

Jenny Booth
Industry Codes and Licensing
Ofgem
9 Millbank
London
SW1P 3GE

9 October 2009

Dear Jenny

Re: Code Governance Review: Charging Methodologies: Initial Proposals

Please find below NGNs response to the Initial Proposals. Please note that our response is specific to gas distribution and does not cover other charging methodologies. NGN believes that the most appropriate solutions and timescale are likely to differ across industries.

NGN believes the current arrangements work well, with ongoing dialogue between the GDNs and shippers through the Distribution Charging Methodology Forum (DCMF). The DCMF, and formal consultation processes, provide shippers with the opportunity to be fully engaged in changes to charging methodology. Shippers are encouraged to raise areas which they would like the GDNs to consider at DCMF, though this opportunity is rarely, if ever, used, with shippers focusing instead on review of Mod186 reports and receiving updates from GDNs on in flight changes.

NGN believes that if shippers are able to raise more specific modification to charging methodologies through a new governance route that there is a danger of the GDNs receiving multiple modification proposals which would inevitably be polarised between market sectors. Evidence of this type of behaviour has been shown in within Uniform Network Code (UNC) in the area of Reconciliation by Difference (RbD). This also poses a risk of multiple modification proposals being raised without due consideration of the wider impacts on other areas of charging methodology, some of which may already be under review.

As a result of this, NGN believes that the GDNs are best placed to assess areas of the charging methodology which require amendment to ensure that they remain consistent across all GDNs and provide incremental improvement to the cost reflectivity. The position of the GDNs as the "honest broker" in ensuring cost reflectivity should not be compromised in favour of allowing piecemeal proposals that favour particular market sectors or participants.

NGN does acknowledge that the current arrangements should remain under review and where appropriate be strengthened to ensure that full engagement from the industry is sought.

The remainder of this response addresses the specific questions in your consultation. Please note that this response can be regarded as non-confidential.

Yours sincerely



Joanna Ferguson
Network Code Manager

Code Governance Review: Governance of charging methodologies – initial proposals

CHAPTER: Three

Question 1: Do you agree with the output from the assumptions made within the quantitative analysis undertaken?

No, while NGN understands the approach taken to develop the quantitative analysis. This is based on very high level assumptions based on the electricity distribution price control review and applied to all charging methodologies, so we believe that this may not reflect the actual costs and benefits that could be delivered by changing the governance for gas distribution charging methodologies.

NGN agrees that additional costs would be imposed on the industry in order to carry out full and thorough assessment of modification proposals, and that the potential implementation costs could be significant. The costs of analysing and implementing changes can range quite significantly dependant of the complexity of the analysis required and system changes for both Transporters and Users. NGN believes that when implementation also requires significant system changes, the costs would be closer to or above the high cost scenario.

NGN would like to reiterate the opinion that more modification proposals do not necessarily lead to better, and believes that the proposed changes to the governance regime could lead to a proliferation of unsuitable modifications due to the lack of detailed knowledge of network operation and systems.

The only benefits describe the proportion of Capex reduction that could be generated as a result of charging methodology changes, but do not demonstrate how these could be achieved. In Gas Distribution, charging methodology is not currently locational beyond the 8 distribution networks, and the impact of gas distribution charges as a material driver for locational siting decisions would be small. Therefore the suggested material Capex efficiencies are unlikely to be forthcoming.

Question 2: Are there any factors that you believe should have been considered in this analysis?

In addition to the quantitative factors, NGN believes that the risks of multiple, conflicting modification proposals would be significant. Longer term potential changes which are in flight would need to be considered for all modifications to ensure that a stable, cost reflective charging methodology can be maintained by the GDNs.

CHAPTER: Four

Question 1: Which governance Option do you consider is the most appropriate for charging methodologies?

NGN remains of the belief that there is no need to make significant changes to governance of changes to charging methodology for gas distribution and option 1 is the most appropriate.

NGN agrees that it is appropriate that while the GDNs retain an obligation to ensure that charging methodologies are cost reflective, that they should retain control of the process. While this option would place additional workload on the GDNs to assess proposals, NGN believes that this would strike a better balance than placing the methodologies within a formal UNC document as suggested with options 3 or 4.

Question 2: Do you agree that we should initially focus on gas and electricity transmission charging methodologies, with gas distribution potentially to follow as a second phase?

Yes

Question 3: Do you agree that annual/biannual change and implementation windows are the most appropriate mitigation measures to progress going forwards for all the options?

As noted earlier, NGN is mindful that charging methodology changes can vary significantly in complexity with recent changes to gas distribution charging methodology taking 12 months or more from conception through assessment to being at a suitable level for consultation. Given this, NGN believes that rather than having an annual/biannual window for raising and implementing changes, a rolling topic register may offer a more appropriate means of controlling future changes.

NGN would suggest that the DCMF could establish a formal process to record suggested topics for consideration in a similar manner to the topic register utilised within the UNC workstreams. This would enable the industry to feed in suggestions and propose the priority of each topic. This option would also be more likely to enable smaller shippers to actively feed into the change process, thereby ensuring competition.

The topics should be developed into review proposals which can be managed in order of priority, or concurrently where appropriate, enable the GDNs to manage changes to the charging methodology in a more efficient manner than would be anticipated from specific modification proposals. This would also reduce the likelihood of opposing changes being proposed and ensure that all options are considered in the most efficient manner taking account of all views.

Question 4: Do you consider a 3 or 4 month window to be sufficient time to consider modification proposals? Please indicate your preference for either 3 or 5.

Based on NGN's response to question 3, NGN does not consider a window to be the most efficient way of managing changes to charging methodology.

Question 5: Do you agree with our approach to defining "affected parties" who would be entitled to raise modification proposals?

NGN agrees that if the DCMF implements a formal rolling topic register, that this would also enable "affected parties" to raise areas that they believe merits change. The definition of "affected party" as proposed seems appropriate as the specific designation by the Authority ensures that these parties are only raising changes to relevant areas of the methodology.