

Representation

Draft Modification Report

0356/0356A: Demand Data for the NTS Exit (Flat) Capacity Charges Methodology

Consultation close out date: 06 January 2012
Respond to: enquiries@gasgovernance.co.uk
Organisation: Energia
Representative: Derek Scully
Date of Representation: 06 January 2011

Do you support or oppose implementation?

0356 - Support/Qualified Support/Neutral/Not in Support/Comments* *delete as appropriate*

0356A - Support/Qualified Support/Neutral/Not in Support/Comments* *delete as appropriate*

If either 0356 or 0356A were to be implemented, which would be your preference?

Prefer 0356 ~~or 0356A~~ *delete as appropriate*

Please summarise (in one paragraph) the key reason(s) for your support/opposition.

Firstly, Energia welcomes the development of alternative proposals in light of the proposed charging methodology been found to be unworkable. Of the options forwarded, Mod 0356 is considered to be the only option consistent with the relevant objectives. Mod 0356A is considered to be; inappropriate, discriminatory, detrimental to competition and efficiency through the introduction of cross-subsidies and is potentially open to gaming by portfolio shippers (strategic booking behaviour).

Are there any new or additional issues that you believe should be recorded in the Modification Report?

None.

Relevant Objectives:

How would implementation of either of these modifications impact the relevant objectives?

SSC A5(a): charges which reflect the costs incurred by the licensee in its transportation business

Cost-reflectivity is correctly identified as a central tenet of the charging methodology to be adopted from 01 October 2012. Forecast demand is a widely accepted basis upon which network tariffs are determined. It is also a key driver in plans for significant capital investment and upgrades to existing network. In this context, the TSO is best placed to undertake such demand forecasts. The ability of the TSO to include and control for new and changing determinants of demand, including planned network investment, is unquestionable. The predictive power of this approach can therefore be expected to exceed a simple aggregation of capacity bookings.

In the case of Moffat, the principle of cost-reflectivity is simply not adhered to under the proposed approach of Mod 0356A as the booked capacities at the exit point are unreflective of demand and bear no resemblance to actual flows. Significant overbooking of future capacity at Moffat has been a consistent feature for some time and similar changes in flows have not been observed. Therefore, the imposition of Mod 0356A at Moffat would be wholly inappropriate and would breach the principle of cost-reflectivity while creating cross-subsidies among shippers.

Pursuant to Mod 0356, it would appear to be reasonable for the TSO to publish all assumptions and underlying data with respect to their forecasts in the interest of transparency.

SSC A5(b): properly takes account of developments in the transportation business

As already noted, Energia welcomes all proposals to resolve the difficulty arising due to the damagingly high assumed demand levels of the existing charging methodology. Of the options forwarded however, it is Energia's considered view that only Mod 0356 can provide for demand data that is consistent with the relevant objectives of the charging methodology.

SSC A5(c): facilitates effective competition between gas shippers and between gas suppliers

The facilitation of effective competition should be done so in a manner that ensures a level playing pitch for all participants. Mod 0356A, by its failure to treat all sites similarly, is discriminatory in its approach and undermines the basis for competition envisaged in the market. By further enabling the introduction of cross-subsidies between shippers through an inability to adhere to the relevant objective of cost-reflectivity (for reasons already advanced), effective competition in the market is further undermined.

Conversely, Mod 0356 proposes the use of forecast demand data for all exit points. This approach is considered to promote effective competition.

Finally, and in part due to the discriminatory nature of the proposal albeit not exclusively confined to this, Mod 0356A is considered to introduce the potential risk of 'gaming' (strategic capacity booking) into the market by portfolio shippers. This risk is considered to pertain to both the strategic booking of exit points and the use of short/long term bookings by shippers across their portfolio. The use of forecast demand data as outlined in Mod 0356 ensures such a risk does not arise.

Impacts and Costs:

What analysis, development and ongoing costs would you face if either of these modifications were implemented?

No additional analysis, development or ongoing costs identified.

Implementation:

What lead-time would you wish to see prior to either of these modifications being implemented, and why?

The modification should be implemented in Q1 2012 to allow calculation of prices for the 2012 application window and the 2012/13 gas year.

Legal Text:

Are you satisfied that the legal text will deliver the intent of either of these modifications?

No issues identified with the legal drafting as proposed.

Is there anything further you wish to be taken into account?

Please provide any additional comments, supporting analysis, or other information that that you believe should be taken into account or you wish to emphasise.

None.