

Bob Fletcher
Joint Office of Gas Transporters
Consort House
6 Homer Road
Solihull
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8 October 2015

Dear Bob,

Re: UNC Modification Proposal 0539 – Removal of NTS Exit Commodity Charges for Distributed Gas

Thank you for the opportunity to provide representation of the above noted Modification Proposal. Northern Gas Networks (NGN) does not supportive of this Modification Proposal. Please find below NGNs comments in respect of the Modification Proposal.

NGN are not supportive of this Modification.

Summary of key reasons for support/opposition:

While NGN is sympathetic with the proposer about ensuring that they pay appropriate costs for Transportation of gas across all Networks, we do not believe that it is appropriate for GDNs to compensate them for costs incurred via NTS.

The NTS Exit Commodity costs are borne by all shippers who take gas from the networks and are applied directly by NTS to shippers. GDNs do not pay such commodity related costs, with all NTS associated costs being for booked capacity at offtakes. The current GDN charging methodology includes an adjustment for DN Entry shippers to remove offtake related cost as part of their overall entry charges. As GDNs do not bear the costs for NTS Exit Commodity, it cannot, therefore, be cost reflective for us to “refund” these to a DN Entry shipper.

Should the proposed solution be implemented to costs associated with this will be borne entirely by GDN exit shippers and NTS will continue to collect NTS Exit Commodity at it’s current full level. This solution is further complicated by requiring the GDNs, who apply DN Entry charges as a single composite unit rate, to amend this rate throughout the year as NTS amend their NTS Exit Commodity charges. The proposer believes that by making this a separately defined element of the charging methodology it does not in fact become a price change from a GDN perspective. This is especially important as GDNs are required under Standard Special Condition D11 of our GT Licence to only amend prices once in each Formula Year. Should NTS amend the NTS Exit Commodity unit price within year, which they are allowed to do, while GDNs may not be required to “publish” a new composite unit rate, we will be required to calculate such a rate and notify it to our Agent, Xoserve, for use in invoicing of DN Entry charges.

Relevant Objectives:

NGN considers that this Modification facilitates the relevant objectives as indicated by the proposer. Specifically, NGN considers:

Condition	Description	NGN view
A5.5(a)	Compliance with the charging methodology results in cost reflective charges	As NTS Exit Commodity charges are not GDN costs, payment to a shipper to compensate for them is not cost reflective
A5.5(aa)	Insofar as arrangements are established by auction: <ul style="list-style-type: none"> (i) No reserve price is applied, or (ii) That the reserve is set at a level – <ul style="list-style-type: none"> I. Best calculated to promote efficiency and avoid undue preference II. Best calculated to promote competition 	N/A
A5.5(b)	Takes account of developments in the transportation business	N/A
A5.5(c)	Facilitates effective competition between gas shippers and suppliers	Payment of this would create a cross subsidy to other shippers through adjustment of overall collected revenue by GDNs
A5.5(d)	Reflects alternative arrangements put in place in accordance with a determination made by the Secretary of State	N/A
A5.5(e)	Compliance with legally binding decisions of the European Commission and/or the Agency for Co-operation of Energy Regulators	N/A

Impacts and costs:

Costs associated with changing prices more often than once a year would be borne. GDNs would need to include additional administrative activity to create new composite unit rates each time NTS amend their price. This in turn also leads to additional processes at Xoserve. The materiality of these costs has not been assessed.

Implementation:

Implementation of all pricing related changes is recommended to only be undertaken at the beginning of each Formula year to facilitate for appropriate notice of price changes in accordance with both UNC and GT Licence requirements.

Legal text:

NGN believe that the legal text would be improved if it sets out more clearly that the NTS elements of the overall charge are intended to be notified separately from the other elements. This could be achieved by including more detailed definition, including advice that the notification of changes will be by NTS as paragraph 7.2.3 rather than as a small addition to the overall description of the charge. This would make it clearer to all parties that although the charge is applied as a single composite amount, the notification of price is made up of different elements which need to be added together.

I hope these comments will be of assistance and please contact me should you require any further information in respect of this response.

Yours sincerely,



Joanna Ferguson
Network Code Manager