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22<sup>nd</sup> June 2018

Your Reference: UNC Modification Proposal 0621 / 0621A / 0621B / 0621C / 0621D / 0621E / 0621F / 0621H / 0621J / 0621K\* and 0621L

<u>UNC Modification Proposal</u>
0621/0621A/0621B/0621C/0621D/0621E/0621F/0621H/0621J/0621K\*/0621L

- Amendments to Gas Transmission Charging Regime

- \*Amendments to Gas Transmission Charging Regime and the treatment of Gas Storage

Dear Bob,

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

## Do you support or oppose implementation?

0621 - Oppose

0621A - Qualified Support

0621B - Oppose

0621C - Oppose

0621D - Oppose

0621E - Oppose

0621F - Oppose

0621H - Oppose

- 0621J Oppose
- 0621K Oppose
- 0621L Oppose

## **Relevant Objectives:**

#### 0621

- a) Positive
- c) None
- d) None
- g) Positive

#### 0621A

- a) Positive
- c) None
- d) None
- g) Positive

## 0621B

- a) Positive
- c) None
- d) None
- g) Positive

## 0621C

- a) Positive
- c) None
- d) None
- g) Positive

## 0621D

- a) Positive
- c) None
- d) None
- g) Positive

## 0621E

- a) Positive
- c) None
- d) None
- g) Positive

## 0621F

- a) Positive
- c) None
- d) None
- g) Positive

## 0621H

- a) Positive
- c) None
- d) None
- g) Positive

## 0621J

- a) Positive
- c) None
- d) None
- g) Positive

## 0621K

- a) Positive
- c) None
- d) None
- g) Positive

## 0621L

- a) Positive
- c) None
- d) None
- g) Positive

## **Relevant Charging Methodology Objectives:**

## 0621

- a) Positive
- aa) None
- b) None
- c) None
- d) None
- e) Positive

## 0621A

- a) Positive
- aa) None
- b) None
- c) None
- d) None
- e) Positive

#### 0621B

- a) Negative
- aa) None
- b) None
- c) None
- d) None
- e) Positive

## 0621C

- a) Positive
- aa) None
- b) None
- c) None
- d) None
- e) Positive

## 0621D

- a) Positive
- aa) None
- b) None
- c) None
- d) None
- e) Positive

## 0621E

- a) Positive
- aa) None
- b) None
- c) None
- d) None
- e) Positive

## 0621F

- a) Positive
- aa) None
- b) None
- c) None
- d) None
- e) Positive

## 0621H

- a) Positive
- aa) None
- b) None
- c) None
- d) None
- e) Positive

## 0621J

- a) Positive
- aa) None
- b) None
- c) None
- d) None
- e) Positive

## 0621K

- a) Positive
- aa) None
- b) None
- c) None
- d) None
- e) Positive

#### 0621L

- a) Positive
- aa) None
- b) None
- c) None
- d) None
- e) Positive

## **Reason for support/opposition:**

Cadent has based its approach to compiling this representation on a component-by-component basis, rather than Modification basis. This is due to the fact that there are many similarities between the Proposals, but also some subtleties in the detail.

## Summary

- Qualified Support for Capacity Weighted Distance (CWD) during the Reference Price Methodology (RPM) Transitional period (0621, 0621A, 0621B, 0621C, 0621E, 0621F, 0621H, 0621K and 0621L)
  - Oppose all others
- Qualified Support for CWD with Revenue Recovery Adjustment during the RPM Enduring period (0621, 0621A and 0621C)
  - Oppose all others
- Support a Specific Reserve Price Discount of 86% for Storage (0621A and 0621C remain)
- Support Target Revenue Apportionment that is pro-rated according to Forecast Flows at IPs/Non-IPs vs Forecast Total Flows (0621A)
  - Oppose the above where Entry at IPs is pro-rated according to Forecast Flows against Existing/Non-Existing (0621C)

#### Main Component Points

Capacity Weighted Distance (CWD): Cadent broadly supports the principle that recognises both load size and distance, but there is potential to develop further to better model actual directional gas flows across the networks, and proximity between entry and exit points.

Forecasted Contractual Capacity (FCC): Accept that obligated capacity is an objective and transparent approach for the transitional period, but on an enduring basis would want the assumption to model actual bookings as closely as possible to reduce reliance on revenue recovery mechanisms. A National Grid provided forecast may provide a better solution, but the specific process needs to be developed and must be transparent and open to industry comment.

Capacity vs Flow Based: Cadent is of the opinion that flow based mechanisms create more revenue collection uncertainty with downstream impact to future allowed revenue determinations. Capacity based charging (as can be observed in the GDN charging methodology) provide far greater stability and lower risk of over/under recovery.

Storage Discount: Cadent is of the opinion that Waters Wye Associates provided compelling analysis to support the 86% level of discount for storage.

Shorthaul (OCC): We support retention of shorthaul in transitional arrangements (existing formula RPI linked), but consider that the CWD provides a suitable arrangement for recognising load size and network utilisation, which in principle eliminates the need for such a mechanism in the long term.

K: Cadent considers that cost reflectivity could be improved by subsequent modifications if over/under recovery of revenue is targeted at the Entry/Exit point that created it. Currently, any overall level of over/under recovery would be smeared and allocated to users that have not driven it, and impacts overall allowed revenue determination.

The number of Entry and Exit points are of a level where this could be reasonably administered. However, we recognise that the aspiration is that over/under recovery is minimised through the core 0621 proposals.

Managing Uncertainty: National Grid, in collaboration with its Stakeholders, can play a greater role in providing timely and accurate revenue and unit price forecast information, which will better support the industry in managing the uncertainties associated with 0621, or any of the alternates.

#### 0621:

Only differentiating factor is the Storage discount, for which Storengy provided a compelling analysis for in 0621A, and also adopted by the majority of variants.

#### 0621A:

See above

#### 0621B:

Retention of flow based revenue recovery, adopting obligated capacity for FCC on an enduring basis, enduring retention of Shorthaul.

#### 0621C:

Overly complex, retains some flow based recovery mechanisms, and proposes a new and more complex enduring shorthaul arrangement. Would need more time for industry challenge and review.

#### 0621D:

Whilst we appreciate what it was trying to achieve, seemingly arbitrary choice to square root the distance component of CWD, not supported by analysis. Oppose the immediate removal of shorthaul, as not in the spirit of the transitional arrangements.

#### 0621E:

Oppose extended transitional arrangement for exit, as important to keep these in parity to be able to best manage uncertainty collectively, but appreciate that this proposal endeavoured to account for implications of changes in the electricity market.

#### 0621F:

Main differentiating factor is Storage discount. Justification / implications of proposed interconnection point reserve price discount are unclear.

#### 0621H:

Oppose 50% storage discounts, and exclusion of historical contracts from revenue recovery mechanisms.

#### 0621J:

We do not believe that a postage stamp model is cost reflective because it does not take account of the degree of network utilisation.

#### 0621K:

Oppose the 100% storage discount for interruptible, and consider that 0621A addresses Storage arrangements in a more balanced way.

#### 0621L:

Oppose unadjusted CWD in the enduring arrangement, as this puts greater reliance on the recovery mechanism. From a calculative flow perspective, challenge the gross revenue choice for target revenue. Oppose the 50% storage discount.

Taking all things into consideration, Cadent offers Qualified Support for Modification Proposal 0621A. A matrix has been produced that provides more detail about each individual component that make up the numerous Proposals. This can be found under 'further information'.

#### **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

The following table provides a summary view of each individual component.

Part	Component	Element	Variant	Cadent Position -	Rationale	0621	0621A	0621B	0621C	0621D	0621E	0621F	0621H	06211	0621K	0621L
March   Marc		Methodology		Qualified	Reflective of the shape of the network now and in the future. Recognise both the size of load and degree of utilisation of the network. There may be further opportunity to better model actual gas flow, and entry f exit point					-		-	-		-	*
Part				Oppose	making it appear an arbitrary variant, and based on NTS impact analysis has					x						
March   Marc			Postage stamp	Oppose	Cadent consider this to be the least cost reflective option, as it does not reflect the degree of network utilisation of individual loads									x		
Part					principle Cadent agree that minimised revenue recovery mechanisms are	x	×		x							
March 1999   Mar			Capacity Weighted Distance (with Flow Based Recovery Adj)	Oppose	mechanisms would only create continued revenue collection uncertainty for NTS with down stream impacts to future allocated revenue determinations, which are then smeared across the customer base without reference to entry			x								
Second   S	Reference Price	Methodology		Oppose	making it appear an arbitrary variant, and based on NTS impact analysis has					x						
Section   Sect			Capacity Weighted Distance	Oppose	Cadent also consider that having greater certainty in first pass reference prices is preferable to down stream reliance on revenue recovery											x
Part			Postage Stamp (with Revenue Recovery Adjustment)	Oppose	Cadent consider this to be the least cost reflective option, as it does not reflect the degree of network utilisation of individual loads									x		
Section   Sect		Target Revenue	Net of Existing and Interim Contracts	Support	first consider existing contractual obligations, with allocation of residual	x	x	x	x	x	x	x	x	x	х	
Production   Company   C			Gross Revenue (inclusive of existing and interim contracts	Oppose	This option appears less logical from a calculative methodology perspective											х
Particular   Colognes   Cologne		Transitional	Obligated for first 2 years	Support	transitioning into the enduring solution, and provides the greatest level of transparency for users in estimating possible charges during the transitional	x	×		x	x		x	x	x	x	x
Comment   Comm			Obligated for first 2 years for Entry and 3 year for Exit	Oppose	preference is that transitional arrangements apply in parity. Cadent can see the benefit of using obligated capacity initially for the purposes of objectivity and transparency, but do consider this to be the optimal enduring						x					
Company   Property   Propert	Forecast		None	Oppose	To assist in the mangement of the uncertainties faced by the industry, Cadent are broadly supportive of adopting a transitional approach.			x								
Producing   Cologues	Contractual	Enduring	National Grid Forecast (excluding historical capacity)		be the goal as this ensures the most appropriate first pass reference prices, and hence less reliance on revenue recovery mechanisms. Taking obligated capacity would fix FCC for a price control period when better and more current information may become available. Qualified support because the specific basis for the National Grid forecast needs to be agreed, and must be	x	x		x	x	x	x	x	x	x	x
As there are anotherosine from planes.  Multipliers  10  Support  As there are anotherosine from purposes of 0621  Multipliers  Multipl			Obligated	Oppose	diminish the impetus to drive the booking behaviour that NTS desire. Where actual bookings vary to obligated levels, this reduces the appropriateness of reference prices at the front end, and greater reliance on revenue recovery			x								
Reserver Price   Reserver Price   Storage			National Grid Forecast (including historical capacity)	Oppose												x
Interruptible   Interruptibl		Multipliers			modification to the NTS charging methodology, Cadent are comforatble with this parameter being set at 1.0 for all categories for the purposes of 0621	x	x	x		x		x	x	x		
Final Content   Final Conten	Reserve Price	Interruptible / Offpeak Adjustment				x	×	х	х	×	х	х	х	х		х
Fixed   Coppose   Fixed   Coppose   Fixed   Coppose   Fixed   Fixed   Coppose   Fixed   Fixe		Parad and the				х	х	х	x	х	х	х	х	х		х
Storage   Stor		eu or Floating Price														
Reserve Price   Discussion   Principal Princ		Storage				х	v	¥	¥	v	×	х	х	¥	v	х
Discounts   Disc		Interconnection				х	-	_			×		х		-	х
Molimum Recovery Procedured Condition of English Support Suppo			Bi-directional only: 2 years at 50%, average weighted by forecast bookings from 2021	Oppose												
Price   Modular private    Support																
As above, but entry at the promoted according to forecast pagent fasting / Non Exting / As above, but entry at the promoted according to forecast pagent fasting / Non Exting	$\vdash$	Price	Pro-rated according to forecast flows at IPs / non-IPs vs				-		х							
P Application  P Academ consider that the requirement for revenue determinations  P Application  P Application  P Application  P Application  P Academ consider that the requirement for revenue recovery adjustments recovery adjustments recovery adjustments recovery adjustments would not be practicated.  P Application  P Application  P Academ consider that the requirement for revenue recovery adjustments would not be practicated.  P A R A R A R A R A R A R A R A R A R A		Apportionment  Duration	As above, but entry at IPs prorated according to forecast		Introduces additional complexity and uncertainty in the transitional period.	Ë			х							
2 years for Entry, 3 years for Entry, 4 years for E				Support		х	х	х	х	х		х	х	х	x	х
Revenue Recovery   PApplication   Pa			2 years for Entry, 3 years for Exit	Oppose	preference is that transitional arrangements apply in parity.						х					
Uppose would make declarage for sexting contracts quark contracts difficied before non-existing contracts;  None  None  Support  Support  Callest consider that the requirement for revenue recovery adjustments with historical contracts  None IP Application  Fixed flow based charge applied to allocations (flow)  None IP Exclusion  None IP Application  None Of Professionates  None Of Profes	Recovery		Capacity charge at Exit and Non Existing Contracts at		collection, and therefore minimises in year over / under recovery impacting future allocated revenue determination.  Cadent consider that retention of a flow based revenue recovery mechansim	х	x	x		x	x	х	x	x	x	x
PExclusions   Historical Contracts   Oppose   Cadent consider that the requirement for revenue recovery adjustments relate to uncertainty in volume conditions, from which historical contracts   X   X   X   X   X   X   X   X   X			Entry. Frow based charge for Existing Contracts (such contracts utilised before non existing contracts)	Oppose					х							
Non IP Application Fixed flow based charge applied to allocations (flow) Support X X X X X X X X X X X X X X X X X X X		IP Exclusions			relate to uncertainty in volume conditions, from which historical contracts	х	x	х	x	x	x	х	x	x	x	x
		Non IP Application	Fixed flow based charge applied to allocations (flow)	Support	would not be precluded	х	х	х	х	х	x	х	х	x	х	х
		Non IP Exclusions		Support		х	х	х	x	х	х	x	х	x	х	х

Marchest				Cadent								ı		ı		
Page	Component	Element	Variant	Position -	Rationale	0621	0621A	0621B	0621C		0621E	0621F	0621H			06211
Non-control		Townsh Downson				х	х			х		х	х	х	х	х
Part		Apportionment	forecast total flows					X								
Part   Company		IPs	Historical / Non Historical vs forecast Total IP flow Entry at non IPs prorated according to forecast flows						х							
Part   Content			against Historical / Non Historical vs forecast Total non IP	Oppose	A						X					
March   Control to Name of Page 10 to Internal Control (1992)   Section of Page 11 to Internal Control (1992)   Section of P		IP Application		Support	collection, and therefore minimises in year over / under recovery impacting future allocated revenue determination.	х	x	x		х	х	х	х	х	х	×
Marchane   Control   Con			Entry. Flow based charge for Historical Contracts (such	Oppose	would mean enduring revenue collection risk resulting in downstream				х							
Manual Contents		IR Evolutions	None	Support		x	x	×	x	х	×	x		x	x	×
Control   Cont		T EXCLUSIONS	Historical Contracts	Oppose	relate to uncertainty in volume conditions, from which historical contracts								×			
No. 1	Recovery		Capacity charge (applied to fully adjusted capacity)	Support	collection, and therefore minimises in year over / under recovery impacting future allocated revenue determination.	x	x			х		x	х	х	x	х
Application   Content	(Enduring)			Oppose	mechansim would mean enduring revenue collection risk resulting in downstream adjustment to future allocated revenue determinations.			×								
Application		Non IP Application	Entry. Flow based charge for Historical Contracts (such contracts utilised before non-historical)	Oppose	Cadent consider that retention of a flow based revenue recovery mechansim would mean enduring revenue collection risk resulting in downstream adjustment to future allocated revenue determinations.				x							
March   Palament			except for Historical Contracts which will accrue a commodity charge	Oppose	would mean enduring revenue collection risk resulting in downstream						х					
March   Control for Out-toke opposes   Support   Suppo			Historical contracts for Capacity at Storage Connection Points	Support		×				х		x		x		×
Man IP Edications   No. 00 One-to-line disablement in Strange Connection - Name   Support   Su			Fully adjusted capacity at Storage Connection Points not booked for Own Use purposes	Support	Storage, but favour the specific definition provided for Non Own Use Gas allocations		x				x				×	
Notice   Process   Company   Content   Conte		Non IP Exclusions	Non Own Use Gas allocations at Storage Connection Points	Support	Cadent are not strongly opposed to any of the tabled exclusion options for Storage, but favour the specific definition provided for Non Own Use gas			х								
Part			Storage Connection Points	Support					x							
Application  Application  Application  Including  Application  Including  Colete consider that entalize publicates concerns. Additionally the COO of the Cool of t			Historical Contracts	Oppose	relate to uncertainty in volume conditions, from which historical contracts								х			
Application   Enduring		Application	2 Years	Support	which point it is removed.	x	×				×	×	×	×	×	×
Note			Enduring	Oppose	perpetuates exiting subsidisation concerns. Additionally the CWD methodology should in principle provide charges that are reflective of both			x	x							
Method   M			None	Oppose	Immediate removal of the shorthaul tariff would not be in keeping with the					×						
Machine   Mach			adjustment	Support		х	х	x			x	х	х	х	х	х
Capacity deemed to have been used  Coppose  Charge  Ch		Method	Discount of CWD derived reference price with Revenue	Oppose					х							
Cuantity (Irs)   Cuan			Not applicable	Oppose						х						
NET Optional Charge   A   Not applicable   Oppose				Support		х	х	x			х	х	х	х	х	х
Allocation (flow)  Cuantity (Non IPs)  Cuantity (Non IPs)  Cuantity (Non IPs)  Allocation (flow) support  Non applicable  Oppose  Alternative Charges  Alter			Lower of capacity and allocation (flow) at entry point and exit point	Oppose					х							
Classifity (Non IPs)  Classified (Non IPs)										х						
Not application a Ractor  Application a Ractor  Application a Ractor  Application a Ractor  Application & Existing principles  Qualified  X Application & Existing principles  X Application & Science States & Qualified  Application & Existing principles  X Application & Science States & Qualified  X A X X X X X X X X X X X X X X X X X			1			х	х	х			х	х	х	х	х	×
Transmission Services Revenue Recovery charges and no Transmission Services Revenue Recovery drages and no Transmission Services Revenue Recovery drages and no Transmission Services Alarges (Entry & Exit)  Alternative Charges  Not applicable  Oppose  Umilitations  Not applicable for Storage Connection Points, minimum distance all Jahm  Oppose  Application at Basico ASEPs  Application at Basico ASEPs  Not applicable  Oppose  Application at Basico ASEPs  Not applicable  Oppose  Cadent consider that GDRs are not a major driver of NTS evenue over or under recovery, and yet a dispropoportionate amount of ultimate revenue recovery would be laterated to GDRs through 2 yet lagged allowed revenue recovery would be laterated to GDRs through 2 yet lagged allowed revenue recovery would be allowed revenue recovery would be laterated to GDRs through 2 yet lagged allowed revenue recovery would be allowed revenue recovery would be laterated to GDRs through 2 yet lagged allowed revenue recovery would be allowed revenue recovery			exit point						х							
Alternative Charges  Anternative Charges  Not applicable  Oppose  Not applicable  Oppose  Own distance cap  Own distance						v	v			×		v			v	
Not applicable    Committee		Alternative Chase	non Transmission (entry and exit) charges			^	_ ^	^	U		^	^	_ ^	^	_ ^	х
Limitations   Mole available for Storage Connection Points, minimum   Oppose									^	×						
Umitations A Budiness of Storage Connection Points, minimum Oppose  Application at Budon ASEPs  Application at Budon ASEPs  Application at Budon ASEPs  Not applicable Oppose Oppose Support S						×	×	×			×	×	×	×	×	х
Application of Basics  A Application of ASEPS  Application of Existing principles  Calculatified support  Application of Existing principles  Calculatified support  Application of Manimum Allowed Provided Calculations  No proposed obligations  Support  No proposed obligations  No proposed obligations  Support  No proposed obligations  No proposed obligat		Limitations	Not available for Storage Connection Points, minimum			<u> </u>	<u> </u>		х		<u> </u>	<u> </u>	Ĥ		<u> </u>	
Application of Backets  Key Application  Existing principles  Existing principles  Application  Application  Existing principles  Application  Application  Existing principles  Application  Existing principles  Application  Application  Existing principles  Application  Application  Application  Existing principles  Application  Applic										×						
Application of Maximum Allowed  No proposed obligations  Support  No proposed obligations  No proposed obligations  No proposed obligations  No proposed obligations  Support  No proposed obligations  No proposed obligati		Application at Bacton ASEPs	NTS Optional Flow at UKCS and IP prorata in proportion	-,,,		x	х	х	х		x	х	x	х	х	x
Cadent consider that GDNs are not a major driver of NTS revenue over or under recovery, and yet a disproportionate amount of ultimate revenue under recovery, and yet a disproportionate amount of ultimate revenue and under recovery and yet and proportionate amount of ultimate revenue adjustment of the control of the season that GDNs will be application and the season of the seas						<u> </u>		-		×		<u> </u>		<u> </u>	<u> </u>	<u> </u>
Publication of Variables Revenue Forecast Water Comment of Variables Revenue Forecast University Comment of Variables Revenue Forecast	к	Application		Qualified	under recovery, and yet a disproportionate amount of ultimate revenue recovery would be allocated to GOBN through 2 year lagged allowed revenue adjustment following existing principles (on the basis that GONs will be responsible for 80% of exit revenue). We recognise that fit the suprations of 0521 play out, over/under recovery overall could be reduced. However, we consider, given the number of entry / exit points involved, that lagged revenue recovery could be targeted at the point that created it, and this would further drive desired booking behaviours. This factor could be	x	x	x	x		x	x	x	x	x	x
Publication of Maximum Aniioweb Intention to work with National Debt and Investigation (smill and Open Company of Company			No proposed obligations	Support	greatly assist Users over the transitional period and beyond. It is Cadent's	х	x	x	х		x	x	x	x	x	x
			Published Mar, Jul, Oct, Dec	Support	intention to work with NTS to see how this can be best achieved, with any UNC obligations (similar to GDN MOD0186 requirements) developed if					x						

#### Interruptible Discount

The introduction of a 10% discount to Interruptible capacity does in the opinion of Cadent, better further Relevant Objective a) Efficient and economic operation of the pipe-line system. This component is common to all proposals.

Cadent agrees in principal with the introduction of a 10% discount, but we feel that there may be more suitable options to achieve the desired objective i.e. to reduce the reliance upon zero-priced products and to increase revenues recovered.

Off-Peak (at Entry) and Interruptible (at Exit) Capacity consists of the following elements:

- Discretionary released at NG discretion
- Maximum NTS Exit Point Offtake Rate (MNEPOR) this is available at Exit only and is the difference between the Offtake MNEPOR value and the Annual Capacity entitlement. This element is removed when the NTS reaches 80% of Peak Day, or greater
- Use It Or Lose It (UIOLI) the release of this element is dependent upon an Annual Capacity entitlement being in place. It compares 'usage' to 'entitlement'.

Example 1 – Capacity Entitlement at Offtake A is 10 units with a Flow of 8 units
The 'usage' is determined by taking the average flow over a 30 day period. The amount of UIOLI that
can be released is determined by taking this value away from the Annual Capacity entitlement. In this
example, UIOLI equates to 2 units (10 minus 8). Where the release of Interruptible capacity has been
approved, the User would be entitled to flow 12 units in total (10 plus 2).

Example 2 – Capacity Entitlement at Offtake B is 10 units with a Flow of 10 units As the average flow over the 30 day period is the same as the Annual entitlement, the amount of UIOLI that can be released is zero (0) units.

Example 3 – Capacity Entitlement at Offtake C is 0 units with a Flow of 5 units In this example, as the Annual entitlement is zero, the amount of UIOLI that can be released also equates to zero.

The above examples demonstrate that although Off-Peak/Interruptible capacity is a separate product, there is a clear link to Firm Annual Capacity. This capacity is being paid for every day of the year by the User. By placing a discounted charge on the UIOLI element, in our opinion, results in the User paying twice for the capacity.

Cadent is of the view that it would be more appropriate for the discounted charge to apply to Discretionary and MNEPOR elements only. Doing so would have the desired impact, without unnecessarily affecting those Users already booking, and paying for, Firm Annual Capacity.

#### **Request for Additional Information**

Modification Panel Members have requested that the following questions are addressed: *Please specify which Modification your views relate to.* 

1. Do you believe there is specific issues that should be considered by Ofgem's Regulatory Impact Assessment?

The impacts on the GDN element of the customer bill where suppliers may reflect the increase in charges show that there will be locational variances and swings, as can be seen by the swings that the Scotland network will face, and induces unpredictability in charges with difficulty in being able to explain the reason for bill changes to customers when the network is not changing, especially where there are vulnerable customers affected. This is supported by the GDN analysis provided in the workgroups.

Interactions with RIIO-2 should also be considered. The impact to GDN revenues in RIIO-2 is complex because it will involve a 2 year lag true up between actual costs and allowances in GD1 plus a re-basing of pass through allowances for the next price control. Ofgem need to consider this in their GD2 timelines given the transitional arrangements proposed and to afford the maximum opportunity to ensure that GD2 allowances are set appropriately at network level.

Behavioural changes should also be considered following the structural differences between the transitional and enduring periods.

Finally, we recognise that the move to CWD introduces a redistribution of costs across the networks but feel it should be considered as to whether it really models the directional flow of gas and proximity of entry and exit points

Ofgem requested that the following questions be included as part of the consultation. Panel agreed to include these:

2. The rationale in the report for having an interim period and the obligated capacity as the Forecasted Contracted Capacity (FCC) is to avoid significant changes to charges and have a period to understand how booking behaviour changes. How does this compare to having two structural changes to charges (one at the start of the interim period and another at the enduring period)?

Due to the subjectivity of the National Grid provided forecast, provided that it's supported by robust, quality forecast information which is open to review, the structural changes should help to ease the transition to the enduring scenario.

3. What (if any) consequences do you see from 'interim contracts' being allocated at QSEC and AMSEC auctions in 2019 given the timings of these auctions in the UNC and possible date of Ofgem decision on UNC621? What options are there to deal with these consequences and what impact would these options have?

#### No comment

4. Do you consider the proposals to be compliant with relevant legally binding decisions of the European Commission and/or the Agency for the Co-Operation of Energy Regulators?

#### No comment

5. In what way do you consider the reference price methodologies proposed (Capacity Weighted Distance (CWD), CWD using square root of distance and Postage Stamp) to be cost reflective and meet the criteria in Article 7 of TAR?

The CWD methodology in principle reflects the configuration of the Network now and in the future. It also aims for cost reflectivity through recognition of the balance between the size of the connected load and the extent of the System utilised.

What it does not take into consideration is the proximity between Entry and Exit Points, and has therefore, resulted in locational GDN charge variations, as can be seen in the Scotland network.

The CWD with square root distance approach aims to consider the proximity of entry to exit points and thus be more cost reflective. Whilst we appreciate what it was trying to achieve, the choice to square root the distance seems an arbitrary choice and is not supported by analysis and the NTS impact analysis shows that this does not result in significant impact.

Postage stamp does not take into account geographical variations or loads and is therefore not cost reflective.

6. The proposals have different combinations of specific capacity discounts for storage sites and bilateral interconnection points. In what way do you consider the different combinations facilitate effective competition between gas shippers and gas suppliers?

The discount of 86% for storage was justified through analysis presented at the workgroups, however when considering what storage solutions facilitate in the network, from the perspective of being a commercial entity and still using gas for their own purposes, 100% discount does not seem justified.

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,

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