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Station Approach
Horley
Surrey
RH6 9HJ

David O'Neill, Alsarif Satti
Gas Systems, Energy System Transition
Ofgem

By email to Gas.TransmissionResponse@ofgem.gov.uk

24 February 2020

Dear David, Alsarif,

UNC678/A/B/C/D/E/F/G/H/I/J: Amendments to Gas Transmission Charging Regime - minded to decision, draft impact assessment and consultation

SGN welcomes the opportunity to respond to Ofgem's consultation[1] in relation to your minded-to decision and indicated preference of modification 0678A.

Throughout development of the UNC modifications[2] relating to the charging regime changes, SGN has been unable to support any of the proposals as we do not consider that they further the Standard Relevant Objectives or Charging Methodology Relevant Objectives. We are concerned regarding the impact upon customers within our licence areas, particularly in Scotland where the proposals are likely to create a significant increase in costs.

As we do not support any of the proposals, we do not consider that the majority of questions posed in your consultation document apply and rather we have restricted our response to a summary of our position, as requested, on the next page.

Should you require any further information with regards to our response then please do not hesitate to contact me at Hilary.Chapman@SGN.co.uk

Yours sincerely,

Hilary Chapman
Regulation and Codes Manager
SGN

[1] https://www.ofgem.gov.uk/ofgem-publications/160259
[2] Uniform Network Code (UNC) 0621 and 0678, plus alternates

SGN Summary

Throughout development of the Transmission Charging Regime changes, SGN has raised concerns regarding the potential consumer impact of moving away from the current LRMC[3] towards either a CWD[4] or postage stamp model.

UNC 0678A changes the charging methodology from locational supply and demand reflective of usage towards an unconstrained system which assumes an offtake can be supplied by any entry point, and therefore charges all customers the same amount regardless of location. As it would not enable NTS to apply any locational signals it is likely to reduce the cost reflectivity of charges.

While the total amount recovered by National Grid should remain consistent, the impact felt by individual consumers depends on the region within which they are based, with Southern customers receiving a slight saving while Scottish customers receive a significant increase.

The tables below show an estimated average bill impact of a postage stamp model according to customer bands:

Southern

Band	Maximum Annual Consumption (MWh/yr)	Current LRMC Charging Methodology	Proposed 0678A Charging Methodology
1	73	£10	£9
2	147	£62	£54
3	293	£125	£110
4	440	£221	£194
5	586	£311	£274
6	733	£410	£361
7	2,198	£711	£626
8	2,931	£1,315	£1,158
9	5,861	£1,995	£1,756
10	14,654	£4,721	£4,156
11	29,307	£9,856	£8,676
12	58,614	£18,954	£16,685
13	293,000	£41,862	£36,850
14	>293,000	£131,779	£116,002

Scotland

Band	Maximum Annual Consumption (MWh/yr)	Average LRMC Charging Methodology	Average Proposed 0678A Charging Methodology
1	73	£0	£7
2	147	£1	£49
3	293	£2	£102
4	440	£3	£185
5	586	£4	£259
6	733	£6	£336
7	2,198	£10	£617
8	2,931	£18	£1,063
9	5,861	£30	£1,841
10	14,654	£66	£3,981
11	29,307	£136	£8,242
12	58,614	£293	£17,765
13	293,000	£658	£39,909
14	>293,000	£2,433	£147,622

[3] Long Range Marginal Cost model
[4] Capacity Weighted Distance model

While the minded-to letter highlights the need for “tariff arrangements which are non-discriminatory and which prevent undue cross-subsidies”, proposals plan to smear any over/under recovery of revenue across all exit points rather that target the exit points at which the over/under recovery was created, thus in fact creating cross-subsidies.

SGN remains concerned that the customer impact of the proposals is difficult to justify and would encourage implementation of any changes to be beyond October 2020 in order to manage this customer impact, particularly in Scotland.