

Stage 01: Proposal

0508:

Revised Distributed Gas Charging Arrangements

What stage is this document in the process?

01

Proposal

02

Workgroup Report

03

Draft Modification Report

04

Final Modification Report

Proposes revised distribution charging arrangements in respect of Distributed Gas relating to transmission exit commodity charges.



The Proposer recommends that this Transportation Charging Methodology modification should be assessed by a Workgroup



High Impact:
Shippers, Transporters



Medium Impact:
Customers



Low Impact:
None

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About this document:

This modification will be presented by the proposer to the panel on 17 July 2014.

The panel will consider the proposer's recommendation and agree whether this modification should be:

- referred to a workgroup for assessment.



3 Any questions?

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1 Summary



Is this a Self-Governance Modification

It is considered that this modification is not suitable for self-governance since it may have a material effect on:

- 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
- the sustainable development of the gas distribution networks.

Is this a Fast Track Self-Governance Modification?

No

Why Change?

At present, Transmission exit commodity charges are applied in respect of all gas offtaken at Distribution Supply Points. Gas entered through Distributed Gas entry points does not necessarily use the Transmission system. It is considered therefore that Transmission Exit commodity charges should not apply to such gas offtaken at Distribution Supply Points within the same Distribution Network. The most practical means of achieving this change is to continue to apply the Transmission Exit commodity charges in respect of all gas offtaken at Distribution Supply Points but to provide a rebate at the Distributed Gas entry point equivalent to the level of the Transmission Exit commodity charges.

Solution

It is proposed that the Distribution Transportation charging methodology in respect of Distributed Gas entry points is revised so that an additional rebate element equivalent to the level of the Transmission Exit commodity charges is provided.

Implementation

No implementation timescales are proposed, however the modification should be implemented at the earliest opportunity consistent with the timing of changes to transportation charges. 1st April 2015 would be a suitable time.

Distributed Gas

Any gas which enters into the distribution systems from sources not utilising the NTS is referred to as Distributed Gas. This could include biomethane gas, land fill gas and shale gas.

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2 Why Change?

At present, NTS Exit commodity charges are applied in respect of all gas offtaken at Supply Points connected to Distribution Networks. Where gas is input into Distribution Networks at embedded DN Entry points then that gas will not physically enter the NTS and will utilise only the Distribution Network for transportation to the DN Supply Point, since flows from DN Entry Points are currently far below the DN Network throughput and are forecast to be below this level for the foreseeable future. For such transportation of gas from DN Entry points to DN Supply Points it is appropriate that the NTS Exit commodity charges do not apply since the gas does not physically utilise the NTS.

Since current transportation charging arrangements consider entry and exit separately and do not normally link entry at a location with exit at a particular Supply Point, it is considered that the easiest manner to achieve the cessation of NTS Exit commodity charges for transportation from DN Entry points to DN Supply points is to provide a rebate equivalent to the level of the NTS Exit commodity charges for gas entered at the DN Entry point. NTS Exit commodity charges would continue to apply in respect of all gas offtaken at DN Supply Points and so the additional rebate at the DN Entry point would effectively offset the application of the NTS Exit commodity charges at the DN Supply Point resulting in zero net exposure to the level of this charge for such gas flows.

The use of an entry commodity charge rebate in this manner is consistent with the justification for the existing rebate elements for the DN Entry commodity charge/rebate introduced by UNC Modification 0391.

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3 Solution

It is proposed that the charging methodology is changed so as to introduce an additional commodity charge rebate for gas entered at all DN Entry points. The level of this commodity charge rebate would be equivalent to the combined NTS TO and SO Exit commodity charge rates applicable at DN Supply Points.

Since the rationale for the entry rebate is to offset the application of the NTS TO and SO Exit commodity charges then this entry rebate at DN Entry Points might properly be considered as a Transmission charging element. In this way, the level of revenue rebated at DN Entry points through such an element could be considered by NG Transmission in setting their charges to target the appropriate net revenue consistent with their price control.

However, the introduction of this rebate as a Transmission charging element has two major drawbacks:

- a) It would require the introduction of a new transmission charge/rebate which would entail initial and ongoing costs to implement;
- b) In order to apply it and estimate the impacts on revenue, NG Transmission would need to know about each existing and new DN Entry point and the forecast level of gas flows at each such DN Entry point each year.

It is considered that an alternative option for the rebates is preferable – that the rebates form part of the DN charging methodology. Under this option, the same level of rebate would be provided at the DN Entry point and so the impact for the shipper in respect of entry rebates would be identical to the first option. However, since there is already a DN Entry charge/rebate (introduced by UNC modification 0391), then this new rebate element would merely be included within the calculation of the existing DN Entry charge/rebate. With this approach, no new charge/rebate would need to be introduced – only the level of the charge/rebate would be adjusted at the next update of the charges after the change of methodology. There would thus be no implementation or additional ongoing costs with this alternative approach. In addition, this approach would eliminate the need for NG Transmission to be aware of the number existing and new DN Entry points and their flows.

The difference between the two approaches for transportation charges is in how the level of other transportation charges would be adjusted to target the appropriate price control target revenue. If the rebate were provided as a Transmission element then it is expected that the TO/SO commodity charges would be set very slightly higher so as to target the appropriate net level of TO/SO exit revenue, taking account of the DN Entry rebates. These higher charges would be expected to be payable by all transmission users i.e. those transporting to DN Supply Points and to NTS directly-connected Supply Points.

If the rebate were provided as a Distribution element then it is expected that the other distribution charges would be set very slightly higher so as to target the appropriate level of price control revenue for the GDN, taking account of the additional DN Entry rebates. The rebalancing of charges would thus impact on users transporting only within a particular distribution network.

In practice, since the level of flows and thus rebates at the DN Entry Points is expected to be relatively low, the practical differences between the two charging approaches in

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terms of their wider impacts is expected to be very small. Given this, the additional costs and complexity of the transmission rebate approach are considered to be disproportionate to any additional benefit they may provide. It is thus proposed that the additional rebate element is introduced as part of the existing distribution charge/rebate at DN Entry points, wholly within the distribution charging methodology.

Potential Impact of the Change

To illustrate the potential impact of the additional rebate, the indicative NTS TO and SO exit commodity charges for application from October 2014 are in aggregate 0.0380 p/kWh. DECC has set a target of 7 TWh/a of biomethane gas by 2020; with this target the additional DN Entry rebate provided to all biomethane entry gas could be around £2.7m per annum with such charges across the UK.

Looking wider, the National Grid 2013 Future Energy Scenarios indicated that around 2% of overall UK gas demand, around 16 TWh/a, could be provided by Onshore Gas (biomethane gas, shale gas or other unconventional gas) by 2020. Under this scenario, assuming that all such gas connected to the gas distribution networks, the additional DN Entry rebate provided to all Onshore Gas could be around £6m per annum by 2020. If it is assumed that half of this would connect to National Grid Distribution networks then NGGD would provide an additional DN Entry rebate of around £3m per annum; this compares to current target revenue of £1,686m for NGGD DN charges (excluding pass-through of NTS charges). The standard DN charges would thus need to be set to recover around £3m additional revenue, equivalent to 0.18% increase by 2020, to offset the additional rebate provided to DN Entry gas under this proposal.

User Pays
Classification of the modification as User Pays, or not, and the justification for such classification.
<i>Transporters need to ensure that invoice calculations reflect their obligations. This is a transporter responsibility and therefore it is not a User Pays modification. However, no implementation or additional ongoing costs are expected as a result of the modification since it would merely change the levels of the existing distribution transportation charges.</i>
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.
<i>Not applicable</i>
Proposed charge(s) for application of User Pays charges to Shippers.
<i>Not applicable</i>
Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.
<i>Not applicable</i>

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4 Relevant Objectives

The Proposer believes that implementation will better facilitate the achievement of **Relevant Methodology Objectives a, b, c and d.**

Proposer's view of the benefits against the Code Relevant Methodology Objectives

Description of 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;	Positive
aa) that, in so far as prices in respect of transportation arrangements are established by auction, either: <ul style="list-style-type: none"> (i) no reserve price is applied, or (ii) that reserve price is set at a level - <ul style="list-style-type: none"> (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	Positive
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

The proposed distribution charging methodology change takes account of the fact that gas from DN Entry points is unlikely to make use of the transmission system. It is therefore more cost reflective that the net transportation costs for transportation of gas from such DN Entry points to DN Supply Points does not include any transmission charging element.

The proposed distribution charging methodology change takes account of the ongoing development of Distributed Gas.

The proposed charging methodology change would result in a reduction in the cost of transportation for gas sourced through DN Entry points and thus may facilitate the enhanced development of such gas sources which could in turn better facilitate effective competition between gas shippers.

The modification does not conflict with paragraphs 2, 2A and 3 of Standard Special Condition A4 of the Transporter's Licence since any change in charges would be applied based on the methodology prevailing at the time.

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5 Implementation

No implementation timescales are proposed, however the modification should be implemented as soon as possible, such that the revised charging basis would apply when transportation charges are subsequently amended. 1st April 2015 may be a suitable time for implementation.

6 Legal Text

Not provided

7 Recommendation

The Proposer invites the Panel to:

- Progress to Workgroup assessment/Consultation.