

MOD0539 Removal of NTS Exit Commodity Charges for Distributed Gas

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1. Underlying principles of proposed rebate

- The charging of NTS Exit Commodity Charges reflect a direct relationship between NTS and Shippers, and bypass the GDN charging mechanism. They relate specifically to allowed revenues in the NTS regulatory regime
- The proposed modification argues that because gas entered through Distributed Gas entry points does not use the NTS, on cost reflectivity grounds, these charges should not apply to such entry points
- Prima facie, this argument seems logical and support an argument for a rebate at some level, especially given the principles established under *UNC MOD0391 Distributed Gas Charging Arrangements*
- However, consideration needs to be given to what costs and services the NTS Exit Commodity charges are designed to recover to understand the extent of the rebate that should be applied, which would require clarification from NTS
- If costs and services can be reasonably attributed to entry points of this nature, this might provide a basis for objective assessment for the level of rebate
- If the above is a practical impossibility, the agreement to apply the rebate, and at what level should really rest with NTS

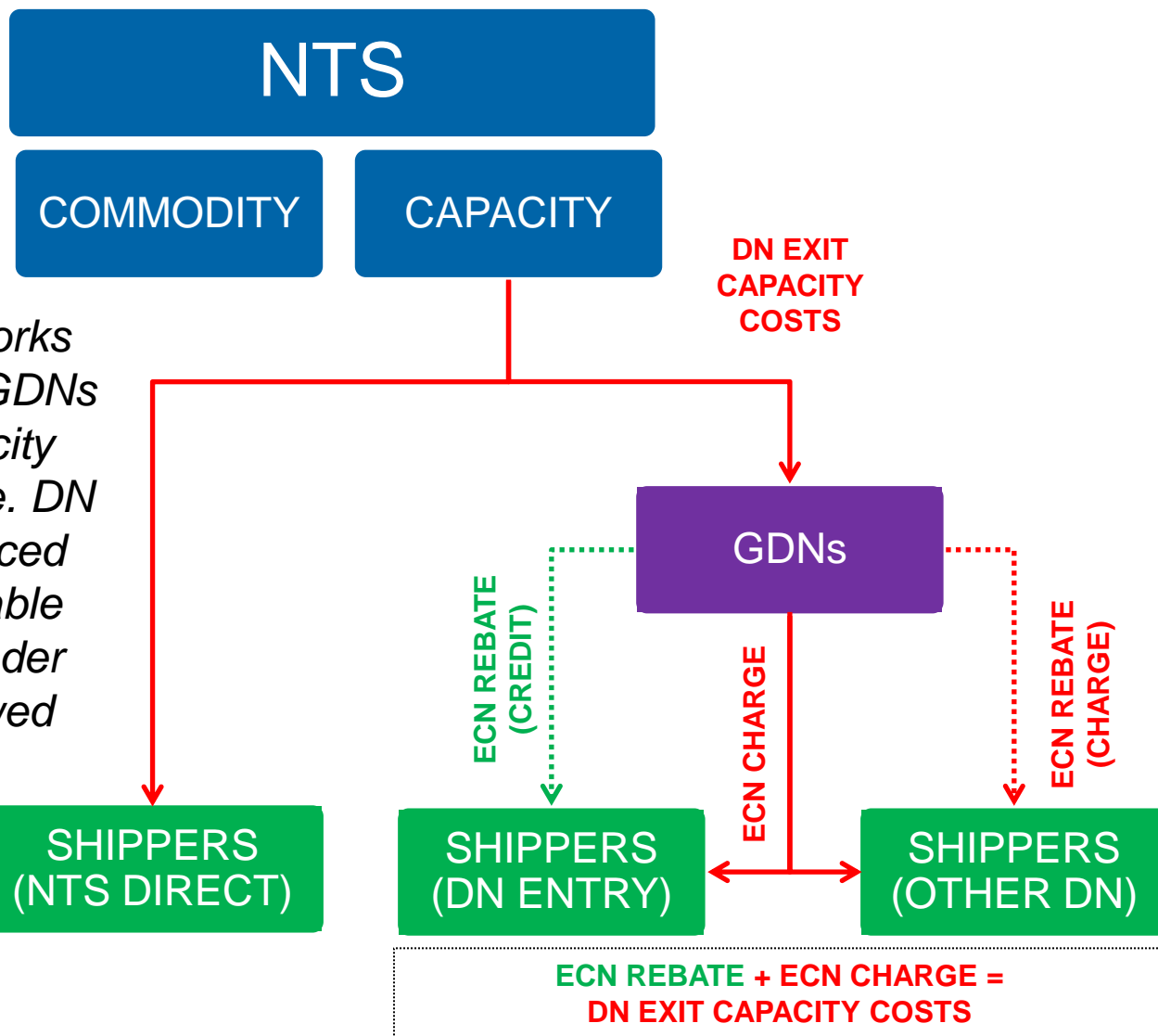


2. Administration of rebate

- Subject to the points covered in the previous section, given that Exit Commodity Charges represent a direct relationship between NTS and Shippers, it does not seem conceptually right that administration of the rebate should sit within GDN pricing
- For Exit Capacity, the rebate process works (theoretically) because GDNs are charged Exit Capacity costs in the first instance, which form part of total GDN allowed revenues, and recovered through GDN pricing
- To the extent that DN Entry Shippers receive a rebate, this is rebalanced against ECN allowed revenues against the relevant chargeable base to avoid over / under recovery at DN level
- If the Exit Commodity rebate is administered within GDN pricing it seems that rebalancing would be to the wrong chargeable base, as the impact to Shippers for which NTS have a unique and direct relationship is excluded
- A very simplistic diagrammatical representation is included in the following slides



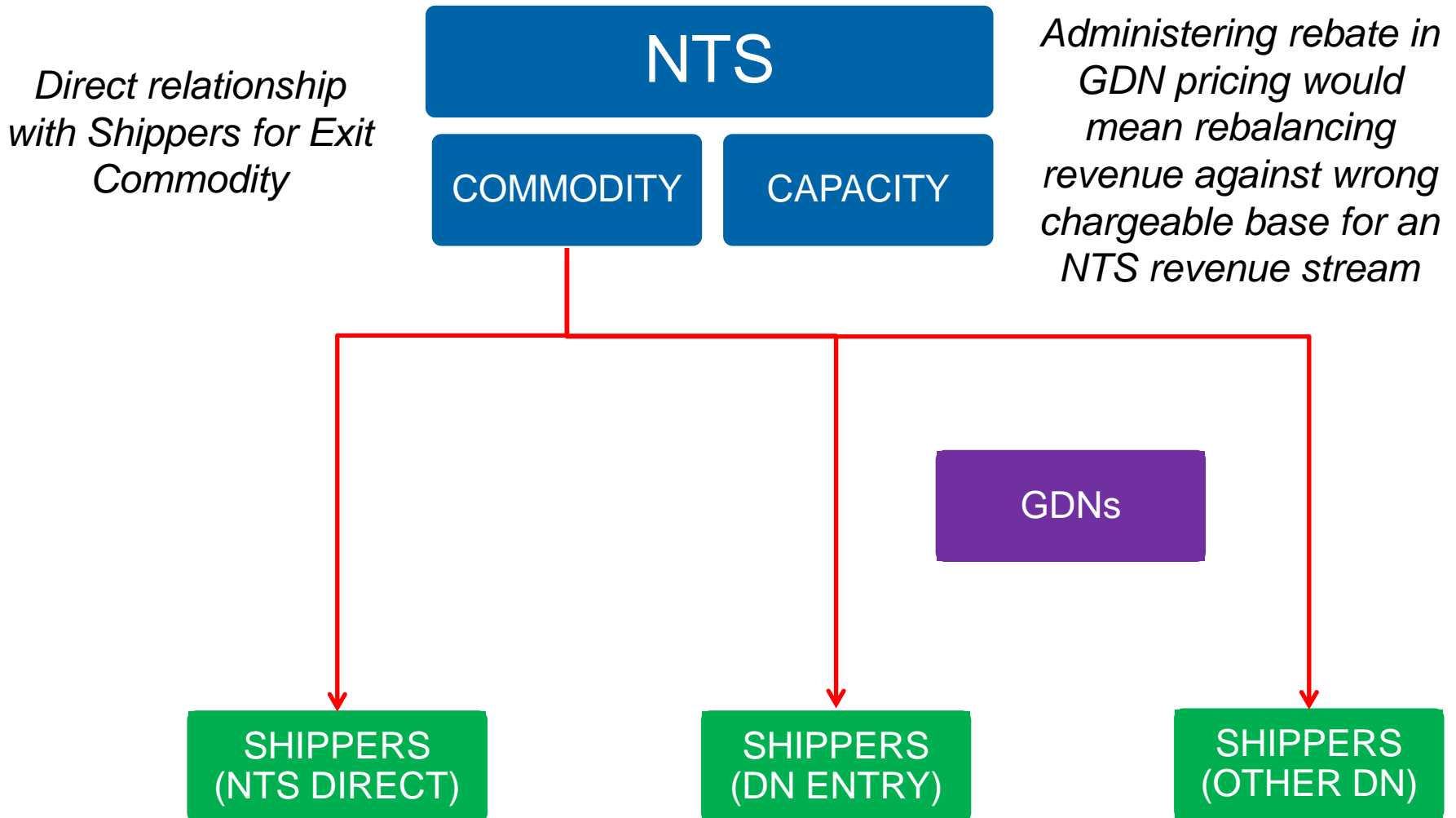
2 (a) NTS Exit Capacity Charging Arrangements



ECN rebate process works (theoretically) because GDNs are charged exit capacity costs in the first instance. DN Entry rebate is rebalanced across correct chargeable base to avoid over / under recovery of GDN allowed revenue



2 (b) NTS Exit Commodity Charging Arrangements





2. Administration of rebate

- Some of the arguments in support of the proposed modification centre around ease of solution given that the ECN rebate is already imbedded within GDN pricing methodology, and that an Exit Commodity rebate could be “bolted on”
- Whilst this should probably be the subject of separate debate in its own right, application of the existing LDZ Entry Commodity charge is not without its issues
- The proposed modification offers an intended practical solution to address some of the points behind withdrawal of MOD0508 in relation to relevant unit prices. It does not however address some of the other fundamental practical challenges that endure:
 - NTS can, and have in the past, changed unit prices during a charging year
 - GDNs set prices once a year - where tariffs become out of sync, this would create issues for the value of the rebate being applied
 - GDNs must also set forward prices based on forecast demand conditions – such that there is variance between outturn and forecast assumptions, the value of the rebate applied again becomes problematic



2. Administration of rebate

- The volume based practical challenges are further exacerbated where the assumptions used to apply the Exit Commodity by NTS in the first instance are out of sync and/or on different bases to those used to apply the rebate within GDN pricing
- These factors combine to create a spiralling reconciliation problem, the cost of administering which would exceed the value of the rebate applied in the first instance, and affect the scalability of rebate application as additional DN Entry connections come online
- The variability in application factors would put the accuracy and value of the rebate into question, and could paradoxically undermine the cost reflectivity grounds on which the proposed modification is principally based



3. Alternatives

- The logical place for administering a rebate would be within NTS prices – would be useful to further explore the challenges associated with this
- If creation of an NTS rebate mechanism has insurmountable cost or process obstacles, is there a way that Exit Commodity Charges for DN Entry Shippers could be corrected within source pricing calculation, for instance by creating a specific customer group?