

## Representation - Draft Modification Report

### UNC 0678; 0678A; 0678B; 0678C; 0678D; 0678E; 0678F; 0678G; 0678H; 0678I; 0678J; Amendments to Gas Transmission Charging Regime

0678	Amendments to Gas Transmission Charging Regime
0678A	Amendments to Gas Transmission Charging Regime (Postage Stamp)
0678B	Amendments to Gas Transmission Charging Regime
0678C	Amendments to Gas Transmission Charging Regime (Postage Stamp)
0678D	Amendments to Gas Transmission Charging Regime including a Cost based Optional Capacity Charge
0678E	Amendments to Gas Transmission Charging Regime – Treatment of Storage
0678F	Amendments to Gas Transmission Charging Regime – Treatment of Unprotected Entry Capacity Storage
0678G	Amendments to Gas Transmission Charging Regime including a Cost based Optional Capacity Charge
0678H	Amendments to Gas Transmission Charging Regime (Postage Stamp) including a Cost based Optional Capacity Charge
0678I	Amendments to Gas Transmission Charging Regime including Wheeling and an Ireland Security Discount
0678J	Amendments to Gas Charging Regime (Postage Stamp) including a Cost Based Optional Capacity Charge

**Responses invited by: 5pm on 08 May 2019**

**To:** [enquiries@gasgovernance.co.uk](mailto:enquiries@gasgovernance.co.uk)

<b>Representative:</b>	Tracey Saunders, Market Services Manager (Industry Codes)	
<b>Organisation:</b>	Northern Gas Networks	
<b>Date of Representation:</b>	8 May 2019	
<b>Support or oppose implementation?</b> (Please note you will be asked for your reasoning further below)	0678	Oppose
	0678A	Oppose
	0678B	Oppose
	0678C	Oppose
	0678D	Oppose
	0678E	Oppose
	0678F	Oppose
	0678G	Oppose
	0678H	Oppose
	0678I	Oppose
	0678J	Oppose
<b>Expression of Preference</b> (Please note you will be asked for your reasoning further below)	If <b><i>EITHER</i></b> 0678; 0678A; 0678B; 0678C; 0678D; 0678E; 0678F; 0678G; 0678H; 0678I <b><i>OR</i></b> 0678J were to be implemented, which <b><i>ONE</i></b> Modification would be your preference?  NGN has no preference for any one modification proposal.	

**Standard Relevant Objectives:**

<b>0678</b>	
a)	None
b)	None
c)	Positive
d)	Positive
e)	None
f)	None
g)	None
<b>0678A</b>	
a)	None
b)	None
c)	None
d)	Positive
e)	None
f)	None
g)	Positive
<b>0678B</b>	
a)	None
b)	None
c)	None
d)	None
e)	None
f)	None
g)	Positive
<b>0678C</b>	
a)	None
b)	None
c)	None
d)	None
e)	None
f)	None
g)	Positive

**Standard Relevant  
Objectives  
(continued):**

<b>0678D</b>	
a)	None
b)	None
c)	None
d)	None
e)	None
f)	None
g)	Positive
<b>0678E</b>	
a)	None
b)	None
c)	None
d)	None
e)	None
f)	None
g)	Positive
<b>0678F</b>	
a)	None
b)	None
c)	None
d)	None
e)	None
f)	None
g)	Positive
<b>0678G</b>	
a)	None
b)	None
c)	None
d)	None
e)	None
f)	None
g)	Positive

**Standard Relevant  
Objectives  
(continued):**

<b>0678H</b>	
a)	None
b)	None
c)	None
d)	None
e)	None
f)	None
g)	Positive
<b>0678I</b>	
a)	None
b)	None
c)	None
d)	None
e)	None
f)	None
g)	Positive
<b>0678J</b>	
a)	None
b)	None
c)	None
d)	None
e)	None
f)	None
g)	Positive

**Charging  
Methodology  
Relevant Objectives:**

<b>0678</b>	
a)	Positive
aa)	Positive
b)	None
c)	Positive
d)	None
e)	Positive
<b>0678A</b>	
a)	None
aa)	None
b)	None
c)	Positive
d)	None
e)	Positive
<b>0678B</b>	
a)	Positive
aa)	Positive
b)	None
c)	Positive
d)	None
e)	Positive
<b>0678C</b>	
a)	None
aa)	None
b)	None
c)	Positive
d)	None
e)	Positive

**Charging  
Methodology  
Relevant Objectives  
(continued):**

<b>0678D</b>	
a)	Positive
aa)	Positive
b)	None
c)	Positive
d)	None
e)	Positive
<b>0678E</b>	
a)	Positive
aa)	Positive
b)	None
c)	Positive
d)	None
e)	Positive
<b>0678F</b>	
a)	Positive
aa)	Positive
b)	None
c)	Positive
d)	None
e)	Positive
<b>0678G</b>	
a)	Positive
aa)	Positive
b)	None
c)	Positive
d)	None
e)	Positive

**Charging  
Methodology  
Relevant Objectives  
(continued):**

<b>0678H</b>	
a)	None
aa)	None
b)	None
c)	Positive
d)	None
e)	Positive
<b>0678I</b>	
a)	Positive
aa)	Positive
b)	None
c)	Positive
d)	None
e)	Positive
<b>0678J</b>	
a)	None
aa)	None
b)	None
c)	Positive
d)	None
e)	Positive

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

Whilst NGN still remains supportive of the need for National Grid Gas Transmission to undertake a full review of pricing principles and methods, we remain concerned that our customers will see a significant increase in their charges and may find it difficult to understand how this has come about given that the physical operation of the network has not changed. Therefore, we are unable to offer support to any of the 0678 suite of modifications.

Although we feel that the additional transparency of Forecasted Contracted Capacity (FCC) methodology is an improvement in relation to the 0621 suite of modifications, we believe that the removal of the gradual transition is not an improvement and will increase the impact felt by our customers.

All 0678 modifications offer either a Capacity Weighted Distance (CWD) approach (**0678, 0678B, 0678D, 0678E, 0678F, 0678G & 0678I**), or Postage Stamp Approach (**0678A, 0678C, 0678H & 0678J**).

Whilst the CWD approach is not the most cost reflective as it assumes that the entire gas network is unconstrained, it is an improvement on current arrangements. It is however worth noting that charges derived from the CWD approach will only be stable if there are minimal changes to the FCC values.

The Postage Stamp approach will likely be more expensive for NGNs customers, but it may be easier for customers to understand and ensure that location does not disadvantage any of the gas users. However, it would not enable NTS to apply any locational signals so is likely to reduce the cost reflectivity of charges.

It should also be noted that a number of Alternatives specifically state that the NTS Optional Charge is not available for Distribution Network (DN) Offtakes, whilst we can see there is a cost benefit to the users of this, we believe this may be unintentionally discriminatory against DNs.

**Implementation:** *What lead-time do you wish to see prior to implementation and why? Please specify which Modification if you are highlighting any issues.*

Our preference would be an implementation date of 1 October 2020 as it would better align with the start of the RIIO-GD2 price control period.

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

The following comments apply to all proposals; where we have further comments relevant to specific proposals, we have set these in the table below.

We are concerned about the sudden increase in cost to our customers and the cost-reflectivity of each of the approaches. The removal of a gradual transition would likely result in end customers receiving a sudden bill increase whilst experiencing no change to the service they receive. Due to the unavailability of the pricing analysis at an earlier stage, we have only been able to carry out a detailed impact assessment for the original modification proposal and Alternative A and have not been able to produce this for the remainder of the proposals. Whilst we appreciate the short timescales available for this work, the lack of this analysis means we can only offer a broad view of the impacts and costs to NGN and our customers. Please see Appendix 1 for the detailed impact assessments of the original 0678 and 0678A.

It is important to note that any efficiencies intended to reduce customer bills that are included in the NGN RIIO-GD2 business plan may be completely countered by increases that these Modifications would likely impose. For example, using the NTS original 0678, a reduction of £5 in a domestic customer bill would only have a net effect of £1.50 from 2023/24, but would see an increase of £3.00 for the 2022/23 year based on the current cost recovery lag within the DN pricing arrangements. This could result in additional cost increases that would need to be borne by NGNs end customers to ensure that sufficient capacity can be procured on an enduring basis.

The use of actual and forecast flows, rather than Licence baselines, ensures that changes to the use of the pipe-line system are reflected in prices more accurately. Operationally, NGN offtake capacity bookings are managed in such a way that we have sufficient capacity available at a Local Distribution Zone level to provide cover for a 1 in 20 forecast winter period. Historically we have held headroom at each offtake, but we have been working throughout RIIO-GD1 to reduce these bookings where possible and free up capacity for other NTS Users while ensuring that we continue to meet our obligations to meet the 1 in 20 demand should it occur. This reduction in capacity bookings has had the positive effect of reducing charges that are passed through to our customers throughout the RIIO-GD1 period. However, if the zero price arrangements are removed, this could impact our capacity booking strategy as we will no longer be able to use capacity to 'top-up' our bookings during periods of higher demand, free of charge. Reverting back to building headroom into our capacity bookings would potentially be a solution we would



explore to minimise risk of significant overrun charges. Alternatively, this could potentially require additional investment to reinforce the network.

**0678B, 0678D, 0678G, 0678H, 0678I & 0678J**

These proposals seek to replace the Optional Commodity Charge with an Optional Capacity Charge. This replacement charge could create enduring cross-subsidies and is already being looked at in detail by the Offtake Arrangement Document workgroup, 0646R.

**0678F only**

This is the only proposal that seeks introduce a new Capacity Surrender Rule where users may surrender all or part where the Floating Reserve Price is greater than 5% of that at allocation. This new rule would not further competition equally across all parties and therefore does not further Relevant Objective d) The securing of effective competition.

**0678I only**

This is the only proposal that seeks to introduce both a “wheeling charge”, also known as an energy export fee, and an “Ireland Security Discount” of 95% which would allow discounts at entry points from and exit points to infrastructure developed with the purpose of ending the isolation of member states. These charges can be seen as site specific and would create an unfair advantage for parties with connections to Ireland and would therefore not further Relevant Objective d) The securing of effective competition.

**Legal Text:** *Are you satisfied that the Legal Text will deliver the intent of the Solutions for each Modification? Please specify which Modification if you are highlighting any issues.*

Whilst we believe that the proposed legal text, taking into account the errata documents’ proposed amendments, for the original Modification and Alternatives should deliver the intent of the solutions, we would like to comment that due to restrained timelines this has not been sufficiently discussed in workgroup, and therefore we cannot be absolutely sure that it is all fully developed for each proposal.

**Are there any errors or omissions in this Modification Report that you think should be further considered?** *Include details of any impacts/costs to your organisation that are directly related to this.*

None identified for any proposal.

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

We do have concerns, as we did with the 0621 suite, that many of the alternatives are site or organisation specific in order to achieve commercial benefit, and whilst we appreciate the current UNC arrangements facilitate this, the number of Alternatives and timing of them leads us to believe that such a significant piece of work would have been better facilitated through a Significant Code Review where the options could be assessed, but an additional layer of Ofgem supervision would have applied.

Regarding the Tariff Network Code (TAR NC) Compliance, we have taken the views from workgroup and the published TAR NC statements and consider all of the proposals to be compliant.

**Consultation Questions Requested by the Authority**

The Authority has requested that the following questions be considered by Respondents when

writing their responses.

Question Number	Question
1.	<p>What impact, if any, do you think tariff differentials between existing and new contracts will have on users booking behaviour?</p> <p>NGN has no views to express at this time.</p>
2.	<p>What date should the changes proposed by the modifications become effective and why?</p> <p>We agree with the proposed implementation date of 1 Oct 2020 as it more closely aligns with the start of the RIIO-GD2 period.</p>
3.	<p>The proposals have different specific capacity discounts for storage sites. What level of storage discount do you consider is appropriate and can you provide clear justification if the discount is greater than 50%?</p> <p>We note that individual commercial considerations have driven a number of the Alternatives, however, if these significant charge increases are implemented, modifications with an 80% storage discount may better reflect the costs incurred by the licensee and it may potentially add more efficiency to network operation as storage provides support to the entire network.</p>
4.	<p>Can you provide reasons why an NTS Optional Charge is or is not justified? If you consider an NTS Optional Charge is justified, which proposal do you prefer and why is it compliant with TAR NC?</p> <p>NGN has no views to express at this time due to the NTS Optional Charge being reviewed by the Offtake Arrangements Document (OAD) 0646R Review Group. Where a proposer has included this, NGN can only take the proposers view with reference to TAR NC compliance.</p>
5.	<p>Do you consider the proposals to be compliant with relevant legally binding decisions of the European Commission and/or the Agency for the Co-Operation of Energy Regulators?</p> <p>Yes, in so far as each proposer has made a statement as to their compliance.</p>
6.	<p>It is proposed that National Grid Gas may review or update the Forecasted Contracted Capacity (FCC) Methodology following consultation with stakeholders, unless Ofgem (upon application by any Shipper or Distribution Network Operator) directs that the change is not made as per its powers under Standard Special Condition A11(18) of National Grid's Licence. Do you believe that this governance framework is fit for purpose? Please provide reasons for your answer.</p> <p>Yes, we agree this governance framework is fit for purpose and that Forecasted Contract Capacity (FCC) should be reviewed on an annual basis, similar to shrinkage and annual demand forecasting. We believe that there should be a defined process for the review which includes industry consultation and direct communication between the National Grid and the Users.</p>

# Appendix 1

## UNC Modification Proposal 0678 and Alternative Proposals : NGN

£m cost increase	Mod 621 : What we said last yr			Mod 0678 NTS : CWD				Mod 0678A RWE : Postage Stamp			
	"As-is" F'Cast £m	621 £m	Increase in Costs £m	Latest "As-is" F'Cast £m	678 £m	Gap vs. 621	Gap vs. latest "As-is" F'Cast	Latest "As-is" F'Cast £m	678 A £m	Gap vs. 621	Gap vs. latest "As-is" F'Cast
19/20	9.2	11.1	1.9	7.7	14.3	3.2	6.6	7.7	16.0	4.9	8.4
20/21	8.4	19.4	11.0	8.3	26.8	7.4	18.6	8.3	30.7	11.3	22.5
21/22	1.4	25.2	23.8	8.7	28.3	3.1	19.7	8.7	32.9	7.7	24.2
22/23	1.4	30.7	29.3	13.2	28.8	(1.9)	15.6	13.2	33.6	2.9	20.3
23/24	1.4	30.7	29.3	13.2	28.9	(1.8)	15.7	13.2	33.7	3.0	20.5
24/25	1.4	30.7	29.3	13.2	28.8	(1.9)	15.6	13.2	33.6	2.9	20.4
25/26	1.4	30.7	29.3	13.2	28.8	(1.9)	15.6	13.2	33.6	2.9	20.4

\* "Latest As-is" Forecast for 678 analysis represents current NGN bookings applied with latest published long term NTS prices from May 2018

£m cash flow gap movement (deficit)/surplus	Mod 621 : What we said last yr			Mod 0678 NTS : CWD				Mod 0678A RWE : Postage Stamp			
	"As-is" F'Cast £m	621 £m	Cash Flow Impact £m	Latest "As-is" F'Cast £m	678 £m	Gap vs. 621	Gap vs. latest "As-is" F'Cast	Latest "As-is" F'Cast £m	678 A £m	Gap vs. 621	Gap vs. latest "As-is" F'Cast
19/20	(1.3)	(3.2)	(1.9)	0.2	(6.5)	(3.3)	(6.6)	0.2	(8.2)	(5.0)	(8.4)
20/21	(4.9)	(15.9)	(11.0)	(4.7)	(23.3)	(7.4)	(18.6)	(4.7)	(27.2)	(11.3)	(22.5)
21/22	(3.1)	(0.9)	2.1	(4.7)	2.8	3.7	7.5	(4.7)	4.7	5.6	9.4
22/23	(4.4)	8.2	12.6	(4.4)	16.0	7.8	20.3	(4.4)	20.2	12.0	24.6
23/24	-	-	-	-	-	-	-	-	-	-	-
24/25	-	-	-	-	-	-	-	-	-	-	-
25/26	-	-	-	-	-	-	-	-	-	-	-

\* assumes same 2 year lag mechanism continues into GD2

Customer Bill Impact - Domestic	Mod 621 : What we said last yr			Mod 0678 NTS : CWD				Mod 0678A RWE : Postage Stamp			
	"As-is" F'Cast £	621 £	Increase in Bill £	Latest "As-is" F'Cast £	678 £	Gap vs. 621	Gap vs. latest "As-is" F'Cast	Latest "As-is" F'Cast £	678 A £	Gap vs. 621	Gap vs. latest "As-is" F'Cast
19/20	1.8	1.8	-	1.8	1.8	(0.0)	-	1.8	1.8	(0.0)	-
20/21	0.8	0.8	-	0.8	0.8	0.0	-	0.8	0.8	0.0	-
21/22	(0.4)	5.4	5.8	0.9	7.0	1.5	6.1	0.9	8.4	3.0	7.5
22/23	(0.7)	8.7	9.4	2.0	10.0	1.3	8.0	2.0	12.0	3.3	10.1
23/24	0.3	6.9	6.5	3.0	6.5	(0.4)	3.5	3.0	7.5	0.7	4.6
24/25	0.3	6.9	6.5	3.0	6.4	(0.4)	3.5	3.0	7.5	0.6	4.6
25/26	0.3	6.9	6.6	3.0	6.5	(0.4)	3.5	3.0	7.5	0.6	4.6

\* based on AQ of 13,894 Kwh

\* Alternates 678B to 678J have not been analysed as the sensitivity tool is not available at the current time to support each alternate

## UNC Modification Proposal 0678 and Alternative Proposals - Customer Bill Impact : NGN

Domestic (0 - 73.2 Kwh)	621 : What we said last yr			Mod 0678 NTS : CWD				Mod 0678A RWE : Postage Stamp			
	"As-is" F'Cast £	621 £	Increase in Bill £	Latest "As-is" FC £	678 £	Gap vs. 621	Gap vs. latest "As-is"	Latest "As-is" FC	678 A £	Gap vs. 621	Gap vs. latest "As-is"
21/22	(0.4)	5.4	5.8	0.9	7.0	1.5	6.1	0.9	8.4	3.0	7.5
22/23	(0.7)	8.7	9.4	2.0	10.0	1.3	8.0	2.0	12.0	3.3	10.1
23/24	0.3	6.9	6.5	3.0	6.5	(0.4)	3.5	3.0	7.5	0.7	4.6
24/25	0.3	6.9	6.5	3.0	6.4	(0.4)	3.5	3.0	7.5	0.6	4.6
25/26	0.3	6.9	6.6	3.0	6.5	(0.4)	3.5	3.0	7.5	0.6	4.6

\* based on average AQ of 13,894 Kwh in this band and average NGN network unit rates

Industrial (73.2 - 732 Kwh)	621 : What we said last yr			Mod 0678 NTS : CWD				Mod 0678A RWE : Postage Stamp			
	"As-is" F'Cast £	621 £	Increase in Bill £	Latest "As-is" FC £	678 £	Gap vs. 621	Gap vs. latest "As-is"	Latest "As-is" FC	678 A £	Gap vs. 621	Gap vs. latest "As-is" FC
21/22	(5)	76	81	12	97	21	85	12	117	41	105
22/23	(9)	121	130	27	139	18	112	27	167	46	140
23/24	4	95	91	41	90	(6)	49	41	105	9	64
24/25	4	95	91	41	90	(6)	49	41	104	9	63
25/26	4	96	91	41	90	(6)	49	41	105	9	64

\* based on average AQ of 192,204 Kwh in this band and average NGN network unit rates

Industrial (732 - 5861 Kwh)	621 : What we said last yr			Mod 0678 NTS : CWD				Mod 0678A RWE : Postage Stamp			
	"As-is" F'Cast £	621 £	Increase in Bill £	Latest "As-is" FC £	678 £	Gap vs. 621	Gap vs. latest "As-is"	Latest "As-is" FC	678 A £	Gap vs. 621	Gap vs. latest "As-is" FC
21/22	(42)	618	661	100	791	173	691	100	956	337	855
22/23	(76)	990	1,066	225	1,138	148	913	225	1,367	378	1,143
23/24	36	780	744	336	734	(46)	398	336	857	76	521
24/25	36	780	744	336	732	(48)	397	336	854	74	518
25/26	36	781	745	336	733	(48)	398	336	855	74	519

\* based on average AQ of 1,721,966 Kwh in this band and average NGN network unit rates

Industrial (> 5861 Kwh)	621 : What we said last yr			Mod 0678 NTS : CWD				Mod 0678A RWE : Postage Stamp			
	"As-is" F'Cast £	621 £	Increase in Bill £	Latest "As-is" FC £	678 £	Gap vs. 621	Gap vs. latest "As-is"	Latest "As-is" FC	678 A £	Gap vs. 621	Gap vs. latest "As-is" FC
21/22	(615)	8,959	9,574	1,453	11,463	2,504	10,011	1,453	13,849	4,890	12,396
22/23	(1,102)	14,342	15,444	3,257	16,485	2,143	13,228	3,257	19,817	5,475	16,559
23/24	520	11,308	10,788	4,868	10,639	(668)	5,771	4,868	12,413	1,105	7,545
24/25	520	11,308	10,788	4,868	10,614	(693)	5,746	4,868	12,375	1,067	7,507
25/26	520	11,323	10,804	4,868	10,629	(694)	5,761	4,868	12,392	1,069	7,524

\* based on average AQ of 33,617,928 Kwh in this band and average NGN network unit rates

\* Alternates 678B to 678J have not been analysed as the sensitivity tool is not available at the current time to support each alternate