

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:	John Costa
Organisation:	EDF Energy
Date of Representation:	15 January 2016
Support or oppose implementation?	Oppose
Relevant Objective:	<p>b) Negative – will introduce more UNC work/ modifications, constrain further updates to Shorthaul, and undermine the consumer benefits identified through GCD11</p> <p>e) None – National Grid already has to comply with EU Regulation changes in its licence</p>

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

This proposal has been raised following Grid's GCD11 review, a year-long industry process where National Grid diligently reviewed and consulted with shippers in good faith, through its tried and tested charging review arrangements, on the accuracy of the inputs behind the NTS Optional Commodity charge (Shorthaul discount) charge. This is a charge that has not been updated since its implementation in 1998 and which after review by the industry identified £30m of incorrect SO Commodity discount and cost targeting. This change would reduce costs to suppliers/shippers and ultimately gas consumers. National Grid had indicated that this change should take effect from the 1st October 2016.

The placing of the Shorthaul (SH) formula into the UNC is likely to bring benefits and can be argued as better governance. However, without effective transition arrangements within the UNC modification to address changes "in-flight" as noted above on balance this code modification will not better facilitate the relevant objectives. These transitional issues need to be considered and resolved before this modification can be implemented or be considered as Self-governance.

- The proposal will essentially place a fixed SH price into the UNC and this is not in line with the existing principles applied to other charges such as NTS Exit/Entry

capacity and commodity charges as National Grid highlights in their GCD11R¹ report. Apart from being different to how Entry/Exit charges are set it is not appropriate governance – e.g. a modification would be required each year to update the inputs to reflect market costs or a modification to introduce methodology to allow automatic updates as per the bullet below. This locking in of the SH charge would constrain further necessary updates to the SH charge which has consumer impacts if the charge stays fixed.

- A better solution would have been, as National Grid stated at the September NTSCMF meeting, to introduce into the UNC an agreed methodology for changing the fixed values in the formula rather than the whole formula itself along with a process for making these changes each year. This would enable National Grid to update the charge automatically in line with their Licence obligations (similar to how Entry/ Exit charges are set).
- The proposal fails to address the transitional arrangements and ambition to implement GCD11 in October 2016 meaning there are £30m of improved targeting of system commodity costs, consumer and ensuing competition benefits at risk.
- Undermines the industry work done on SH to date and potentially wastes a year of industry time and benefits of GCD11 - the December 2015 NTSCMF workstream highlighted any modification raised if UNC563s were implemented would cover a wider-review of the SH charge and thus impossible to get the much needed change to SH formula by the 1st October 2016, with October 2017 being the earliest implementation date. Delaying the inevitable change needed to the SH charge will only prolong the issue raised by National Grid through GCD11 and exacerbate the level of incorrect cost targeting as National Grid highlights in their GCD11R report which is not in the consumer's interest.

National Grid's licence requires it to maintain cost-reflective charges that better facilitate the relevant methodology objectives which are virtually identical to the Relevant Objectives set out for charging methodology changes in the UNC.

For these reasons, this modification is ill-defined and has not demonstrated that it better meets the relevant objectives given the risks mentioned above. This also raises the question of whether this modification can be considered Self-Governance given the materiality of these issues at stake.

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

We do not believe this modification is self-governance given the materiality of the issues highlighted above; namely it doesn't take into account the implications for consumers in changing the UNC each year to update the charge and undermining of £30m of better cost targeting and competition benefits identified through GCD11.

¹<http://www2.nationalgrid.com/UK/Industry-information/System-charges/Gas-transmission/Charging-methodology/Gas-Charging-Discussion-papers/>

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

Given the issues raised above we cannot see how this modification can be implemented without a further review of its implications and cost to consumers as this “simple lift and shift” of the formula into the UNC has further consequences that have not been thoroughly thought through.

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

The benefits of this modification are intangible however there will be extra costs in raising further modifications to unlock the formula in the UNC to be flexible enough to change when necessary and as National Grid’s licence requires. It will also delay the £30m consumer benefits identified under GCD11 if this modification is approved.

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

There are risks for copying and pasting the formula in the UNC without proper understanding of how and when it can be changed. It should only be incorporated into the UNC once the methodology and process for making changes to it is fully investigated and understood as it could constrain National Grid’s ability to meet their charging obligations and notice periods under their licence.

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.*

N/A