

Representation - Draft Modification Report

UNC 0636 0636A 0636B 0636C 0636D

Updating the parameters for the NTS Optional Commodity Charge

Responses invited by: **5pm on 14 June 2018**

To: enquiries@gasgovernance.co.uk

Representative:	Richard Pomroy
Organisation:	Wales & West Utilities Ltd
Date of Representation:	12 th June 2018
Support or oppose implementation?	0636 - Support 0636A - Qualified Support 0636B - Oppose 0636C - Oppose 0636D - Oppose
Expression of preference:	<i>If either 0636, 0636A, 0636B, 0636C or 0636D were to be implemented, which would be your preference?</i> 0636
Relevant Objectives:	0636: g) None 0636A: g) None 0636B: g) None 0636C: g) None 0636D: g) None

Relevant Charging Methodology Objectives:	<p>0636: a) Positive b) Positive c) Positive</p> <p>0636A: a) Positive b) Positive c) None</p> <p>0636B: a) None b) None c) None</p> <p>0636C: a) Negative b) Negative c) Negative</p> <p>0636D: a) Negative b) Negative c) Negative</p>
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Reason for support/opposition/preference: Please summarise (in one paragraph) the key reason(s)

We do not support the principle of the NTS Optional Commodity Charge because it provides an unjustified cross subsidy to those customers that make use of it (therefore the NTS Optional Commodity Charge has not been demonstrated to satisfy charging relevant objective (b)) and our comments below are made in this context.

0636:

We support 0636 and prefer it over the alternatives.

Notwithstanding the comments above, given that the NTS Optional Commodity Charge exists it is clearly appropriate for the charges to be updated and we believe that 0636 provides an appropriate means of doing this. This proposal provides a proportionate response to the issue bearing in mind that the NTS charges will undergo a major change in October 2019 as a result of one of Modification 0621 or its alternatives being implemented. 0636 also results in the greatest reduction of the cross subsidy which we believe is intuitively the correct approach (an additional £75.5M of commodity revenue paid by those no longer on the Optional Commodity Charge)

0636A

We offered qualified support to 0636A but prefer 0636.

0636A keeps the existing charges and imposes a distance cap at 115km. Sites at a greater distance than this are no longer eligible for the NTS Optional Commodity Charge. The effect is that an additional £71.1M is estimated to be paid in standard commodity charges. While this is comparable to the effect of 0636, 0636A does not address the charges paid by those under 115km and these customers still continue to benefit from the current charges. Due to this the revenue from the Optional Commodity Charge under 0636A for those customers remaining this tariff falls whereas for the others it remains broadly in line with current revenues either because they have little effect (0636B and 0636D) or because the reduced customer base pays higher charges (0636 and 0636C).

0636B

We do not support 0636B as it has a minimal effect on the cross subsidy.

0636B introduces a methodology into the UNC. This could have been done by a separate modification. 0636B makes some changes to the formula but the net result is only an extra £0.3M collected by means of standard commodity charges. It thus has a minimal effect on the cross subsidy.

0636C

We do not support 0636C as we do not support the discrimination it introduces and because the proposal cannot be implemented in the time available.

The main feature of 0636C is that the updated formula would only apply where both the exit point and entry point were not Interconnector Points. Those that did include Interconnector Point at either entry or exit point would continue to benefit from the current charges that are more beneficial to them. We do not find the arguments put forward in favour of this discrimination compelling. We note the point about EU Tariff Code compliance but observe that although in principle the 0636 series of changes are enduring, in practice they will be overwritten by one of the 0621 series. A further major difficulty is that the proposal would require a significant change to Xoserve systems and therefore there is no likelihood of this being implemented for October 2018 meaning that the benefits of the reduced cross subsidy will be lost for at least a year. The consequence of raising 0636C (which was raised late in the process) has therefore been to extend the workgroup discussions thereby reducing the notice period available should one of the other proposals be implemented.

0636D

We do not support 0636D as we do not support the discrimination it introduces, the effect on the cross subsidy is minimal and the proposal cannot be implemented in the time available.

The main feature of 0636D is that the updated formula (different from 0636C) would only apply where the exit point was not an Interconnector Point. Where the exit point was an Interconnector Point the route would continue to benefit from the existing charges which are more beneficial to them. We do not find the arguments put forward in favour of this discrimination compelling. We note that the additional revenue received from standard

commodity charges is very small compared to other options and therefore the effect of this proposal is minimal in addressing the problems of the Optional Commodity Charge. We note the point about EU Tariff Code compliance but observe that although in principle the 0636 series of changes are enduring, in practice they will be overwritten by on of the 0621 series. A further major difficulty is that the proposal would require a significant change to Xoserve systems and therefore there is no likelihood of this being implemented for October 2018 meaning that the therefore the very small benefits of the reduced cross subsidy will be lost for at least a year. The consequence of raising 0636D (which was raised very late in the process) has therefore been to extend the workgroup discussions thereby reducing the notice period available should one of the other proposals be implemented.

Implementation: *What lead-time do you wish to see prior to implementation and why? Please specify which Modification any issues relate to.*

Implementation should be as soon as possible to provide as much notice as possible.

Impacts and Costs: *What analysis, development and ongoing costs would you face? Please specify which Modification any issues relate to.*

WWU would not face any costs.

Legal Text: *Are you satisfied that the legal text will deliver the intent of the Solution? Please specify which Modification any issues relate to.*

Yes

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.*

No

Please provide below any additional analysis or information to support your representation

Concerns have been raised about the limited time available between an Ofgem decision and the date on which the changes would come into effect which is presumably 1st October 2018. We recognise this concern but are not able to comment on it. We note that the original proposal was raised in good time to avoid this issue and that and the process has been delayed by the raising of Alternatives. The proposer of 0636 proposed an implementation date of 1st April 2018. Parties are of course fully entitled to raise Alternatives; by raising Alternatives, proposers are indicating that they support changes to the NTS Optional Commodity Charge. We observe that raising modifications late in the process may be seen by some as an attempt to delay proposals or other Alternatives. It is however difficult to think of changes to the modification rules that would address the issue of late Alternatives without creating other problems. For example preventing Alternatives being raised a certain time after the original modification

was raised would run into problems if the original proposal was materially modified close to or after that deadline. To get around this Panel may have to have a test as to whether the modification was material or not. We note that the governance workgroup is intending to discuss this in September.

The table below lists the dates on which each proposal was first considered by Panel.

Proposal	Date first considered by Panel
0636	19 th October 2017
0636A	18 th January 2018
0636B	15 th February 2018
0636C	15 th March 2018
0636D	19 th April 2018