Representation - Draft Modification Report 0539
Removal of NTS Exit Commodity Charges for Distributed Gas

Responses invited by: 08 October 2015

To: enquiries@gasgovernance.co.uk

Representative:	Craig Neilson
Organisation:	National Grid Gas Distribution (NGGD)
Date of Representation:	07/10/2015
Support or oppose implementation?	Oppose
Relevant Charging Methodology Objectives:	**a)** Negative **b)** None **c)** Negative

Reason for support/opposition: Please summarise (in one paragraph) the key reason(s)

The principal reasons for NGGD's opposition to this modification are:

(i) Inter-regulatory regime concerns stemming from the prospect of DNs administering a rebate for charges that are levied directly on Shippers by the NTS

(ii) Uncertainty that the proposed solution would result in a rebate equal to the costs incurred by the intended beneficiaries

(iii) Unavailability of clear and objective analysis in relation to the costs and services that NTS Exit Commodity Charges are designed to recover to fully support the principle of a rebate

In broad terms, the principle of a rebate seems plausible, notwithstanding point (iii) above. If and where DN Entry Shippers are incurring NTS Exit Commodity charges directly, on balance it seems feasible that a rebate at some level is due, and this would appear consistent with certain principles relating to NTS Exit **Capacity** charges established in *UNC Modification 0391 Distributed Gas Charging Arrangements.* However, as noted below, the challenges associated with objectively assessing a level of rebate have made this an "all or nothing" proposition based on conceptual debate.

NGGD acknowledges the currently low volumes and values in question, and recognises the ease of solution and practical arguments made by the proposer in support of the modification. However these should not supersede other fundaments of charging methodology and regulatory form of control, and the potential precedents set by implementation of this modification should be considered.

A solution which utilised the NTS pricing regime directly or at least provided a mechanism for DNs to pass back the rebate collected within DN revenues to the NTS would be more supported by NGGD.

To expand on the principal reasons behind NGGD's opposition and positions on relevant charging methodology objectives:

- NTS Exit Commodity charges are levied directly on Shippers by the NTS, and form part of NTS allowed revenues. However it is proposed that a rebate is administered within DN pricing. In the absence of a mechanism for DNs to pass back the rebates to the NTS, an under-recovery against DN allowed revenues would be created. This under-recovery would be redistributed to the DN customer base though standard two year lagged adjustment. This does not seem conceptually correct, as there is no redistribution to Shippers with which the NTS have a direct, differing or unique relationship. Consequently, whilst the proposed modification may have a desired effect for DN Entry Shippers specifically, it cannot be seen to be cost reflective for the remainder of a DN's chargeable base.

- Without redistribution of rebates to the correct chargeable base it is also difficult to see how the proposed modification fully and positively contributes to relevant objective (c) and the facilitation of active competition between gas Shippers.

- The proposed modification results in revenue impacts to the NTS and DNs separately, with the former initiating the source charge to Shippers, and DNs administering a rebate. In each case the revenue impact is based on unit price and volume conditions (price x volume). Whilst the proposed modification ensures alignment of the unit price dimension, NGGD remains uncertain that the volume conditions would result in a rebate that would be equal and opposite to the costs incurred directly by DN Entry Shippers. In the opinion of NGGD, this uncertainty places further doubt on the extent to which the proposed modification positively contributes towards relevant object (a) in respect of cost reflectivity.

- There was debate during the work group for the proposed modification regarding the underlying principles of a rebate. The unavailability of data (due to cost and complexity) to support an objective assessment as to whether NTS Exit Commodity charges recover costs for which DN Entry Shippers should or should not be subject made this a conceptual debate rather than one based on empirical evidence. Arguments against the principle of a rebate centred around DN Entry Shippers being commercial users of the NTS if not physical users.

Implementation: *What lead-time do you wish to see prior to implementation and why?*

Because the solution requires amendment to pricing notifications and pricing statements, the logical implementation point would be ahead of finalisation of charges for the next applicable formula year.

Impacts and Costs: *What analysis, development and ongoing costs would you face?*

Process impacts are expected to be largely administrative. Changes to NTS Exit Commodity unit rates would need to be monitored so that resultant impact to DN prices can be affected in Xoserve's billing systems.

In the absence of a mechanism to pass back the rebates collected to the NTS, both NTS and all DNs would need to monitor costs levied on relevant Shippers and rebates provided to ensure parity, and to track growth in associated volumes and values.

Legal Text: *Are you satisfied that the legal text will deliver the intent of the Solution?*

Yes, but requires supplementation to ensure that DNs do not become in breach of their own price notification obligations each time NTS Exit Commodity rates change.

This point relates specifically to indicative and final price notification documentation where it is proposed that NTS Exit Commodity unit rates are cross referenced rather than quoting actual rates (a practical solution put forward by the proposer to remove challenges posed by periodic update to these rates where the rates would be unknown to DNs at the point of DN price notification publication). For the purposes of charging statement publication and implementation of charges in Xoserve's billing system however, actual NTS rates could be appropriately imbedded.

Modification Panel Members have requested that the following questions are addressed:

Q1: Please provide clear views and supporting evidence on the self-governance status of this modification focusing, in particular, on whether this proposal is likely to have a material impact upon competition in the shipping, transportation or supply of gas.

It is accepted that relevant volumes and values are currently low, and would be considered immaterial by many Shippers. Whilst growth is expected in the medium term, low relative materiality could be expected to continue across the immediate planning horizon. Perhaps of greater relevance to this point are the inter-regulatory regime considerations noted previously, which would not support a self-governance status.

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.*

Clarification rather than error or omission in relation to comparisons made to *UNC Modification 0391 Distributed Gas Charging Arrangement.* The key areas of consistency are the principles underpinning the proposed rebate, and the use of the LDZ Entry Commodity charge as the means of implementation.

The key difference is that MOD0391 covers rebating NTS Exit **Capacity** charges. These are levied on DNs in the first instance, and recovered through DN pricing. This is unlike NTS Exit **Commodity** charges which are levied on Shippers directly, and entirely bypass the DN charging and allowed revenue regimes.

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