Stage 04: Final Modification Report

At what stage is this document in the process?

01 Modification
02 Workgroup Report
03 Draft Modification Report
04 Final Modification Report

0476S:

Alignment of DN Charging Methodology with RIIO-GD1 Arrangements

This modification will align the DN Charging Methodology with the new RIIO-GD1 Licence. The modification will also tidy-up the DN Charging Methodology in respect of the LDZ System charging methodology.

Panel consideration is due on 20 February 2014

High Impact: -

Medium Impact: -

Low Impact: Gas Shippers, Gas Consumers

Contents

About this document:

This Final Modification Report will be presented to the Panel on 20 February 2014.

The Panel will consider the views presented and decide whether or not this self-governance change should be made.

Any questions?

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1 Summary

Is this a Self-Governance Modification?

The Modification Panel determined that this is a self-governance modification because it is unlikely to:

(a) have a material effect on

- existing or future gas consumers; or
- competition in the shipping, transportation or supply of gas conveyed through pipes or any commercial activities connected with the shipping, transportation or supply of gas conveyed through pipes; or
- the operation of one or more pipe-line system(s); or
- matters relating to sustainable development, safety or security of supply, or
- the management of market or network emergencies; or
- the uniform network code governance procedures or
- the network code modification procedures; or

(b) discriminate between different classes of parties to the uniform network code/relevant gas transporters, gas shippers or DN operators.

Why Change?

The modification clarifies the charging methodology with respect to the setting of the ECN charges, and ensures consistency with the Licence, given the changed arrangements under the RIIO-GD1 Licence for the pass-through of NTS Exit capacity costs and the two year lagging of K from 2015/16. It also cleans up the methodology in respect of interruptible transportation, which ceased from 1st October 2011.

Solution

It is proposed UNC TPD Section Y Part B is amended to reflect that:

1. The target revenue for setting the level of the ECN charges is based on the allowance set out in the Licence rather than the forecast exit costs for the year as at present.
2. ECNK is calculated as the difference between the revenue collected from the LDZ ECN charges and the target ECN revenue for the Formula Year two years previously rather than the previous Formula Year as at present.
3. Section 5 of Part B, which covers LDZ System Charges for interruptible Supply Points, be deleted.

Relevant Objectives

The modification will ensure that the charging methodology takes account of, and is consistent with, the latest Gas Transporter Licences. In particular it takes account of the changed manner in which cost pass-through of the NTS exit costs incurred by DNs is passed through to the DN allowed revenue and the way in which K is handled. It also takes account of the cessation of interruptible transportation arrangements since October 2011. As such it will have a positive impact on the charging methodology objective:

"That, so far as is consistent with sub-paragraph (a), the charging methodology properly takes account of developments in the transportation business"

It will have no impact on any of the other applicable charging methodology objectives.

Implementation

Implementation effective from 1 April 2014 would be consistent with the requirements of Standard Special Condition A5 of the gas transporter licences and is proposed in this instance.

No implementation costs are envisaged for any party.

As Self-Governance procedures are proposed, implementation could be sixteen business days after a Panel decision to implement (subject to no Appeal being raised).

2 Why Change?

The DN Charging Methodology, as set out in Section Y Part B of the UNC, states that the level of the ECN charges for each Exit Zone is set to reflect the forecast average unit NTS charges for capacity for the zone plus or minus the appropriate portion of ECNK. ECNK is calculated as the difference between the revenue collected from the LDZ ECN charges and the amounts paid to NG NTS in respect of the Exit Capacity Charges in the previous formula year plus or minus any ECNK from the previous period. ECNK was effectively part of the overall K, i.e. the difference between the collected and allowed revenue in the previous formula year.

Prior to RIIO-GD1 the DN Transporter Licence effectively allowed pass-through of the NTS exit capacity costs to the DN allowed revenue within the same year (t) and K was carried forward from the immediately preceding year (t-1). Under the RIIO-GD1 Licences there is an initial set allowance for pass-through of the capacity cost within year and the true up for the difference between the assumed and actual costs is carried forward into the next but one formula year (t+2). It would therefore make sense for the target level of revenue for the ECN charges to be defined as the initial set allowance, rather than forecast actual NTS exit capacity costs, plus any true-up for the difference between the initial set allowance and the actual exit capacity costs for the Formula Year two years previously plus or minus the appropriate portion of ECNK. The zonal ECN charges will continue to reflect the forecast average unit NTS charges for capacity for the zone.

In addition under the RIIO-GD1 Licences there is a lagged K so that for Formula Year 2015/16 onwards the K included in the allowed revenue reflects the difference between the collected and allowed revenue in the formula year two years previously, with K for Formula Year 2014/15 set as zero since the difference between the collected and allowed from formula year 2012/13 was included in the allowed revenue for 2013/14. Since ECNK was conceived as being the part of the overall K relating to pass-through of the NTS exit capacity costs it makes sense for ECNK to have the same timing as K, i.e. ECNK is zero for 2014/15 and ECNK for 2015/16 onwards will be calculated as the difference between the revenue collected from the LDZ ECN charges and the target ECN revenue for the formula year two years previously.

Section 5 of the DN Charging Methodology covers the standard LDZ System Charges for interruptible Supply Points. As is currently stated there, since 1st October 2011 these charges have been applied to all Supply Points on a firm transportation basis only; Section 5 is therefore redundant now and can be deleted without impact on the current methodology.

3 Solution

It is proposed UNC TPD Section Y Part B is amended to reflect that:

1. The target revenue for setting the level of the ECN charges is the initial set allowance set out in the Licence (AExt Licence term, adjusted to the outturn money value) plus any true-up for the difference between the initial set allowance and the actual exit capacity costs for the Formula Year two years previously plus or minus ECNK (in Paragraph 9.2).
2. ECNK for 2014/15 is defined to be zero. ECNK for 2015/16 onwards is calculated as the difference between the revenue collected from the LDZ ECN charges and the target ECN revenue for the formula year two years previously (in Paragraph 9.3).
3. The methodology statements referring to LDZ System Charges for interruptible Supply Point are deleted (all of Section 5). All subsequent paragraphs are renumbered.

User Pays
Classification of the modification as User Pays, or not, and the justification for such classification.
No industry implementation or system costs have been identified and, for this reason, this is not a User Pays Modification.
Identification of Users of the service, the proposed split of the recovery between Gas Transporters and Users for User Pays costs and the justification for such view.
n/a
Proposed charge(s) for application of User Pays charges to Shippers.
n/a
Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.
n/a

4 Relevant Objectives

Impact of the modification on the **Relevant Charging Methodology Objectives**:	
Relevant Objective	Identified impact
a) Save in so far as paragraphs (aa) or (d) apply, that compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its transportation business;	None
aa) That, in so far as prices in respect of transportation arrangements are established by auction, either: (i) no reserve price is applied, or (ii) that reserve price is set at a level - (I) best calculated to promote efficiency and avoid undue preference in the supply of transportation services; and (II) best calculated to promote competition between gas suppliers and between gas shippers;	Not applicable
b) That, so far as is consistent with sub-paragraph (a), the charging methodology properly takes account of developments in the transportation business;	Positive
c) That, so far as is consistent with sub-paragraphs (a) and (b), compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers; and	None
d) That the charging methodology reflects any alternative arrangements put in place in accordance with a determination made by the Secretary of State under paragraph 2A(a) of Standard Special Condition A27 (Disposal of Assets).	Not applicable
e) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	None

The modification will ensure that the charging methodology takes account of, and is consistent with, the latest Gas Transporter Licences. In particular it takes account of the changed manner in which cost pass-through of the NTS exit costs incurred by DNs is passed through to the DN allowed revenue and the way in which K is handled. It also takes account of the cessation of interruptible transportation arrangements since October 2011.

The modification does not conflict with paragraphs 2, 2A and 3 of Standard Special Condition A4 of the Gas Transporter Licence as the modification is consistent with setting charges from 1st April in each year.

The modification does not conflict with paragraphs 1, 2 and 2A of Standard Condition A5 of the Gas Transporter Licence.

5 Implementation

As self-governance procedures are proposed, implementation could be 16 business days after a Modification Panel decision to implement.

Implementation effective from 1 April 2014 would be consistent with the requirements of Standard Special Condition A5 of the Gas Transporter Licences and is proposed in this instance.

No implementation costs are envisaged for any party.

6 Legal Text

Text

At the January Panel meeting the suggested text provided by National Grid Distribution was confirmed and accepted as formal legal text.

Due to the number of updates contained in this modification, legal text has been provided in a marked-up draft of UNC TPD Section Y Part B and published separately alongside this document.

7 Consultation Responses

Representations were received from the following parties:

Company/Organisation Name	Support Implementation or not?
National Grid Distribution	Support
Northern Gas Networks	Support
Scotia Gas Networks	Support
Wales & West Utilities	Support

Of the 4 representations received, implementation was unanimously supported

Summary Comments

No new issues were identified.

Additional Issues Identified in Responses

Whilst no additional issues were identified, there were subtle differences of opinion around the potential implementation date that varied between 16 business days following Panel direction to implement to another suggestion of 01 April 2014.

8 Panel Discussions

9 Recommendation

Panel Recommendation

Having considered the Modification Report, the Panel determined:

- that proposed self-governance Modification 0476S [should/should not] be made.