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13th June 2018
Your Reference: UNC Modification Proposal 0636 / 0636A /
0636B / 0636C and 0636D

UNC Modification Proposal 0636/0636A/0636B/0636C/0636D – Updating the Parameters for the NTS
Optional Commodity Charge

Dear Bob,

Thank you for your invitation seeking representations with respect to the above Modification
Proposals.

Do you support or oppose implementation?

0636 – Support

0636A – Oppose

0636B – Oppose

0636C – Oppose

0636D - Oppose

Relevant Charging Methodology Objectives:

0636

- a) Positive
- b) Positive
- c) Positive

0636A

- a) None
- b) None
- c) None

0636B

- a) None
- b) None
- c) None

0636C

- a) Negative
- b) Negative
- c) Negative

0636D

- a) Negative
- b) Negative
- c) Negative

Reason for support/opposition:

The NTS Optional Commodity Charge is thought to provide an effective cross subsidy to those customers that make use of it. We believe that this is unjustified and therefore, do not support the principle of the charge.

0636:

0636 is Cadent's preference over the alternates and is the proposal that we support.

This proposal updates the cost parameters of a formula which was introduced nearly 20 years ago and thus, we believe is outdated. It reduces and addresses the issue of possible cross subsidy, and out of all of the proposals, we believe that 0636 provides the most appropriate and beneficial method of updating the charges. 0636 has forecasted the largest reduction in cross subsidy, at £72m, so clearly produces the greatest benefit to those customers not able to make use of it.

We note that there is no link to RPI and therefore, the cost parameters may become outdated. This solution is not enduring, but this could be addressed if Modification 0621 (or any of the alternates) were to be implemented.

0636A:

0636A differs from 0636 in that it retains the existing charges, but imposes a 'distance cap' at 115km. Although this results in Users at a distance greater than this becoming ineligible for the charge, many within the threshold still are. This results in a potential reduction in cross subsidy limited to £36.5m.

With the cost parameters remaining outdated, the sites that are eligible will continue to pay the OCC under the same methodology as today. This proposal is therefore, not supported.

0636B:

This updates the cost parameters by indexing to RPI. However, this only increases the contribution to £61m (from £48.4m in 2017/18) and does not increase the amount collected through the Standard Commodity charges.

0636B has a potential reduction of £12.8m in cross subsidy. Compared to 0636, this has a minimal impact and is therefore, not supported.

0636C:

This proposal differs in that the updated formula would only apply to those Exit and Entry Points that were not Interconnector Points.

0636C has a more favourable forecasted reduction to the cross subsidy of £44.8m. In our opinion though, this benefit is outweighed by the potentially discriminatory nature of the proposals as they would apply to non-interconnector points only. This is therefore, not supported.

0636D:

This proposal is similar to that in 0636C in that an updated formula would apply to non-Interconnector Points only, but uses a different formula.

Compared to 0636, 0636D is another proposal that has minimal impact with a potential reduction in cross subsidy of £10.8m. In our opinion, this also introduces possible discrimination as the changes would apply to non-interconnector points only, and is therefore, not supported.

Self-Governance Statement:

We agree with the Workgroup that these modifications should be considered likely to have a material impact and therefore should be sent to the Authority for direction.

Implementation

In the event of an Ofgem direction, implementation should take place as soon as possible.

Impacts and Costs

n/a

Legal Text

We are satisfied that the Legal Text provided meets the intent of the solution.

Are there any errors or omissions in this Modification Report that you think should be taken into account?

We have not identified any errors or omissions.

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

We have nothing further to add.

We trust that this information will assist in the compilation of the Final Modification Report. Please contact me on 07580 999287 (shiv.singh1@cadentgas.com) should you require any further information.

Yours sincerely,

Shiv Singh
Framework Specialist, Regulation & External Affairs