UNC Workgroup 0508 – Revised Distributed Gas Charging Arrangements

Report by David Chalmers to Workgroup on 29 October 2014

1.0 Summary

This Modification proposed that NTS Exit Commodity charges should not apply in respect of gas introduced to the Distribution Network via Distributed Entry Points and offtaken at Distribution Supply Points within the same Distribution Network. Further, it proposed that this should be achieved by means of an equivalent rebate at the Distributed Gas Entry Point. The underpinning rationale for this approach was that an effect equivalent to an NTS-based Exit Commodity charge rebate could be achieved without the need for additional processing and data hand-offs between NTS and GDNs, the costs of which would be disproportionate to the value of the rebates being given.

Having considered input from a range of parties, both at DNCMF on 29th July and NTSCMF on 15th September, National Grid Gas Distribution considers that this charging modification should be withdrawn at this point in time and potential solutions reassessed at a point when the cost of an appropriate solution would be likely to be matched or exceeded by the value of the rebates that would arise, but dependent upon there being general agreement that inflows at Distributed Gas Entry Points should be exempt from NTS Exit Commodity charges.

The immediate reason for deciding to withdraw this Modification proposal is to avoid generating both development and "run-the-business" costs that would be uneconomic, but our considerations are set out in more detail in the body of this report.

2.0 Underpinning Principles

The Modification Proposal, as articulated above relies on a number of key principles, namely:

a) **No NTS Service for DN Embedded Entry flows -** Gas entered into the Distribution Pipeline System at Distributed Gas Entry Points does not benefit from any NTS service and therefore should not bear any associated cost;
b) **Robustness of Regime -** That the regime for determining and applying the rebates should be robust, and
c) **Distributional Impacts -** The rebates provided by GDNs at the Distributed Gas Entry Point would be reflected to customers downstream

Each of the above premises is examined in turn, below.

2.1 No NTS Service for DN Embedded Entry flows?

Whilst it is clear that gas inflows nominated by a Shipper at a given Distributed Gas Entry Point do not require the booking of NTS Exit Capacity (and therefore, the existing arrangements established under UNC0391 are valid), such inflows cannot be correlated directly with gas offtaken within that Distribution Network. It is possible that Distributed gas inflows within a given DN could be offsetting outflows in a different DN via the NBP, and therefore would involve virtual utilisation of the NTS, via system balancing. This principle therefore remains unproven.

2.2 Robustness of regime – DN-based Solution

The timings and timing differences for charge setting across NTS and Gas Distribution present an immediate problem for the GDN-based solution. The notification of indicative and final charges for 1st April implementation are issued at the same for either party and therefore, the GDN would have to use indicative NTS Exit Commodity rates as the initial basis for rebates. Since there can be material differences between indicative and final charges, this would mean inbuilt inaccuracy from the start of the process. Further, NTS may make potentially significant rebalancing adjustments to the NTS Exit Commodity charges during the Formula Year, which cannot be taken into account by the GDN, due to the latter's Licence obligation to set charges once each year, with effect from 1st April. The DN-based solution envisaged by the Modification Proposal would therefore be inherently inaccurate. This would necessitate a complex reconciliation process, as the affected system users and DN Embedded Entry inflows would be different in subsequent charging years, which would "roll-up" into many layers of reconciliation. An alternative would be some sort of "cash-out" adjustment, which would carry other implications. The cost of developing and administering either process would be likely to far outweigh the actual corrected value of any rebates in the short to medium term. Whilst an NTS-based solution would obviate the reconciliation process, the additional data flow processes and hand-offs required between GDNs and the NTS would generate similar or greater development and run-the-business costs.

2.3 Distributional impacts

It cannot be assumed that the gas inflows nominated by the Shipper at a given Distributed Gas Entry Point are delivered by that same shipper to portfolio customers downstream, as more than one commercial transaction may take place between System Users before that gas is physically offtaken at the Meter Point. It cannot therefore be argued that the value of rebates provided under a "GDN only" approach to rebating NTS Exit Commodity charges would clearly pass on to customers in that or any Distribution Network. For this reason the actual distributional effects of the DN-based solution cannot be known. However, this is the case whenever rebates are being applied to gas inflows at Distributed Gas Entry Points. The principle of rebating non-applicable NTS costs, as for the NTS Exit Capacity charges via UNC0391, is that by reflecting the appropriate transportation costs at the Distributed Gas Entry Point, this fulfils the gas transporter's relevant charging objectives to reflect the costs incurred in its transportation business and to take account of changes to it.

3.0 Conclusion and next steps

For the reasons given in 2.1 and 2.2 above, National Grid Gas Distribution intends to withdraw Modification Proposal 0508. We believe the issue may be worthy of reassessment at a point in time when the costs of any potential solution would be likely to be exceeded by the value of the rebates that are subject to it, but only if it can first be established that DN Embedded Entry flows should be exempt from any NTS Exit Commodity charge.

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