Representation - Draft Modification Report 0539
Removal of NTS Exit Commodity Charges for Distributed Gas

Responses invited by: 08 October 2015

To: enquiries@gasgovernance.co.uk

Representative:	Tim Davis
Organisation:	Barrow Green Gas
Date of Representation:	8 October 2015
Support or oppose implementation?	Support
Relevant Charging Methodology Objectives:	**a)** Positive **b)** None **c)** Positive

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

Commodity charges apply to gas flows. 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.

Implementation: *What lead-time do you wish to see prior to implementation and why?*

We wish to see this proposal implemented at the earliest opportunity and would not require a lead-time to accommodate this.

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

None.

Legal Text: *Are you satisfied that the legal text will deliver the intent of the Solution?*

Yes.

Modification Panel Members have requested that the following questions are addressed:

Q1: Please provide clear views and supporting evidence on the self-governance status of this modification focusing, in particular, on whether this proposal is likely to have a material impact upon competition in the shipping, transportation or supply of gas.

In Modification 0508, National Grid Distribution suggested that “The standard DN charges would thus need to be set to recover around £3m additional revenue, equivalent to 0.18% increase by 2020, to offset the additional rebate provided to DN Entry gas under this proposal.” We would not consider this to be sufficient to have a material impact upon competition in the shipping, transportation or supply of gas. However, we are happy to

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accept the Panel's view that self-governance is inappropriate and presume that a consistent test of materiality is applied to all modifications.

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.*

While not necessarily directly relevant, our understanding of the electricity market is that embedded generation is treated as negative demand. It is worthy of note that Modification 0539 is consistent with this approach since, if treated as negative demand, distributed gas would benefit from negative commodity charges.

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

Barrow Green Gas supported the views put forward by National Gas Distribution in Modification 0508 that using the established charging approaches is the most cost effective route for improving the cost reflectivity of the charging methodologies. Disappointingly, during the assessment process some networks suggested that Modification 0539 should be changed to propose a change to the NTS charging methodology but were not prepared to bring an alternative to the table. We believe that we are the smallest Shipper that has ever raised a Modification Proposal, and do not have the resources to develop multiple solutions nor access to the information that would enable an assessment of the differing costs of implementing alternative approaches. We therefore relied on the assessment put forward by National Grid in Modification 0508 that there would be no cost involved in implementing the proposal. By contrast, Xoserve has previously informed DCMF that introducing changes to the existing charging approach would be considerable. It therefore appears reasonable to conclude that the proposed approach remains the most proportionate and cost effective route for addressing the identified issue.

Implementation of this modification would, as with any other change to transportation charges, mean that some Shippers would pay more and others would pay less. Ensuring Shippers face cost reflective charges is an important underpinning of the competitive market, and normal competitive forces would be expected to ensure that costs are reflected throughout the supply chain. Rather than supporting the competitive market, it was suggested during the Workgroup assessment process that implementation of Modification 0539 and the consequent redistribution of charges would create a cross subsidy. This is misguided. As stated above, any change to charges will inevitably lead to a redistribution of costs. To suggest that a redistribution necessarily creates a cross subsidy implies that the charging structure was perfect beforehand and would rule out any change ever being progressed. However, it could equally be asserted that any redistribution of charges counteracts existing cross subsidies. It is clearly not sufficient to assert that a change in cost allocations creates a cross subsidy. The key is assessing whether the proposed change improves cost reflectivity and so better facilitates achievement of the relevant objectives, which we believe is the case for Modification 0539.

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