applicable	Oppose						X								
	60km distance cap	Support		X	X	X				X	X	X	X	X	X	
	Not available for Storage Connection Points, minimum distance 0.1km	Oppose					X									
Application at Bacton ASPPs	Not applicable	Oppose						X								
	NTS Optional Flow at UKCS and IP prorate in proportion to total flows at both	Support		X	X	X	X			X	X	X	X	X	X	
Publication of Variables	Not applicable	Oppose						X								
	Maximum Allowed Revenue Forecast	Support	An increased level of support in revenue and unit price forecasting will greatly assist Users over the transitional period and beyond. It is Cadent's intention to work with NTS to see how this can be best achieved, with any UNC obligations (similar to GDN MCO2016 requirements) developed if required.	X	X	X	X			X	X	X	X	X	X	
K	Application	Existing principles	Qualified support	Cadent consider that GDNs are not a major driver of NTS revenue over or under recovery, and yet a disproportionate amount of ultimate revenue recovery would be allocated to GDNs through 2 year lagged allowed revenue adjustment following existing principles (on the basis that GDNs will be responsible for 80% of exit revenue). We recognise that if the aspirations of O2C2 play out, over/under recovery overall could be reduced. However, we consider, given the number of entry / exit points involved, that lagged revenue recovery could be targeted at the point that created it, and this would further drive desired booking behaviours. This factor could be addressed through subsequent and supplemental UNC modifications.	X	X	X	X	X	X	X	X	X	X	X	
		No proposed obligations	Support		X	X	X	X			X	X	X	X	X	

Interruptible Discount

The introduction of a 10% discount to Interruptible capacity does in the opinion of Cadent, better further Relevant Objective a) Efficient and economic operation of the pipe-line system. This component is common to all proposals.

Cadent agrees in principal with the introduction of a 10% discount, but we feel that there may be more suitable options to achieve the desired objective i.e. to reduce the reliance upon zero-priced products and to increase revenues recovered.

Off-Peak (at Entry) and Interruptible (at Exit) Capacity consists of the following elements:

- Discretionary – released at NG discretion
- Maximum NTS Exit Point Offtake Rate (MNEPOR) – this is available at Exit only and is the difference between the Offtake MNEPOR value and the Annual Capacity entitlement. This element is removed when the NTS reaches 80% of Peak Day, or greater
- Use It Or Lose It (UIOLI) – the release of this element is dependent upon an Annual Capacity entitlement being in place. It compares 'usage' to 'entitlement'.

Example 1 – Capacity Entitlement at Offtake A is 10 units with a Flow of 8 units

The 'usage' is determined by taking the average flow over a 30 day period. The amount of UIOLI that can be released is determined by taking this value away from the Annual Capacity entitlement. In this example, UIOLI equates to 2 units (10 minus 8). Where the release of Interruptible capacity has been approved, the User would be entitled to flow 12 units in total (10 plus 2).

Example 2 – Capacity Entitlement at Offtake B is 10 units with a Flow of 10 units

As the average flow over the 30 day period is the same as the Annual entitlement, the amount of UIOLI that can be released is zero (0) units.

Example 3 – Capacity Entitlement at Offtake C is 0 units with a Flow of 5 units

In this example, as the Annual entitlement is zero, the amount of UIOLI that can be released also equates to zero.

The above examples demonstrate that although Off-Peak/Interruptible capacity is a separate product, there is a clear link to Firm Annual Capacity. This capacity is being paid for every day of the year by the User. By placing a discounted charge on the UIOLI element, in our opinion, results in the User paying twice for the capacity.

Cadent is of the view that it would be more appropriate for the discounted charge to apply to Discretionary and MNEPOR elements only. Doing so would have the desired impact, without unnecessarily affecting those Users already booking, and paying for, Firm Annual Capacity.

Request for Additional Information

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?*

The impacts on the GDN element of the customer bill where suppliers may reflect the increase in charges show that there will be locational variances and swings, as can be seen by the swings that the Scotland network will face, and induces unpredictability in charges with difficulty in being able to explain the reason for bill changes to customers when the network is not changing, especially where there are vulnerable customers affected. This is supported by the GDN analysis provided in the workgroups.

Interactions with RIIO-2 should also be considered. The impact to GDN revenues in RIIO-2 is complex because it will involve a 2 year lag true up between actual costs and allowances in GD1 plus a re-basing of pass through allowances for the next price control. Ofgem need to consider this in their GD2 timelines given the transitional arrangements proposed and to afford the maximum opportunity to ensure that GD2 allowances are set appropriately at network level.

Behavioural changes should also be considered following the structural differences between the transitional and enduring periods.

Finally, we recognise that the move to CWD introduces a redistribution of costs across the networks but feel it should be considered as to whether it really models the directional flow of gas and proximity of entry and exit points

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 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)?*

Due to the subjectivity of the National Grid provided forecast, provided that it's supported by robust, quality forecast information which is open to review, the structural changes should help to ease the transition to the enduring scenario.

- 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 comment

- 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?*

No comment

- 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?*

The CWD methodology in principle reflects the configuration of the Network now and in the future. It also aims for cost reflectivity through recognition of the balance between the size of the connected load and the extent of the System utilised.

What it does not take into consideration is the proximity between Entry and Exit Points, and has therefore, resulted in locational GDN charge variations, as can be seen in the Scotland network.

The CWD with square root distance approach aims to consider the proximity of entry to exit points and thus be more cost reflective. Whilst we appreciate what it was trying to achieve, the choice to square root the distance seems an arbitrary choice and is not supported by analysis and the NTS impact analysis shows that this does not result in significant impact.

Postage stamp does not take into account geographical variations or loads and is therefore not cost reflective.

- 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?*

The discount of 86% for storage was justified through analysis presented at the workgroups, however when considering what storage solutions facilitate in the network, from the perspective of being a commercial entity and still using gas for their own purposes, 100% discount does not seem justified.

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) should you require any further information.

Yours sincerely,

Shiv Singh
Framework Specialist, Regulation & External Affairs