

0539S:

Removal of NTS Exit Commodity Charges for Distributed Gas

- 01 Modification
- 02 Workgroup Report
- 03 Draft Modification Report
- 04 Final Modification Report









This modification proposes revised distribution charging arrangements in respect of Distributed Gas such that transmission exit commodity charges are not applied.



The Workgroup recommends that this modification should now proceed to consultation.



Low Impact:
Customers, Shippers, Transporters

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About this document:		 01293 818308
This report will be presented to the panel on 17 September 2015.		Systems Provider: Xoserve
The panel will consider whether the modification should proceed to consultation or be returned to the workgroup for further assessment.		 commercial.enquiries@xoserve.com
The Proposer recommends the following timetable:		
Initial consideration by Workgroup	28 July 2015	
Amended Modification considered by Workgroup	n/a	
Workgroup Report presented to Panel	04 September 2015	
Draft Modification Report issued for consultation	17 September 2015	
Consultation Close-out for representations	08 October 2015	
Final Modification Report published for Panel	13 October 2015	
UNC Modification Panel decision	19 November 2015	

1 Summary

Is this a Self-Governance Modification?

The Modification Panel determined that this is not a self-governance modification because it is expected to have a material impact on the transportation or supply of gas conveyed through pipes or any commercial activities connected with the shipping, transportation or supply of gas conveyed through pipes.

There was no consensus within the Workgroup as to the self-governance status of this modification with some participants agreeing with Panel and others disagreeing as the impacts of this modification would have no material impact as the value of any rebate would be insignificant compared to DN revenue.

Why Change?

Transmission exit commodity charges are applied in respect of all gas offtaken at Distribution Supply Points. Gas entered through Distributed Gas entry points does not use the Transmission system and so, to be cost reflective, Transmission Exit commodity charges should not apply to this gas.

Solution

It is proposed that the Distribution Transportation charging methodology in respect of Distributed Gas entry points is revised so that an additional rebate element, set as the level of Transmission Exit commodity charges, is provided.

Relevant Objectives

The proposer considers the implementation of this modification would further Relevant Objectives a), b) and c).

Implementation

No implementation timescales are proposed. However, to be consistent with the timing of changes to transportation charges, 1st April 2016 may be a suitable implementation date.

Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

There are no impacts on other industry change.

2 Why Change?

At present, NTS Exit commodity charges are applied in respect of all gas offtaken at Supply Points connected to Distribution Networks. Where gas is input into Distribution Networks at embedded DN Entry points, that gas will not physically enter the NTS and will utilise only the Distribution Network for transportation to the DN Supply Point - flows from DN Entry Points are currently far below the DN Network throughput and are forecast to be below this level for the foreseeable future. For such transportation of gas from DN Entry points to DN Supply Points it is not cost reflective for NTS Exit commodity charges to be applied since the gas does not physically utilise the NTS.

3 Solution

Since current transportation charging arrangements consider entry and exit separately and do not normally link entry at a location with exit at a particular Supply Point, the easiest manner to achieve the

cessation of NTS Exit commodity charges for transportation from DN Entry points to DN Supply points is to provide a rebate at the level of the NTS Exit commodity charges for gas entered at a DN Entry point. NTS Exit commodity charges would continue to apply in respect of all gas offtaken at DN Supply Points while a rebate at the DN Entry point would offset the application of the NTS Exit commodity charges at the DN Supply Point, resulting in zero net exposure to the level of this charge for such gas flows.

The use of an entry commodity charge rebate in this manner is consistent with the established charging methodology, as approved by Ofgem and implemented through UNC Modification 0391.

It is proposed that the charging methodology is changed so as to introduce a commodity charge rebate for gas entered at DN Entry points. It is proposed that this commodity charge rebate is defined as being at the combined NTS TO and SO Exit commodity charge rates applicable at DN Supply Points, as amended by National Grid NTS from time to time. The DNs would not, therefore, need to set this rebate level nor give notice of its level since it is proposed that the charging methodology cross refers to the charge rates set by National Grid NTS, ensuring that the rebate would always be in line with the NTS Exit Commodity Charge rate.

Under this proposed modification, no new charge/rebate would be introduced –the level of the existing charge/rebate would be adjusted. There would thus be no implementation or additional ongoing costs associated with this modification.

User Pays	
Classification of the modification as User Pays, or not, and the justification for such classification.	Transporters need to ensure that invoice calculations reflect their obligations. This is a transporter responsibility and therefore it is not a User Pays modification. However, no implementation or additional ongoing costs are expected as a result of the modification since it would merely change the levels of the existing distribution transportation charges.
Identification of Users of the service, the proposed split of the recovery between Gas Transporters and Users for User Pays costs and the justification for such view.	<i>Not applicable</i>
Proposed charge(s) for application of User Pays charges to Shippers.	<i>Not applicable</i>
Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.	<i>Not applicable</i>

4 Relevant Objectives

Impact of the modification on the Relevant Charging Methodology Objectives:	
Relevant Objective	Identified impact
a) Save in so far as paragraphs (aa) or (d) apply, that compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its transportation business;	Positive
aa) That, in so far as prices in respect of transportation arrangements are established by auction, either: (i) no reserve price is applied, or (ii) that reserve price is set at a level - (I) best calculated to promote efficiency and avoid undue preference in the supply of transportation services; and (II) best calculated to promote competition between gas suppliers and between gas shippers;	Not applicable
b) That, so far as is consistent with sub-paragraph (a), the charging methodology properly takes account of developments in the transportation business;	Positive
c) That, so far as is consistent with sub-paragraphs (a) and (b), compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers; and	Positive
d) That the charging methodology reflects any alternative arrangements put in place in accordance with a determination made by the Secretary of State under paragraph 2A(a) of Standard Special Condition A27 (Disposal of Assets).	Not applicable
e) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	Not applicable

The proposed distribution charging methodology change takes account of the fact that gas from DN Entry points does not physically enter the transmission system. It is therefore more cost reflective that the net transportation costs for transportation of gas from such DN Entry points to DN Supply Points does not include any transmission charging element.

The proposed distribution charging methodology change takes account of the ongoing development of Distributed Gas.

The proposed charging methodology change would result in a reduction in the cost of transportation for gas sourced through DN Entry points and thus may facilitate the enhanced development of such gas sources which could in turn better facilitate effective competition between gas shippers. In addition, improving costs reflectivity supports the development of effective competition.

The proposed modification does not conflict with paragraphs 2, 2A and 3 of Standard Special Condition A4 of the Transporter's Licence since any change in charges would be applied based on the methodology prevailing at the time.

5 Implementation

No implementation timescales are proposed. However, to be consistent with the timing of changes to transportation charges, 1st April 2016 may be a suitable implementation date.

6 Impacts

Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

There are no impacts on other industry change.

Impact Assessment of issues raised under Modification 0508

The rationale for withdrawing the modification was documented and published at:
<http://www.gasgovernance.co.uk/0508>

The key points of challenge outlined in the report were:

2.1 No NTS Service for DN Embedded Entry flows - Gas entered into the Distribution Pipeline System at Distributed Gas Entry Points does not benefit from any NTS service and therefore should not bear any associated cost;

2.2 Robustness of Regime - That the regime for determining and applying the rebates should be robust, and

2.3 Distributional Impacts - The rebates provided by GDNs at the Distributed Gas Entry Point would be reflected to customers downstream

The Workgroup have assessed each of these impacts and concluded...

7 Legal Text

Text Commentary

To be provided by Scotia Gas Networks.

Text

To be provided by Scotia Gas Networks.

8 Recommendation

The Workgroup invites the Panel to:

- AGREE that this modification should be submitted for consultation.