

UNC Workgroup 0539 Minutes
Removal of NTS Exit Commodity Charges for Distributed Gas
Tuesday 18 August 2015
via teleconference

Attendees

Bob Fletcher (Chair)	(BF)	Joint Office
Helen Cuin (Secretary)	(HC)	Joint Office
Bethany Hanna	(BH)	Ofgem
Craig Neilson	(CN)	National Grid Distribution
Debra Hawkin	(DH)	Independent Consultant TPA Solutions
Erika Melén	(EM)	SGN
Joanna Ferguson	(JF)	Northern Gas Networks
Jonathan Trapps	(JT)	Northern Gas Networks
Julia Haughey	(JH)	EDF Energy
Ricky Hill	(RH <i>i</i>)	Centrica
Robert Hetherington	(RH <i>e</i>)	Scotia Gas Networks
Robert Wigginton	(RW)	Wales & West Utilities
Tim Davis	(TD)	Barrow Shipping

Copies of all papers are available at: <http://www.gasgovernance.co.uk/0539/180815>

The Workgroup Report is to be presented at the 17 September 2015 UNC Modification Panel.

1.0 Review of Minutes and Actions

1.1. Minutes (30 June 2015)

The minutes of the previous meeting were approved.

1.2. Actions

0601: National Grid Distribution to identify any potential issues relating to using a rebate and provide an assessment / impact analysis.

Update: CN provided a presentation with views from National Grid Distribution.

Closed

0602: National Grid Distribution to provide an illustrative example of charges and an assessment of the value of a rebate.

Update: CN reported that this action had not been undertaken, as he believed National Grid NTS would be better placed to provide the necessary detail or at least provide assistance. TD expressed his dissatisfaction with not concluding the action in the time for this meeting, as he did not think the information was that difficult to obtain. The Workgroup discussed the materiality of the issue see item 2.0. It was confirmed that the potential impact of the change had previously been considered under Modification 0508. TD believed the assessment by National Grid Distribution at that time was that the DN charges would need to be set to recover around £3m additional revenue from customers using NTS Exit Commodity, equivalent to 0.18% increase by 2020, to offset the rebate. The Workgroup agreed to close this action based on the information provided within Modification 0508. **Closed**

2.0 Assessment of Impacts

CN provided a presentation exploring a number of views on the modification including where responsibility for managing the rebate process should reside. CN explained that the charging of NTS Exit Commodity Charges reflects a direct relationship between NTS and Shippers, and bypasses the GDN charging mechanism. These relate specifically to allowed revenues in the NTS regulatory regime. He explained that although he was supportive of the principle of a rebate he was not comfortable with GDNs administering the rebate, as they did not set the level of the charge or who should pay, and because the charge is levied directly on Shippers by the NTS in the first instance. He believed consideration needed to be given to what costs and services the NTS Exit Commodity charges are designed to recover when considering the absolute level of rebate applicable, and that because NTS Exit Commodity Charges represent a direct relationship between NTS and Shippers, he believed it did not seem conceptually right for the rebate administration to reside with the GDNs.

CN was concerned that it could be difficult to work out the level of rebate collected via the LDZ Entry Commodity Charge. He referred to two illustrations in the presentation and explained how the ECN rebate process works as a means of highlighting differences to the NTS Exit Commodity charging regime. The DN Entry rebate is rebalanced across a relevant chargeable base to avoid under/over recovery of allowed revenue and that the ECN rebate relates to costs charged to DN by the NTS in the first instance, unlike NTS Exit Commodity charges which are directly charged to Shippers. He expressed a concern about bolting on an additional rebate to an existing charging mechanism that has its own issues.

CN considered there could be timing and variability issues in implementing the NTS Exit Commodity rebate as proposed. TD challenged this view. He explained that the commodity rate is set for entry points and there would be no synchronisation issue. TD believed there is no variability by having an amount equal to the NTS rate as it just needs to be referred to in the charging statements. However, CN disagreed and believed that there could be a volume driver consideration. TD reiterated that the charge rate set by NTS and the recovery within LDZ charging is exactly matched, by definition they will be in sync.

CN accepted the low materiality of the issue, but highlighted that the Workgroup needed to be mindful of the potential precedents being set. He was concerned at traceability of the level of rebate when collecting revenue through this charging mechanism. He explained that there are lots of elements involved within the LDZ commodity charge with many components and by "bolting on" this may create difficulty with reconciliation.

RW understood the change would use forecast values for the credit rather than actual, nevertheless this was a rightful challenge on whether it was appropriate for GDNs to provide the credit.

CN believed the logical place for administering a rebate would be within NTS prices and it would be useful to further explore the challenges associated with this. He questioned if the creation of an NTS rebate had insurmountable costs or obstacles, if there was a way that the Exit Commodity Charges for DN Entry Shippers could be corrected within source, for instance by creating a specific customer group.

DH believed the reason a GDN solution had been presented, was based on the GDNs having a system that would make it simple to amend the charges. She acknowledged that this may not be the perfect solution but it is a cost effective solution when compared to NTS administering the rebate, which may be too costly to make the modification of benefit.

JF highlighted that the GDNs do not attract this cost and expressed concerns about the offsetting of costs between parties.

JF suggested at the UNC Panel meeting the Workgroup should assess the problem and consider the best way to address this. In principle she agreed that if costs are being

attributed where they shouldn't be, then these costs should be rebated. The difficulty is where best administer the rebate.

JF explained that there are additional complexities to be considered with passing funds between GDNs and National Grid NTS. She suggested that the GDNs would have to take this as a bottom line hit. However, TD challenged that this modification does not affect allowed revenue.

CN also highlighted that any solution will have an element of cost to administer. TD believed based on the National Grid Modification 0508 there were no additional costs.

CN suggested that the Workgroup needed to consider an NTS direct solution. TD acknowledged there might be alternative solutions but this is not one that has been presented for consideration and he reminded participants that they would need to raise alternatives quickly or they may time out.

BF explained that the Workgroup needs to consider the solution presented by the proposer and the need to concentrate on considering the pros and cons of administering a rebate by GDNs.

CN challenged the materiality argument, suggesting the cost of administering the rebate could exceed the value of the rebate applied initially, and affect the scalability of rebate application as additional DN Entry connections come online.

TD revisited the assessment by National Grid Distribution under Modification 0508 and understood that the DN charges would need to be set to recover around £3m additional revenue, equivalent to 0.18% increase by 2020, to offset the rebate. He challenged the statement made by National Grid Distribution that combined factors would create a spiraling reconciliation problem. He believed this was not a true reflection.

3.0 Development of Workgroup Report

The Workgroup proceeded with the development of the Workgroup Report. BF confirmed the intention is to provide the report to the 17 September panel.

The Workgroup were unable to reach consensus as to the self-governance status of the modification.

CN believed there would be some level of costs involved in managing the charging methodology but he would not expect these to be material. JF believed from a User Pays perspective this modification does not create or amend a User Pays service.

RW challenged that the modification would have a positive impact on relevant objectives a) as costs rebated to customers in the GDN would not be charged back to NTS customers and as a result would not be cost reflective of the costs being incurred by Distribution Networks.

RW highlighted that advance notification of pricing statements will be currently under review and to avoid re-issuing pricing statements it would be worth considering the timeline of the modification as the notifications were issued at the end of January. BF suggested the Panel could be asked to consider the Final Modification Report at short notice in October to enable advanced pricing statements to be reflective in January 2016 (effective from 01 April 2016).

RW enquired about the potential impacts to Xoserve systems and whether this needed some consideration. He believed the GDNs would be dependant on the notification of NTS charges and these would need to be communicated to Xoserve. RW believed that consideration needed to be made to refer to the NTS Exit Commodity charge within the respective GDNs charging statements and ensure the appropriate governance is in place to correctly reflect prices. As it was deemed that the rebate would simply be referred to, as a rate, it would not need to be captured within the DN charges advance notification. It was also believed, as the rates do not need to be issued to Xoserve until February then the GDNs simply need to provide Xoserve with the authority to apply the rebate.

4.0 Legal Text Outline

EM confirmed that draft legal text is currently being reviewed and it is hoped this will be finalised considering today's discussions. BF confirmed that a formal request for legal text was expected at the August Panel Meeting. The Workgroup agreed to consider the legal text on 01 September.

5.0 Next Steps

The Workgroup agreed to review the Legal text and conclude Workgroup Report on 01 September 2015. The intention will be to submit a Workgroup Report to the 17 September 2015 Panel meeting and request short notice consideration of the Final Modification Report on 15 October 2015.

6.0 Any Other Business

None.

7.0 Diary Planning

Further details of planned meetings are available at: www.gasgovernance.co.uk/Diary

Workgroup meetings will take place as follows:

Time / Date	Venue	Workgroup Programme
09:30 Tuesday 01 September 2015	Teleconference	Review Legal Text Conclude Workgroup Report

Action Table

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0601	30/06/15	2.0	National Grid Distribution to identify any potential issues relating to using a rebate and provide an assessment/impact analysis.	National Grid (CN)	Closed
0602	30/06/15	2.0	National Grid Distribution to provide an illustrative example of charges and an assessment of the value of a rebate.	National Grid (CN)	Closed