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:	Richard Pomroy
Organisation:	Wales & West Utilities Ltd (WWU)
Date of Representation:	29th September 2015
Support or oppose implementation?	Oppose
Relevant Charging Methodology Objectives:	**a)** Negative **b)** Negative **c)** Negative

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

WWU opposition is formed for three reasons:

1. The proposed solution is not cost reflective and will mean Shippers using DN networks will cross subsidise shippers using the NTS;
2. Absence of a robust consideration of alternatives; and
3. Absence of evidence from NTS to confirm the NTS Exit Commodity charge recovers the costs of services that are not used by Shippers entering gas at DN entry sites.

WWU would be more understanding of a Modification which sought to recover the rebate from NTS, or included a true up between the DNs and NTS.

DN Shippers will cross subsidise NTS Shippers

The NTS Exit Commodity Charge is levied by the NTS, as part of the NTS allowed revenue, collected from NTS Shippers. This charge provides revenue to support the activities undertaken by the NTS.

The allowed revenues permitted to DNs do not anticipate the DNs funding the services paid for by the NTS Exit Commodity Charge. Therefore, the rebate to Shippers at DN Entry sites of a charge currently paying for services not provided by DNs and which are therefore not provided for in the DN allowed revenue is both not cost reflective (a breach of licence condition A5) and introduces a cross subsidisation between the remaining customer base of the DN (i.e. excluding the DN entry sites) and the remaining customer base of the NTS.

Therefore we believe that the modification proposal has a negative impact on relevant objectives (a) cost reflectivity and subsidiary relevant objective (c) competition between gas shippers.

Absence of a robust consideration of alternatives

It is acknowledged that no alternatives to this modification were raised through the work group process. However, the points raised above highlight that there is a challenge that consideration should be given to NTS paying for such rebates directly, or refunding DN customers in an annual true up exercise. Reliance was placed on evidence supported as part of the 0508 Modification Proposal which inferred that system changes required by Xoserve to support a refund by NTS rather than DNs would result in costs of c£500k; however Xoserve were not engaged to estimate the costs under alternative arrangements. Similarly, the option of GDNs receiving a rebate from NTS, equal to the rebate given (potentially with an administration charge included as a revenue collection agent) was not fully considered. Notwithstanding our other concerns we are reluctant to implement a modification whose proposer has deliberately not sought to consider reasonable alternatives. While the proposer may insist that it is their right to describe the solution and resist considerations of alternatives that could deliver the objectives or even deliver them in a better way we do not consider that this is best practice and it should not be encouraged.

This leads us to conclude that that this modification proposal is negative for relevant objective (b) because it does not *properly* [emphasis added] take account of developments in the transportation business. We do acknowledge that it takes account of them but we do not believe that it satisfies the higher test of properly taking account of them as it neglected to consider other possible solutions that may better deliver the relevant objectives.

Absence of evidence from NTS to confirm the NTS Exit Commodity charge recovers the costs of services that are not used by Shippers entering gas at DN entry sites.

The NTS Entry Commodity Charge is part of the allowed revenue of NTS because the charge levied pays for the services which the NTS provides. This modification did not provide evidence that the NTS exit commodity charge recovered the cost of services which are not used by DN Entry Sites. It is possible to speculate that the NTS exit commodity charge may recover NTS compressor costs and costs of balancing and settlement systems but until information is received from NTS this remains surmise.

DN transportation charges are paid by Shippers taking gas out of the System, it may be the case that an Shipper entering gas at a DN entry point does not pay the NTS exit commodity charge because it has no exit customers in that LDZ and therefore would get a “refund” for charges they have not paid (notwithstanding our point above that this modification has a DN refunding an NTS charge). The modification is silent on this matter.

If it can be evidenced that the NTS exit commodity charge pays for services not used by DN entry sites then we would support a refund to Shippers by means of an appropriate mechanism from NTS.

Therefore we believe that the modification proposal has a negative impact on relevant objectives (a) cost reflectivity and subsidiary relevant objective (c) competition between gas shippers.

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

Implementation would require amendment to the WWU Pricing Statement. Typically this statement is published annually at the end of January. Consequently an implementation which coincided with the annual publication would be preferable.

The change will require additional processes within Xoserve and the Networks to be amended so to identify any change in NTS pricing and adjust the rebate issued in accordance with such change. Although there is a UNC obligation on Transporters and Shippers to deliver Nexus with best endeavours, it is not envisaged that the volume of work required would prevent a timely implementation of the change.

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

The following process would be envisaged, this requires controls to be established which would:

1. Identify any changes in NTS pricing
2. Result in a price notification change template being issued from Xoserve
3. Controls to be amended within Xoserve to allow for the addition of two independently issued pricing statements, and agree this value to the pricing change templates received
4. Controls to validate that the level of rebate does not exceed the level of charge originally incurred. This would be important if the entry shipper did not have sufficient exit commodity levels within the same LDZ.

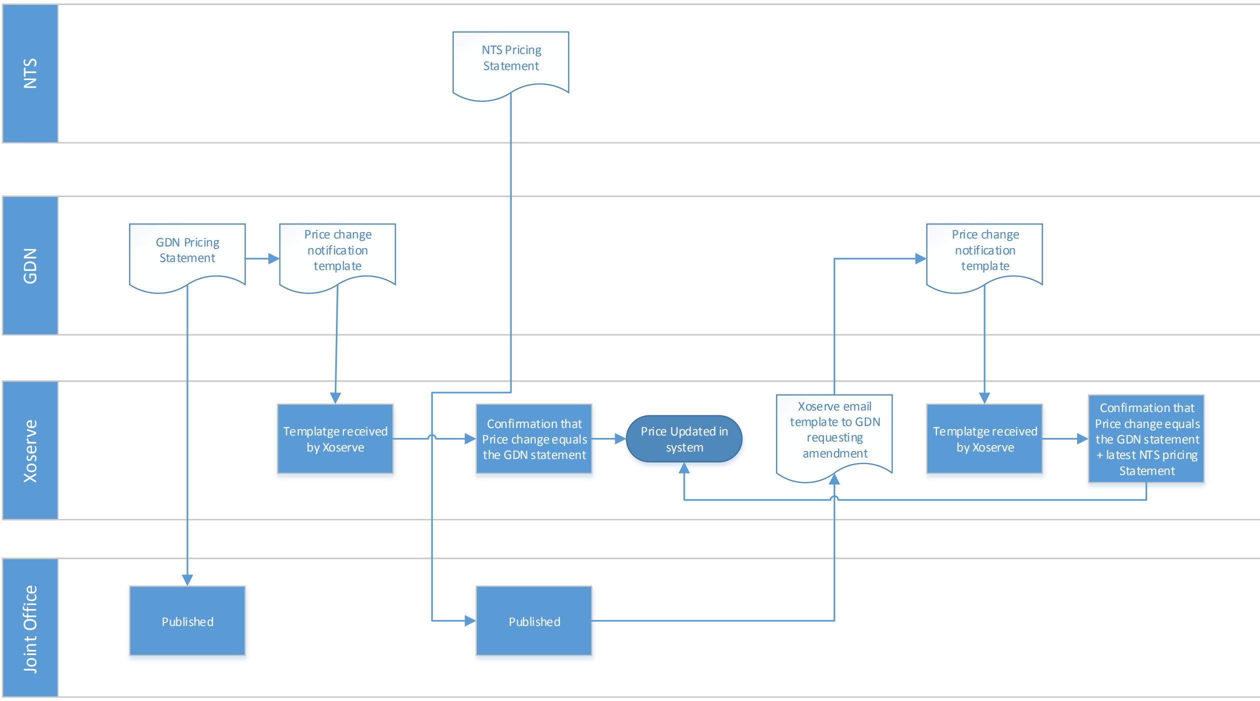

Figure 1 - Indicative process following MOD 0539 being implemented

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

Clause 7.2 states
"The LDZ System Entry commodity charge will be determined for each LDZ System Entry Point as the summation of the unit rates in respect of the items in 7.2.1 and 7.2.2 (below) minus the prevailing TO Exit (Flat) and SO Commodity Charges as published in the National Grid NTS Transportation Statement"

We are concerned that the above legal text could infer that a pricing statement will be published by the DNs each time the NTS SO Commodity rate changes. We would like an additional sentence such as

"For the avoidance of doubt the DN shall not be required to publish a revised Pricing Statement each time the NTS SO Commodity rate changes".

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.

Whilst it is acknowledged that the inflow from DN Entry Sites is currently at a level which would not be considered material by many Shippers, there is a risk that industry change may result in this rebate becoming material. This would especially be true should Shale Gas be injected at the DN level, where volumes are predicted to be more significant than current DN Entry sites.

In this case this modification would have a material impact on competition in the shipping, transportation or supply of gas.

We therefore believe that this modification is not self-governance.

As an illustration of a case where a change was introduced which was not expected to have a large impact but which has actually become very significant consider Independent Gas Transporters. When IGTs first became licensed manual processes were put in place by Transco (now Xoserve) to manage CSEPs because no one envisaged IGTs growing to the size they currently are. This manual process has become inefficient and imposed costs on industry parties which are only now being addressed by Project Nexus. We accept that these two examples are not directly comparable but the IGT example does illustrate the potential problems associated with allowing a change that could have material impacts in the future and treating it as non-material.

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.*

Whilst the modification report references that the modification is not cost reflective, it does not highlight that the implementation creates a cross subsidy between NTS and DN customers, as outlined below.

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

Explanation of why WWU considers that this modification proposal results in a cross subsidy from LDZ Shippers to NTS Shippers

As stated above, the rebate provided by a Gas Distribution Network (GDN), for a charge initially levied by the NTS would result in the Shippers on the DN network, not the Shippers on the NTS, funding the rebate. As the NTS and GDN Shippers are not identical, for example some Shippers may only ship end users directly connected to the NTS , this would result in a cross subsidy between the two groups.

This modification assumed that the rebate would not exceed £3m per annum. Assuming, for illustration, that half the DN Entry sites would be located in the Wales & West Network this would have the following impact:

Figure 2 – Representation of how a cross subsidy occurs between Shipper Groups

As can be seen, WWU shippers would face additional charges after the implementation of 0539. This represents a cross subsidy between the two groups of Shippers.

If the modification had sought to rebate the NTS charge by NTS to the Shippers at DN entry sites this would have resulted in NTS shippers facing an increase in their charges would have been correct as then the cost of services provided by the NTS would be paid for by Shippers using the NTS.