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24 February 2020

Dear Sir or Madam,

**Re: 0678 Suite 'Amendments to the Gas Transmission Charging Regime': Ofgem  
Minded To Decision and Draft Impact Assessment**

Thank you for the opportunity to provide representation on the above noted Minded To Decision and Draft Impact Assessment. Northern Gas Networks has been actively involved in the working group for this Modification and will be a significantly impacted party by these changes. We have set out our responses the specific question in the consultation in Appendix 1. The requested summary of the responses, of no more than 250 words, is provided at the end of the appendix.

NGN have been fully engaged in the development of the new NTS charging methodology and whilst the postage stamp methodology creates a simple and understandable basis we remain concerned by the significant price increase that both domestic and commercial consumers in the north of England will experience when the changes are made. To demonstrate the materiality of this we have included a copy of our original UNC analysis in Appendix 2.

I hope these comments will be of assistance and please contact me should you require any further information in respect of this response.

Yours sincerely,

Joanna Ferguson (via email)  
Head of Market Services & Regulatory Compliance  
Mobile: 07883 099616



## **Appendix 1**

### **Consultation Questions**

*Question 1: What is your view of our assessment that Postage Stamp is a more appropriate RPM in light of the circumstances of the GB network?*

As noted in our UNC Modification representation, we believe that the Postage Stamp approach will provide a fair methodology to end consumers once initial price shocks from implementation have taken place. The methodology is simple to understand and should be relatively straightforward to manage on an enduring basis.

The Postage Stamp approach will be more expensive for NGN customers; however, we consider the simplicity and broad fairness to be an appropriate Reference Price Methodology (RPM) and be easier for customers to understand. It should ensure that network location in relation to NTS Entry Points and Exit Points does not disadvantage gas users and will remain proportional through any future change in gas demand.

*Question 2: Do you agree with our assessment that maintaining the FCC methodology in the UNC improves the transparency and consistency of governance compared to maintaining the FCC Methodology outside of the UNC?*

NGN's preference is for the Forecasted Contracted Capacity (FCC) methodology to be set out within the Uniform Network Code (UNC), but finer detail of specific inputs into the modelling should remain a matter for annual updates based on the most up to date costs and forecasts. This will ensure that the price remains cost reflective. By including the methodology in UNC it will be subject to the modification process which should allow more parties than just the NTS to initiate change and provide for more transparent and consistent governance.

*Question 3: What is your view on our assessment that the PS RPM would be preferable to the CWD for future green gas market entrants?*

We believe that the Capacity Weighted Distance (CWD) approach, although an improvement on current arrangements, is not the most cost reflective as it assumes that the entire gas network is unconstrained. The charges derived from the CWD approach will only be stable if there are minimal changes to the FCC values, which is not guaranteed. The Postage Stamp (PS) approach would not use locational signals which should ensure all users pay the same unit price for capacity, regardless of location, and avoid discrimination between entry and exit flows at different network locations. This could open the GB market to more gas sources, such as green gas, without price constraint being a significant factor.

*Question 4: What are your views on our assessment of the quantitative analysis?*



The analysis shows a reasonable assessment of the changes at an overall level. There will be some specific customer impacts at some locations, such as NGNs network, where the impacts will be felt more strongly during the initial change of methodology.

*Question 5: What are your views on our assessment of the modification options presented to us against the applicable UNC objectives?*

We remain concerned about the price shock that moving to this methodology will have on our customers. As noted in our UNC0678 suite representation, NGN considered that the PS methodology would not provide locationally correct cost reflectivity, however, at a GB level this would provide the fairest spread of costs to consumers.

*Question 6: What are your views on our conclusion that only two modifications: UNC678 and UNC678A - are compliant with the relevant legislation? If you disagree, please provide a fully reasoned explanation.*

NGN believe that the move to a solution that is fairer to end consumers, whilst still being cost reflective at a national level would, once the initial step change in pricing has occurred, create a fairer pricing methodology. It could also better facilitate other gas sources' entry into the system without price constraint causing geographical limitations.

*Question 7:*

*a) Given our conclusion that only two modifications are compliant with the relevant legislation, what are your views on our minded-to decision to approve UNC678A rather than UNC678?*

As noted above, NGN are unable to comment on TAR NC compliance

*b) Do you consider our minded-to decision to appropriately reflect the principles-based assessment and quantitative analysis presented in this report?*

The minded-to decision is consistent with the analysis presented.

*c) Do you agree it best facilitates the relevant objectives?  
Please fully justify your response.*

The move to Postage Stamp should create cost reflectivity at a GB level and creates a regime that offers fair prices to customers once the result of the step change impacts have been completed.

*Question 8: What are your views on our assessment that the proposed RPM (PS under UNC678A) achieves, inter alia, the following objectives:*

*a) enables network users to reproduce the calculation of reference prices and their accurate forecast;*



The Postage Stamp methodology should enable network users to reproduce the calculation of reference prices and our forecasts more easily as capacity charges should not fluctuate based on network entry and exit points

*b) presents a better option than CWD for the recovery of the costs of the gas transmission system in the presence of a meshed network characterised by spare capacity and declining usage, and where cost-reflectivity is less relevant;*

The simpler operation and removal of locational signals will ensure that the methodology remains suitable for managing changes in gas capacity including declining usage.

*c) ensures non-discrimination and prevents undue cross-subsidisation (you may refer to the results of NGGT's Cost Allocation Assessment ("CAA") published as a subsidiary document to this consultation);*

As noted previously, we believe that the Postage Stamp approach should be fairer for customers as unit prices will be the same regardless of location and therefore reduces discrimination based on entry and exit flows. This may be reduced should further Modifications be implemented that reintroduce short-haul and storage facility discounts.

*d) ensures that significant volume risk related particularly to transports across an entry-exit system is not assigned to final customers within that entry-exit system;*

Creation of single unit pricing will minimise volume risks for energy that moves across different entry/exit systems.

*e) ensures that the resulting reference prices do not distort cross-border trade?*

NGN is unable to comment

*Question 9: What are your views on our minded-to decision that implementation should take place from 1 October 2020 to coincide with the start of that gas year?*

NGN would prefer price changes to be aligned to the start of the RIIO2 period in April 2021, or if an October price change is required that it be in October 2021. The normal National Grid Transmission pricing cycle is aligned to the gas year rather than the being aligned to the regulatory year used by the distribution networks. Were the two cycles to align we would be able to better match revenues and costs.

By ensuring revenue allowances and costs are matched straight away from April 2021 a sizable two year catch up adjustment which would distort consumer bills in 2022/23 could also be removed.

There are currently discussions relating to new Modifications which have yet to be raised to re-introduce a short-haul tariff which are intended to meet the same implementation timescales. We are concerned that an October 2020 implementation date will not enable



these changes to be fully assessed and developed in time and would support a later implementation date to ensure that a full charging methodology including the additional elements can be introduced at the same time.

*Question 10: Are there any other matters, whether or not addressed in our analysis or minded-to findings, which you think we should take into account in reaching our final determination?*

Increases in embedded gas entry into Distribution Networks may result in a reduction of the proportion of gas entering GB that uses the NTS. These matters and the outcome of the NTS Capacity Access Review will need to be considered to ensure that a future pricing methodology remain relevant and appropriate for all user types.

*Summary of our responses, in less than 250 words.*

Whilst the Postage Stamp approach will be more expensive for NGN customer's, we consider the simplicity and broad fairness to be an appropriate Reference Price Methodology (RPM) and be easier for customers to understand. It should also be noted that NGN considered that the PS methodology would not provide locationally correct cost reflectivity, however, at a GB level this would provide the fairest spread of costs to consumers.

Postage Stamp Methodology should ensure that network location in relation to NTS Entry Points and Exit Points does not disadvantage gas users and will remain proportional through any future change in gas demand.

With reference to the implementation date, NGN would prefer price changes to be aligned to the start of the RIIO2 period in April or October 2021. The normal National Grid Transmission pricing cycle is aligned to the gas year rather than the regulatory year to match that of the distribution networks. Were the two cycles to align we would be able to better match revenues and costs. The added benefit of aligning revenue allowances and costs from April 2021 would remove the sizable two year catch up adjustment which would distort consumer bills in 2022/23, which would be generated by implementation spanning the two RIIO periods.

NGN would like to clarify that as we are not experts on TAR NC compliance we feel unable to comment on this aspect of the modifications.



## Appendix 2

**UNC Modification Proposal 0678 and Alternative Proposals : NGN**

£m cost increase	Mod 621 : What we said last yr			Mod 0678 NTS : CWD				Mod 0678A RWE : Postage Stamp			
	"As-is" F'Cast £m	621 £m	Increase in Costs £m	Latest "As-is" F'Cast £m	678 £m	Gap vs. 621	Gap vs. latest "As-is" F'Cast	Latest "As-is" F'Cast £m	678 A £m	Gap vs. 621	Gap vs. latest "As-is" F'Cast
19/20	9.2	11.1	1.9	7.7	14.3	3.2	6.6	7.7	16.0	4.9	8.4
20/21	8.4	19.4	11.0	8.3	26.8	7.4	18.6	8.3	30.7	11.3	22.5
21/22	1.4	25.2	23.8	8.7	28.3	3.1	19.7	8.7	32.9	7.7	24.2
22/23	1.4	30.7	29.3	13.2	28.8	(1.9)	15.6	13.2	33.6	2.9	20.3
23/24	1.4	30.7	29.3	13.2	28.9	(1.8)	15.7	13.2	33.7	3.0	20.5
24/25	1.4	30.7	29.3	13.2	28.8	(1.9)	15.6	13.2	33.6	2.9	20.4
25/26	1.4	30.7	29.3	13.2	28.8	(1.9)	15.6	13.2	33.6	2.9	20.4

\* "Latest As-is" Forecast for 678 analysis represents current NGN bookings applied with latest published long term NTS prices from May 2018

£m cash flow gap movement (deficit)/surplus	Mod 621 : What we said last yr			Mod 0678 NTS : CWD				Mod 0678A RWE : Postage Stamp			
	"As-is" F'Cast £m	621 £m	Cash Flow Impact £m	Latest "As-is" F'Cast £m	678 £m	Gap vs. 621	Gap vs. latest "As-is" F'Cast	Latest "As-is" F'Cast £m	678 A £m	Gap vs. 621	Gap vs. latest "As-is" F'Cast
19/20	(1.3)	(3.2)	(1.9)	0.2	(6.5)	(3.3)	(6.6)	0.2	(8.2)	(5.0)	(8.4)
20/21	(4.9)	(15.9)	(11.0)	(4.7)	(23.3)	(7.4)	(18.6)	(4.7)	(27.2)	(11.3)	(22.5)
21/22	(3.1)	(0.9)	2.1	(4.7)	2.8	3.7	7.5	(4.7)	4.7	5.6	9.4
22/23	(4.4)	8.2	12.6	(4.4)	16.0	7.8	20.3	(4.4)	20.2	12.0	24.6
23/24	-	-	-	-	-	-	-	-	-	-	-
24/25	-	-	-	-	-	-	-	-	-	-	-
25/26	-	-	-	-	-	-	-	-	-	-	-

\* assumes same 2 year lag mechanism continues into GD2

Customer Bill Impact - Domestic	Mod 621 : What we said last yr			Mod 0678 NTS : CWD				Mod 0678A RWE : Postage Stamp			
	"As-is" F'Cast £	621 £	Increase in Bill £	Latest "As-is" F'Cast £	678 £	Gap vs. 621	Gap vs. latest "As-is" F'Cast	Latest "As-is" F'Cast £	678 A £	Gap vs. 621	Gap vs. latest "As-is" F'Cast
19/20	1.8	1.8	-	1.8	1.8	(0.0)	-	1.8	1.8	(0.0)	-
20/21	0.8	0.8	-	0.8	0.8	0.0	-	0.8	0.8	0.0	-
21/22	(0.4)	5.4	5.8	0.9	7.0	1.5	6.1	0.9	8.4	3.0	7.5
22/23	(0.7)	8.7	9.4	2.0	10.0	1.3	8.0	2.0	12.0	3.3	10.1
23/24	0.3	6.9	6.5	3.0	6.5	(0.4)	3.5	3.0	7.5	0.7	4.6
24/25	0.3	6.9	6.5	3.0	6.4	(0.4)	3.5	3.0	7.5	0.6	4.6
25/26	0.3	6.9	6.6	3.0	6.5	(0.4)	3.5	3.0	7.5	0.6	4.6

\* based on AQ of 13,894 Kwh

\* Alternates 678B to 678J have not been analysed as the sensitivity tool is not available at the current time to support each alternate



## UNC Modification Proposal 0678 and Alternative Proposals - Customer Bill Impact : NGN

### Domestic (0 - 73.2 Kwh)

21/22  
22/23  
23/24  
24/25  
25/26

621 : What we said last yr		
"As-is" F'Cast £	621 £	Increase in Bill £
(0.4)	5.4	5.8
(0.7)	8.7	9.4
0.3	6.9	6.5
0.3	6.9	6.5
0.3	6.9	6.6

Mod 0678 NTS : CWD			
Latest "As-is" FC £	678 £	Gap vs. 621	Gap vs. latest "As-is"
0.9	7.0	1.5	6.1
2.0	10.0	1.3	8.0
3.0	6.5	(0.4)	3.5
3.0	6.4	(0.4)	3.5
3.0	6.5	(0.4)	3.5

Mod 0678A RWE : Postage Stamp			
Latest "As-is" FC	678 A £	Gap vs. 621	Gap vs. latest "As-is"
0.9	8.4	3.0	7.5
2.0	12.0	3.3	10.1
3.0	7.5	0.7	4.6
3.0	7.5	0.6	4.6
3.0	7.5	0.6	4.6

\* based on average AQ of 13,894 Kwh in this band and average NGN network unit rates

### Industrial (73.2 - 732 Kwh)

21/22  
22/23  
23/24  
24/25  
25/26

621 : What we said last yr		
"As-is" F'Cast £	621 £	Increase in Bill £
(5)	76	81
(9)	121	130
4	95	91
4	95	91
4	96	91

Mod 0678 NTS : CWD			
Latest "As-is" FC £	678 £	Gap vs. 621	Gap vs. latest "As-is"
12	97	21	85
27	139	18	112
41	90	(6)	49
41	90	(6)	49
41	90	(6)	49

Mod 0678A RWE : Postage Stamp			
Latest "As-is" FC	678 A £	Gap vs. 621	Gap vs. latest "As-is" FC
12	117	41	105
27	167	46	140
41	105	9	64
41	104	9	63
41	105	9	64

\* based on average AQ of 192,204 Kwh in this band and average NGN network unit rates

### Industrial (732 - 5861 Kwh)

21/22  
22/23  
23/24  
24/25  
25/26

621 : What we said last yr		
"As-is" F'Cast £	621 £	Increase in Bill £
(42)	618	661
(76)	990	1,066
36	780	744
36	780	744
36	781	745

Mod 0678 NTS : CWD			
Latest "As-is" FC £	678 £	Gap vs. 621	Gap vs. latest "As-is"
100	791	173	691
225	1,138	148	913
336	734	(46)	398
336	732	(48)	397
336	733	(48)	398

Mod 0678A RWE : Postage Stamp			
Latest "As-is" FC	678 A £	Gap vs. 621	Gap vs. latest "As-is" FC
100	956	337	855
225	1,367	378	1,143
336	857	76	521
336	854	74	518
336	855	74	519

\* based on average AQ of 1,721,966 Kwh in this band and average NGN network unit rates

### Industrial (> 5861 Kwh)

21/22  
22/23  
23/24  
24/25  
25/26

621 : What we said last yr		
"As-is" F'Cast £	621 £	Increase in Bill £
(615)	8,959	9,574
(1,102)	14,342	15,444
520	11,308	10,788
520	11,308	10,788
520	11,323	10,804

Mod 0678 NTS : CWD			
Latest "As-is" FC £	678 £	Gap vs. 621	Gap vs. latest "As-is"
1,453	11,463	2,504	10,011
3,257	16,485	2,143	13,228
4,868	10,639	(668)	5,771
4,868	10,614	(693)	5,746
4,868	10,629	(694)	5,761

Mod 0678A RWE : Postage Stamp			
Latest "As-is" FC	678 A £	Gap vs. 621	Gap vs. latest "As-is" FC
1,453	13,849	4,890	12,396
3,257	19,817	5,475	16,559
4,868	12,413	1,105	7,545
4,868	12,375	1,067	7,507
4,868	12,392	1,069	7,524

\* based on average AQ of 33,617,928 Kwh in this band and average NGN network unit rates

\* Alternates 678B to 678J have not been analysed as the sensitivity tool is not available at the current time to support each alternate