

0678 Workgroup Report, Issue Reference 4.15 DN Impacts

As per section 4.15 of the Workgroup Report, the below provides the Gas Distribution Networks (GDNs) analysis, observations and concerns on potential charge changes.

The Sensitivity tool provided by National Grid (published on the Joint Office website), has been utilised to perform the analysis. The impacts shown reflect the charging year March to April.

The below commentary should be read in conjunction with the 'Mod 0678 GDN Impacts (22 March 2019) PowerPoint published [here](#) on the Joint Office Website.

Cadent

Cadent has undertaken analysis to assess the domestic bill impact when comparing the current charging regime (rates published by National Grid in May 2018) against three modifications raised by the industry. The three modifications that have been analysed are; 0678 which utilises the CWD approach; 0678A containing the Postage Stamp approach and; 0678E, which again uses the CWD approach but applies an 80% discount for storage sites.

The domestic bill impact has been conducted for the four Cadent networks, East of England, London, North West and West Midlands.

The analysis has been conducted on the basis that Cadent will absorb National Transmission System (NTS) prices changes within the relevant Formulae Year (March – April). Costs are then assumed to be pass through, where the supplier passes costs to the customer. Customers' bills are then impacted 2 years later as per the two year lagged mechanism.

Modification 0678 vs Current Methodology

When comparing Modification 0678 against the current charging methodology we see the average costs per customer increase by £2.26 in charging year 2021/22 and £2.87 in 2022/23 for the East of England Network. However for London, North West and West Midlands we see the opposite effective with prices decreasing with impact more pronounced in the North West. For 2021/22 and 2022/23 London shows a decrease of £0.52 and £0.84, North West decreases by £8.92 and £12.54 and West Midlands declines by £6.04 and £8.39.

Modification 0678A vs Current Methodology

The postage stamp methodology demonstrates a split increase and decrease bill impact across the four networks. The East of England and London both show customer bills increasing from 2021/22 onwards. In 2021/22 domestic bills are shown to increase by £5.15 and £6.86 in 2022/23 for the East of England. With London the cost increase is more minimal, £0.44 and £0.47 in the respective years. The North West indicates a reduction in bills by £8.78 and £12.30 for the same years, proving to be the biggest impact. Finally West Midlands also shows a decrease in bills by £3.61 and £5.09 for respective years.

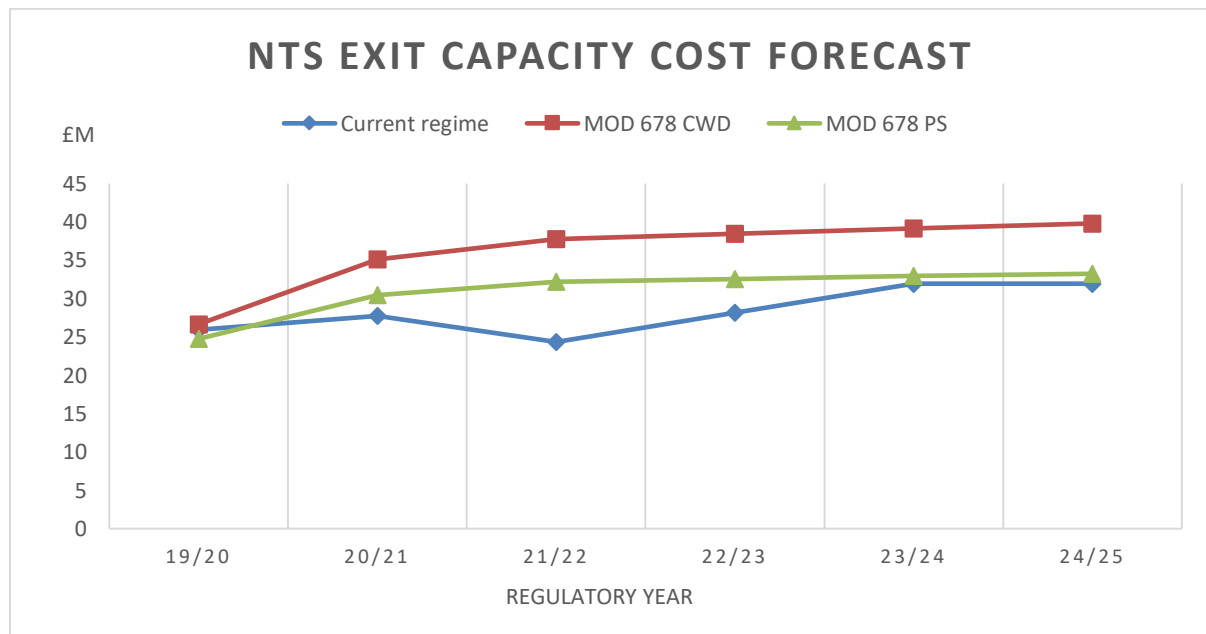
Modification **0678E** vs Current Methodology

This modification utilises the CWD approach with an 80% discount for storage. For the East of England we see domestic bills increase by £2.52 and £3.23 in 2021/22 and 2022/23 respectively. With London there are small downward movements in domestic prices of £0.24 and £0.46. North West shows the greatest decrease with a projection of bills moving down by £8.62 and £12.13 in the respective years. In comparison West Midlands shows declines of £5.83 and £8.09.

WWU

WWU has carried out analysis on the impact of MOD678 and MOD 678 Postage stamp. Currently GDNs pay NTS exit capacity charges and shippers on GDN networks pay NTS exit commodity charges. GDNs recover NTS exit capacity charges from Shippers. Under MOD 678, there will be a change in methodology from LMRC to CWD and NTS commodity charges to shippers will cease. All NTS exit revenue from customers on GDN networks will therefore be recovered by means of NTS exit capacity charges to GDNs, who will in turn recover this from their charges to Shippers by means of capacity charges. The impact of these factors in our costs can be seen in the analysis below which shows forecasted NTS exit capacity charges for WWU under the base case scenarios of [no NTS optional charge and no use of interruptible capacity by Shippers].

Cost Forecast	19/20	20/21	21/22	22/23	23/24	24/25
Current regime	25.92	27.73	24.34	28.13	31.94	31.94
MOD 678 CWD	26.65	35.14	37.74	38.44	39.14	39.79
MOD 678 PS	24.75	30.46	32.17	32.54	32.92	33.23



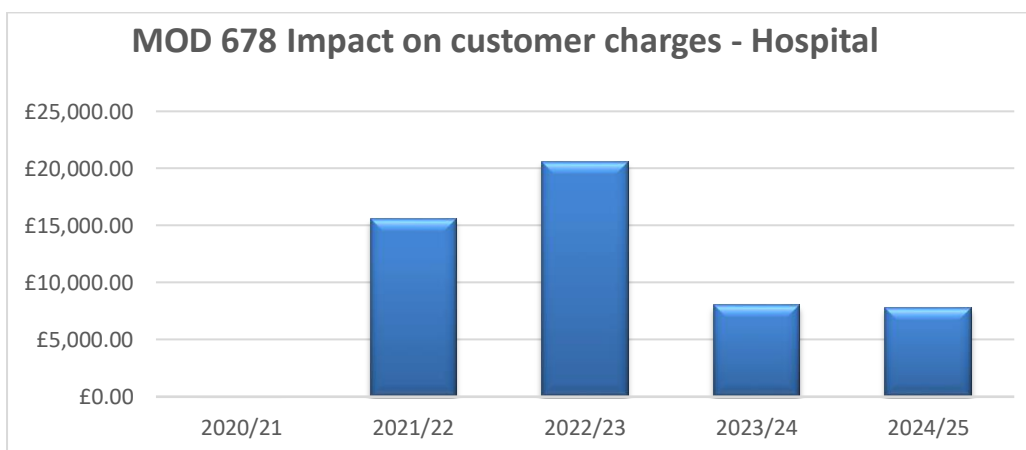
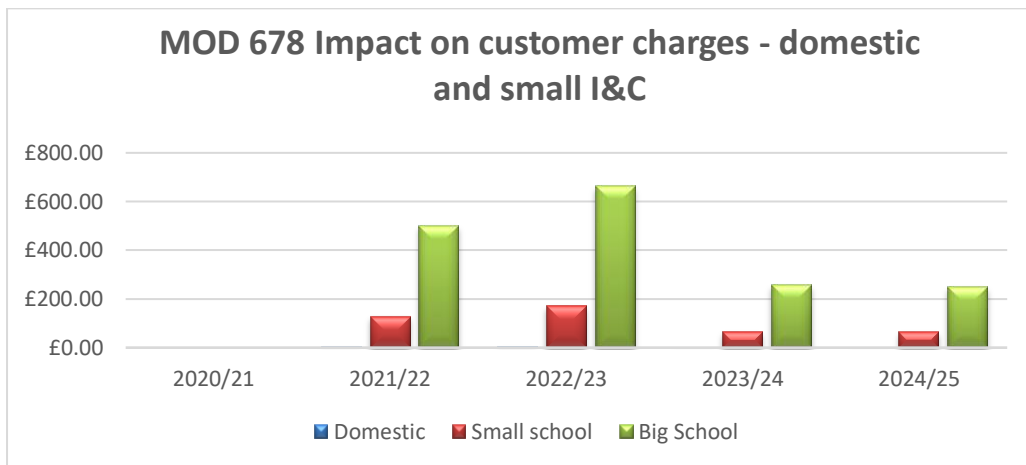
As can be seen from the above analysis, our costs under MOD 678 are forecast to increase significantly from 20/21 onwards, as compared to the current regime. Due to the two-year lag cost true up mechanism, (whereby any difference between costs and the allowance set in the price control is recovered in two years' time), plus the mid-year change in NTS exit charges, the impact of the increases in cost will not be a direct correlation to the effect on our allowed revenue and therefore customer bill.

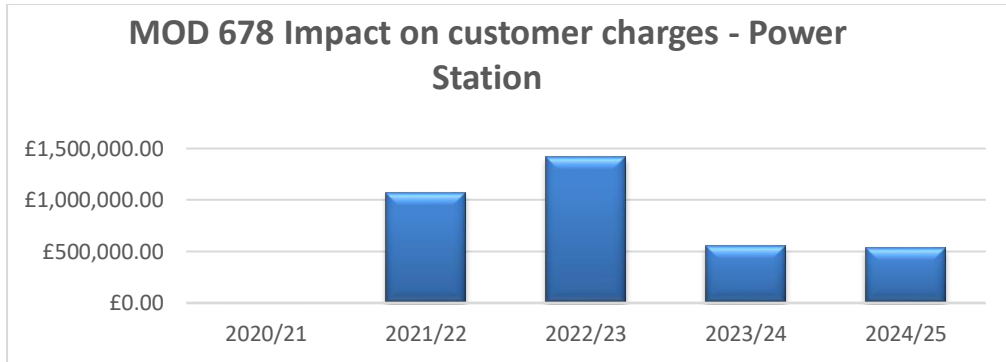
As can be seen below, the revenue impact of MOD 678 would start in 2021/22 and have its most pronounced effect in 2022/23 due to the cost true up from 2020/21. The cost true up

adjusts for the differences between cost allowance and actual costs. The adjustment is made to allowed revenue in on a two year lag. The table shows the forecasted revenue required to recover NTS exit capacity charges.

Forecast revenue recovery	19/20	20/21	21/22	22/23	23/24	24/25
Current regime	57.67	27.70	9.75	22.65	31.94	32.89
MOD 678 CWD	57.67	27.70	23.98	41.30	39.14	39.79
MOD 678 PS	57.67	27.70	21.83	36.04	32.92	33.23

The impact on customers would also therefore be largest in 2022/23 as shown through the graph below which shows the effect of MOD 678 compared to the current methodology on customer charges for a selection of customers.





It is important to note that as NTS commodity charges are effectively being passed on to GDNs, who will then charge this on to end customers, the actual impact on end consumers will be lower than the above assuming Shippers pass on the benefit on no longer paying NTS exit commodity charges. Overall as the change is to all revenues being recovered through capacity charges rather than a mixture of capacity and commodity charges the net effect on end consumers is likely to be redistribution from customers with a high load factor towards customers with a low load factor.

The above analysis has been done assuming that cost true up impacting 22/23 and after is zero. In so far as it is not zero this will cause further fluctuations in the revenue that WWU needs to recover.

SGN

What the results actually mean to the DN:-

- Substantial increases in costs for Scotland, greater than those seen in the Enduring solution in 0621
- Increased costs for Southern though not to the extent of those seen in Enduring 0621

Any concerns the DNs have on the impacts:-

- Increase in cost will have a big impact on Scottish customers in particular. There is also the double impact in the first two years of GD2 due to the assumed reset of allowances and the two year lag true up of costs
- How substantial increases are messaged to Scottish customers. In our 0621 response we stated that we feel ... *'Ofgem has a role to play in communicating the substantial increases in costs faced by consumers and businesses.... This message will be complex given the substantial proportion of the UK gas supply being beached in Scotland'*
- Currently there is no obligation to produce a sensitivity tool for all proposals. We require clarification regarding this as we are unsure how Industry can assess the impact of the proposals if a set of prices have not been generated to enable suitable financial analysis
- National Grid, due to time restraints, will not be taking ownership of adapting their sensitivity tool for each of the alternates (unlike 0621). We would request that there is sufficient assurances in place for those alternates adapting the National Grid tool, as any inconsistencies could impact analysis
- We are also concerned by potential price volatility post implementation. There is likely to be continued volatility due to behavioural changes to bookings and the raising of counter mods from different areas of the industry
- We consider neither CWD nor Postage Stamp to be cost reflective

NGN

NGN's analysis focuses on the following areas for Mod678 Capacity Weighted Distance and Mod678A Postage Stamp:

1. The annual costs that NGN will be charged.
2. The movement from 621 for these scenarios
3. The movement from a "do nothing" scenario i.e. if the current charging regime continued as-is how much difference would mod678 generate?
4. The impact on NGN cash flows and customer bills.

Mod678 Capacity Weighted Distance

- With an implementation date of Oct-19 costs would be £14m in 19/20, £27m in 20/21 and then c.£29m thereafter.
- Compared with current charges this is between c.£7-£20m additional costs per year which would be passed directly on to the end consumer.
- In comparison to Mod621, costs have increased at a more rapid rate and the maximum is almost reached in the 2nd year of 678.
- An increase in costs between Oct-19 and Mar-21 would impact on cash flow. Revenue allowances would not be reset until GD2 so NGN would have to bear the additional cost exposure during this time (£25m).
- With a 2 year lag before revenue catches up this results in a larger impact in the early years of GD2 – base allowances would be reset to the new level of c.£29m per year plus a £25m catch up would be needed from GD1.
- Domestic customer bills would increase between £3.50 and £8 per year as a result.

Mod678A Postage Stamp

- This mod results in higher costs than 678 - costs would be £16m in 19/20, £31m in 20/21 and then c.£33m thereafter.
- Compared with current charges this is between c.£8m and £24m additional cost per year which would be passed directly on to the end consumer.
- NGN would be charged £31m additional costs during GD1, with no corresponding revenue catch up allowance until GD2.
- Domestic customer bills would increase between £4.60 and £10 per year as a result.