Representation - Draft Modification Report 0563S

Moving the NTS Optional Commodity Charge Formula into the UNC

Responses invited by: 15 January 2016

To: enquiries@gasgovernance.co.uk

Representative:	Robert Wigginton
Organisation:	Wales & West Utilities Ltd
Date of Representation:	15th January 2016
Support or oppose implementation?	Oppose
Relevant Objective:	**b)** Negative **e)** None

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

Modification 0563s sets an unwelcome precedent of fixing a charging tariff (in preference to the way the tariff is calculated) into code.

Similar formulae which are currently included within TPD Section Y, such as the LDZ System Entry Commodity Charge, are stated with adjustable parameters (which are adjusted under the governance arrangements afforded through the licence condition SSC A4). Therefore WWU would be more supportive of any future modification which included the format of the formulae within section Y. This would require industry engagement through the Modification Process for any changes to the way the formula operates (an improvement in current governance arrangements) but allows for the annual adjustment of components to ensure cost reflectivity is maintained.

The implication of Modification 0563s in its current state is that the opportunity to amend the tariff becomes less efficient, and therefore less likely to occur frequently given the resources required for the full modification process to take place. The consequence of this is that prices are more likely to become less cross reflective and the likelihood of a cross subsidy between those customers selecting the optional tariff and those customers who do not.

The modification seeks to transfer the optional charge formula into Code. At its inception, the optional charge formula was intended to be updated annually (see further information for an extract of the original report). Firstly the SOQ would be updated

annually reflecting the latest SOQ for the specific site, this is provided for in the formula. Secondly the inputs relating to the costs associated with building an alternative connection for the site. This was not explicitly referenced in the formula (which used the 1999 assessment of these costs). These cost elements were intended to be considered annually and uplifted to represent the uplifting of costs of building an equivalent connection.

By including the original (and current formula) into code there is an introduction of additional industry engagement to change each parameter. Therefore, if the parameters are no longer perceived to be cost reflective there is a risk that the licence may be in breach of its licence condition SSC A5.

Furthermore, customers selecting the optional tariff who do not change their SOQ annually are afforded protection from any future price rises in line with any increases in allowed revenue that National Grid NTS may be permitted to collect. The consequence of this is the introduction of a cross subsidy between those not on the optional tariff and those afforded protection by virtue of a fixed tariff altered only by a change in SOQ.

We consider therefore that Relevant Charging Objective B is negative as the modification seeks to introduce a pricing formulae which reflects costs from 1999 into code, reducing the ability of NTS to make future charges cost reflective in line with the governance present under SSC A4.

We consider therefore that Relevant Charging Objective E is 'none' as the formulae is already clearly published by NTS, with any changes subject to the governance arrangements afforded by SSCA4. Furthermore engagement with the industry can already be witnessed in NTS seeking to amend the inputs into the formulae from their 1999 inception values.

Self-Governance Statement: *Please provide your views on the self-governance statement.*

WWU agrees that this modification simply sets out to improve the governance around the ability to amend the Optional Charge Formula. However in its current form, the formula being entered into code is not consistent with how other similar formulae are presented, affording the licensee to maintain costs and inputs to be cost reflective.

Therefore we do not agree that the modification is self-governance.

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

No lead time would be required to facilitate this change therefore as soon as practical to update and publish a revised UNC.

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

N/A this is an NTS charge levied on their customer base.

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

Yes

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.*

See reason for opposition above.

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

The following is an extract from the original Modification Report, PC9 approved by Ofgas on 9th January 1998 referencing the intention to review the tariff to keep in line with current pipeline costs and revenue rates.

$$1203 \times [(SOQ)^{-0.834}] \times D + 363 \times (SOQ)^{-0.654}$$

We initially suggested that we did not anticipate the optional rate for a particular site, once agreed, would need to be recalculated. Having considered this further, in the interests of consistency with general transportation charges, we propose to modify this in two respects.

Firstly, as the calculated rate for an individual load is a function of SOQ, **we propose to recalculate the charge for each load on an annual basis, in line with the prevailing SOQ.** For this purpose the SOQ will be defined as the registered supply point capacity in the first year of operation of a new load, and will be defined by the previous year's peak day consumption in subsequent years.

Secondly, in the interests of keeping the level of the tariff in line with current pipeline costs, **we propose that the function should be reviewed at the same time as the annual review of general transportation charges, and uprated in line with an suitable escalator.** We propose that the simplest escalator would be an RPI - X mechanism, to match the cost reduction incentives of the prevailing price control.

The following table represents options presented by NTS, engaging with the industry under the current industry arrangements. In each scenario the formula composition remains the same, reflecting our belief that a modification to put this formula into code would be consistent with other such formula. However, the fixing of the components should not occur, replaced with clear guidelines around how those components are revised.

Table 4 Results

Scenario	Formula
Current	1203*M^-0.834*D + 363*M^-0.654
Current RPI	2061*M^-0.853*D + 604*M^-0.654
Option One	16652*M^-0.920*D + 101114*M^-0.900
Option Two	1247*M^-0.780*D + 1422*M^-0.708

Where: D is the direct distance of the site or non-National Grid NTS Pipeline to the elected Entry Terminal

M[9] is the Maximum NTS Exit Point Offtake Rate (MNEPOR) at the site, converted into kWh/day

^ means 'to the power of..'