Stage 04: Final Modification Report

At what stage is this document in the process?

01 Modification

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0539:

Removal of NTS Exit Commodity Charges for Distributed Gas

This modification proposes revised distribution charging arrangements in respect of Distributed Gas such that transmission exit commodity charges are not applied.

The Panel does not recommend implementation

Low Impact:

Customers, Shippers, Transporters

Contents

About this document:

This Final Modification Report was considered by the Panel 15 October 2015.

The Panel determined that this modification should not be implemented.

The Authority will consider the Panel's recommendation and decide whether or not this change should be made.

The Workgroup recommends the following timetable:

Initial consideration by Workgroup	28 July 2015
Workgroup Report presented to Panel	04 September 2015
Draft Modification Report issued for consultation	17 September 2015
Consultation Close-out for representations	08 October 2015
Final Modification Report published for Panel	09 October 2015
UNC Modification Panel decision	15 October 2015

Any questions?

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1 Summary

Is this a Self-Governance Modification?

The Modification Panel determined that this is not a self-governance modification because it is expected to have a material impact on the transportation or supply of gas conveyed through pipes or any commercial activities connected with the shipping, transportation or supply of gas conveyed through pipes.

There was no consensus within the Workgroup as to the self-governance status of this modification, with some participants agreeing with Panel and others disagreeing as the impacts of this modification would have no material impact as the value of any rebate would be insignificant compared to DN revenue.

Panel reconsidered the Self Governance status at its meeting on 15 October 2015; please see section 9 below.

Why Change?

Transmission Exit commodity charges are applied in respect of all gas offtaken at Distribution Supply Points. Gas entered through Distributed Gas entry points does not use the Transmission system and so, to be cost reflective, Transmission Exit commodity charges should not apply to this gas.

Solution

It is proposed that the Distribution Transportation charging methodology in respect of Distributed Gas entry points is revised so that an additional rebate element, set as the level of Transmission Exit commodity charges, is provided.

Relevant Objectives

It is proposed that implementation of this modification would further Relevant Objectives a), b) and c).

Implementation

No implementation timescales are proposed. However, to be consistent with the timing of changes to transportation charges, 1st April 2016 may be a suitable implementation date.

Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

There are no impacts on other industry change.

2 Why Change?

At present, NTS Exit commodity charges are applied in respect of all gas offtaken at Supply Points connected to Distribution Networks. Where gas is input into Distribution Networks at embedded DN Entry points, that gas will not physically enter the NTS and will utilise only the Distribution Network for transportation to the DN Supply Point - flows from DN Entry Points are currently far below the DN Network throughput and are forecast to be below this level for the foreseeable future. For such transportation of gas from DN Entry points to DN Supply Points it is not cost reflective for NTS Exit commodity charges to be applied since the gas does not physically utilise the NTS.

3 Solution

Since current transportation charging arrangements consider entry and exit separately and do not normally link entry at a location with exit at a particular Supply Point, the easiest manner to achieve the cessation of NTS Exit commodity charges for transportation from DN Entry points to DN Supply points is to provide a rebate at the level of the NTS Exit commodity charges for gas entered at a DN Entry point. NTS Exit commodity charges would continue to apply in respect of all gas offtaken at DN Supply Points while a rebate at the DN Entry point would offset the application of the NTS Exit commodity charges at the DN Supply Point, resulting in zero net exposure to the level of this charge for such gas flows.

The use of an entry commodity charge rebate in this manner is consistent with the established charging methodology, as approved by Ofgem and implemented through UNC Modification 0391.

It is proposed that the charging methodology is changed so as to introduce a commodity charge rebate for gas entered at DN Entry points. It is proposed that this commodity charge rebate is defined as being at the combined NTS TO and SO Exit commodity charge rates applicable at DN Supply Points, as amended by National Grid NTS from time to time. The DNs would not, therefore, need to set this rebate level nor give notice of its level since it is proposed that the charging methodology cross refers to the charge rates set by National Grid NTS, ensuring that the rebate would always be in line with the NTS Exit Commodity Charge rate.

Under this proposed modification, no new charge/rebate would be introduced –the level of the existing charge/rebate would be adjusted. There would thus be no implementation or additional ongoing costs associated with this modification.

User Pays	
Classification of the modification as User Pays, or not, and the justification for such classification.	This modification would not create or amend a User Pays service. Transporters need to ensure that invoice calculations reflect their obligations. This is a transporter responsibility and therefore it is not a User Pays modification. However, no implementation or additional ongoing costs are expected as a result of the modification since it would merely change the levels of the existing distribution transportation charges.
Identification of Users of the service, the proposed split of the recovery between Gas Transporters and Users for User Pays costs and the justification for such view.	*Not applicable*
Proposed charge(s) for application of User Pays charges to Shippers.	*Not applicable*
Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.	*Not applicable*

4 Relevant Objectives

Impact of the modification on the Relevant Charging Methodology Objectives:	
Relevant Objective	Identified impact
a) Save in so far as paragraphs (aa) or (d) apply, that compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its transportation business;	Impacted
aa) That, in so far as prices in respect of transportation arrangements are established by auction, either: (i) no reserve price is applied, or (ii) that reserve price is set at a level - (I) best calculated to promote efficiency and avoid undue preference in the supply of transportation services; and (II) best calculated to promote competition between gas suppliers and between gas shippers;	Not applicable
b) That, so far as is consistent with sub-paragraph (a), the charging methodology properly takes account of developments in the transportation business;	Positive
c) That, so far as is consistent with sub-paragraphs (a) and (b), compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers; and	Positive
d) That the charging methodology reflects any alternative arrangements put in place in accordance with a determination made by the Secretary of State under paragraph 2A(a) of Standard Special Condition A27 (Disposal of Assets).	Not applicable
e) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	Not applicable

The proposed distribution charging methodology change takes account of the fact that gas from DN Entry points does not physically enter the transmission system. It is therefore more cost reflective that the net transportation costs for transportation of gas from such DN Entry points to DN Supply Points does not include any transmission charging element.

The proposed distribution charging methodology change takes account of the ongoing development of Distributed Gas.

The proposed charging methodology change would result in a reduction in the cost of transportation for gas sourced through DN Entry points and thus may facilitate the enhanced development of such gas sources which could in turn better facilitate effective competition between gas shippers. In addition, improving costs reflectivity supports the development of effective competition.

The proposed modification does not conflict with paragraphs 2, 2A and 3 of Standard Special Condition A4 of the Transporter's Licence since any change in charges would be applied based on the methodology prevailing at the time.

Some participants consider this modification would have a negative impact on relevant objective a) as it is not reflective of the costs to be incurred by Distribution Networks for administering the rebate.

Some consider the use of the DN regime to affect an NTS rebate based on an NTS charge, is in principle distorting DN price reflectivity.

5 Implementation

No implementation timescales are proposed. However, to be consistent with the timing of changes to transportation charges, 1st April 2016 may be a suitable implementation date.
Note:

- It is assumed that should this modification be implemented, notice would be included in the January 2016 Notice of Revised LDZ Gas Transportation Charges.
- Transporters advise that this modification would have limited implementation costs.
- Distribution Networks would need to refer to the applicable NTS Exit commodity charges within their own charging statements.

6 Impacts

Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

There are no impacts on other industry change.

Impact Assessment of issues raised under Modification 0508

The rationale for withdrawing the modification was documented and published at: http://www.gasgovernance.co.uk/0508

The key points of challenge outlined in the previous report, which were reconsidered by this workgroup, were:

2.1 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;*

Some participants offered the opinion that, as gas does not flow from DNs into the NTS, Distributed Gas does not directly benefit from any NTS service and should not bear any NTS costs.

2.2 Robustness of Regime - *That the regime for determining and applying the rebates should be robust;*

Some participants consider that as the regime is not proposing to determine a rate and that it would use a rate published by National Grid NTS for the rebate, the regime is robust.

Some participants questioned whether this charge provides a service, which DN Entry sites benefit from. If they benefit then the full rebate may not be appropriate. It was noted that the vast majority of NTS Exit commodity costs were compressor costs indicating that most of the rebate should be given.

2.3 Distributional Impacts - *The rebates provided by GDNs at the Distributed Gas Entry Point would be reflected to customers downstream.*

Some participants offered the view that this modification would not create subsidies as it proposes to redistribute costs for better cost reflectivity; leading to a fair allocation/distribution of charges across the different customer types. Overall Transporter's allowed revenue would not change, the net bill to Shippers would remain unchanged as it simply reapportions costs across the market. This would be no different to any charge or methodology review.

Some participants consider the materiality of the proposals in this modification were so small an impact that they would be lost in rounding in the DN revenues. It was also noted that the methodology could be revisited if it was deemed no longer appropriate.

National Grid Distribution estimated that the impact of distributed gas would be 0.18% of their revenues by 2020, allowing sufficient time to put in place amended arrangements should the materiality increase in future years and that this modification has a low impact on the medium term planning horizon.

7 Legal Text

Text Commentary

Amendments have been made to UNC TPD Section Y to reflect the modifications intention in providing DN Entry Points with a rebate of the TO Exit (Flat) and SO Commodity NTS charges. This has been carried out by including this value within the current value invoiced to DN Entry Points (the total can be a credit or debit) as it was felt that this was the most efficient way to incorporate this into legal text.

Text

The Text published alongside this report has been prepared by Scotia Gas Networks, and no issues were raised by the Workgroup regarding its content.

8 Consultation Responses

Of the 6 representations received 1 supported implementation, 1 provided comments and 4 were not in support.

Representations were received from the following parties:

Organisation	**Response**	**Relevant Objectives**	**Key Points**
Barrow Green Gas	Support	a - positive b - none c - positive	• Distributed gas does not flow through the NTS but remains within a GDN network, applying an NTS commodity charge to gas that is solely transported within a GDN cannot be cost reflective. • Noted that embedded generation is treated as negative demand within the electricity market and that this modification would be consistent with this approach. • Concluded that the proposed approach remained the most proportionate and cost reflective route for addressing the issue. • Was concerned that it has been suggested that implementation of this modification and the consequent redistribution of charges would create a cross subsidy, as any change to charges will inevitably lead to a redistribution of costs. • The key is assessing whether the proposed change improves cost reflectivity and so better facilitates achievement of the relevant objectives. • Noting that Modification 0508 suggested DNs would need to recover around £3m additional revenue, the

			proposer did not consider a 0.18% increase in DN charges by 2020 to be a material impact. However they accepted the Panel's view on the self-governance status.
British Gas	Oppose	a - negative b - negative c - negative	• A strong supporter of cost reflective charges and would support the principle of excluding certain Users from NTS charges if it can be proven that they are not using the NTS network. • Uncertain the modification would result in charges that were more cost reflective. • The modification does not identify what costs the NTS exit commodity charges recovers and whether a full rebate can be accurately targeted and justified. • Questions whether DN entry users may be different to the exit users and hence whether the rebate would be accurately targeted. • As the allowed revenues for DNs do not anticipate them funding the services paid for by the NTS Exit Commodity Charges, assume that DN Users will pick up the shortfall. It could be argued that this would introduce a cross subsidisation between the remaining customer base of the DN and Users of the NTS. • Believed the modification is not self-governance. • Suggests robust consideration of alternatives would be beneficial.
National Grid Distribution	Oppose	a - negative b - none c - negative	• Expressed inter-regulatory regime concerns, stemming from the prospect of DNs administering a rebate for charges that are levied directly on shippers by the NTS, and the under recovery against DN allowed revenues. • Uncertain that the solution would result in a rebate equal to the costs incurred by the intended beneficiaries. • No clear and objective analysis available in relation to the costs and services that NTS Exit Commodity Charges are designed to recover, to fully support the principle of a rebate. • Recognising the ease and practicalities of the solution, believed that these should not supersede the fundaments of charging methodology and regulatory form of control. • Expressed support for considering a solution, which utilised the NTS pricing regime directly, or a mechanism for DNs to pass back the rebate collected

			within DN revenues to the NTS. • Noted that DNs would need to consider pricing notification obligations. • Believed the modification is not self-governance. • Requested clarification in relation to the use of the LDZ Entry Commodity charge as a means of implementation.
National Grid NTS	Comments	a - none b - none c - none	• Providing comments for consideration, highlighted the following fundamental principles : o Gas directly entering a DN utilises the NTS as Gas can be traded at the NBP for onward transmission to any other point on the system; o shippers can enter Gas in the DN but offtake the gas elsewhere meaning that the gas being offtaken has utilised the NTS as it is not the gas entered directly to the DN. • The only scenario they believe the above two bullets may not apply is where a shipper brings gas directly into a DN and offtakes that gas in the same DN. However, to accurately measure this could potentially be both complex and costly. • Believed the modification is not self-governance.
Scotia Gas Networks	Oppose	a - negative b - negative c - negative	• Supportive of the direct entry of gas into the distribution network as a means of both introducing renewable gas sources into the energy mix and providing additional security of supply. • Agree sites should not be subject to transportation charges for parts of the network, which they have not encountered. • Does not support the solution as proposed. It is not cost reflective for GDNs to provide the rebate. Any rebate provided by GDNs will be funded through re-distribution of charges across other distribution Shipper Users. • As a majority of distributed gas entry shippers do not hold exit points they would not have received the NTS charge in the first instance. Hence, any rebate is simply a credit to their bottom line whilst the NTS shippers fund the charges. • The solution proposed, being low-cost, will obligate GDNs to simply subtract the NTS rate from the LDZ Entry Commodity charge, not showing a separate charge. Considering the fact the NTS charges may

			change up to 3 times per year, it may not be easy for Shippers to reconcile invoices as the final charge will not be broken down to indicate values for each individual charge included. • Believed the modification is not self-governance.
Wales & West Utilities	Oppose	a - negative b - negative c - negative	• The proposed solution is not cost reflective and will mean Shippers using DN networks will cross subsidise shippers using the NTS. • Absence of evidence from NTS to confirm the NTS Exit Commodity charge recovers the costs of services that are not used by shippers entering gas at DN entry sites. • Would be more understanding of a Modification, which sought to recover the rebate from NTS, or included a true up between the DNs and NTS. • Prefer implementation, which coincides with the annual pricing statement publication. • Concerned that the legal text could infer that a pricing statement will be published by the DNs each time the NTS SO Commodity rate changes, thus suggests clarification. • Believed the modification is not self-governance.

Representations are published alongside the Final Modification Report.

9 Panel Discussions

The Panel Chair summarised that Modification 0539 proposed a revision to the distribution charging arrangements in respect of Distributed Gas such that transmission exit commodity charges are not applied.

Members considered the representations made noting that, of the 7 representations received (including 1 late representation), 1 supported implementation, 1 provided comments and 5 were not in support.

Some members considered that the problem outlined in this proposal was relevant, but that concerns remained that this was not an ideal solution in that it would introduce a cross-subsidy between NTS and Distribution Networks. Some members considered that there were other, more appropriate ways of addressing the matter, whilst noting that no alternatives had been proposed at this time.

Members considered the relevant objectives (a), (b) and (c). Members agreed implementation would not have positive impacts to these relevant objectives.

Panel asked that respondents provide clear views and supporting evidence on the self-governance status identified in Section 1 of this report focusing, in particular, on whether this proposal is likely to have a material impact upon competition in the shipping, transportation or supply of gas.

Members reconsidered the self-governance status in light of these representations and agreed that the proposal is likely to have a material impact on competition in the shipping, transportation or supply of gas and therefore should not be self-governance.

Members voted with 3 votes in favour (out of a possible 10), failed to recommend implementation of Modification 0539.

10 Recommendation

Panel Recommendation

Having considered the Modification Report, the Panel recommends:

- that proposed Modification 0539 should not be made.