

**FUTURE BILLING METHODOLOGY**  
**UNLOCKING A LOW CARBON GAS FUTURE**  
**CONSULTATION RESPONSE**

<b>Company name</b>	Energy UK
<b>Date</b>	12 April 2017
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### Consultation question responses

For each of the questions below, please explain:-

- why you agree or disagree and;
- your views on what, if any, alternative changes you would consider to be appropriate.

Use as much space as required on the below tables.

<b>1.</b>	<b>Do you agree that the existing LDZ FWACV methodology presents a barrier to a low carbon gas future and that alternative methodologies should be explored?</b>		
	<b>Agree</b>	<b>Y</b>	<b>Disagree</b>
	<b>Please treat answer as confidential (delete as appropriate)</b>		<b>No</b>
<b>Reasoning</b>			
<p>Energy UK recognises that the FWACV methodology can present a barrier to a low carbon gas future. Currently there is a need to add propane – derived from fossil sources to biomethane produced from sustainable sources in order to avoid the capping rules being applied to large volumes of gas and an increase in the NTS CV shrinkage costs. The propane creates a cost burden for biomethane producers and reduces the ‘greenness’ of the biomethane itself. In addition, if in the future Hydrogen were to be added to natural gas to reduce the emissions at point of use, propane would also likely to need to be added to meet the target CV entry requirements of the distribution networks.</p> <p>This suggests that alternatives should be explored, to realise the benefits of green gas options in the network. The consultation document seems to assume this is most appropriate option. Whilst we accept other options are considered in the full submission document, this is not signposted in the consultation document so respondents may not be aware of this, we feel this should be more clearly explained to stakeholders.</p>			

**Indicative cost impact (if applicable)**

[ ]

**2. Do you agree that the Future Billing Methodology Project could provide the basis to deliver an economical and sustainable pathway to decarbonising heat for 2030 and 2050?**

**Agree**

**To some extent**

**Disagree**

**Please treat answer as confidential (delete as appropriate)**

**No**

**Reasoning**

The statement above is a very broad, rather we would agree that this project could be an element that helps to support a pathway for decarbonising heat, via greening of the gas supplied. However the methodology itself will only support decarbonisation if it helps to bring forward greater volumes of low carbon gas, be that biomethane, BioSNG or hydrogen blended with natural gas.

Currently there are a number of possible pathways for decarbonising heat ranging from greening of the existing gas network as described above, full hydrogen conversion, local heat networks and electrification, etc. All of these have various cost impacts and levels of disruption for parties along the supply chain, which will need to be assessed in a holistic manner.

We await a policy direction in this area.

**Indicative cost impact (if applicable)**

[ ]

**3. Do you agree that the proposed Measurement and Validation Field Trials could provide an understanding of the modelled zones of influence of**

<b>LDZ-embedded gas entry points?</b>			
<b>Agree</b>	<b>Yes</b>	<b>Disagree</b>	
<b>Please treat answer as confidential (delete as appropriate)</b>			<b>No</b>
<b>Reasoning</b>			
<p>We agree that the proposed trials will aid the understanding of the zone of influence of embedded gas entry points, during the period of the study, but this will only be a snapshot at that time.</p> <p>The next challenge will be to extend this knowledge to other embedded entry points with a robust degree of confidence for all stakeholders such that new billing zones are a better reflection of the source of the gas delivered and hence identify a more appropriate CV for billing. We understand this will involve modelling and possibly additional measurement points in the network. We expect this to be subject to Ofgem scrutiny and potentially external audit to ensure there is no risk of detriment to customers.</p>			
<b>Indicative cost impact (if applicable)</b>			
[ ]			

<b>4.</b>	<b>If your answer to Q2 and or Q3 was “Disagree”, what alternative or modified approach would you like to see considered?</b>
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	<b>Agree</b>		<b>Disagree</b>
<b>Please treat answer as confidential (delete as appropriate)</b>			<b>No</b>
<b>Response</b>			
[ ]			
<b>Indicative cost impact (if applicable)</b>			
[ ]			

<b>5.</b>	<b>What factors and impacts would you like to see considered through the Future Billing Methodology Project?</b>
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	<p><b>Please treat answer as confidential (delete as appropriate)</b></p>	<p><b>No</b></p>
<p>The project, whilst seeking to take an innovative approach to billing, is not likely to fail in its objective of gaining an understanding of the zones of influence of embedded gas supplies, rather the real challenge will be taking that knowledge and applying it across all embedded entry points. So it could be said it is more about how this is implemented rather than if.</p> <p>Energy UK would like to see this project take more account of implementation costs and a full end-to-end analysis of what this means to all parties in the supply chain. It is not entirely clear to what extent this falls within the remit of the FBM project, but we believe all projects of this type with NIC funding should consider these issues. Even if a full end-to-end assessment of this is beyond the scope, some of this could be carried out in parallel to the main FBM project. However it seems the current intention is to consider implementation issues subsequently, potentially delaying delivery of benefits.</p> <p>A key part of this will be the costs and timescales for changes to shipper / supplier and central systems, which may be substantial but are barely mentioned in the project documents.</p>		

<p><b>6.</b></p>	<p><b>If implemented, how would the suggested changes to the existing LDZ FWACV billing regime benefit your company/organisation, e.g. what savings would the changes bring?</b></p>
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Please treat answer as confidential (delete as appropriate)	No
<p><b>Reasoning</b></p> <p>Energy UK represents shippers / suppliers and generators. We cannot envisage any savings for our members, <b>only costs</b>. These will arise from changes to systems for billing customers, allocation of customers to billing zones, receiving and processing additional data form Xoserve etc.</p> <p>The level of the costs cannot be assessed at this time but will likely increase with the complexity of the options selected and may well be cumulative if a pragmatic solution is adopted followed by a composite solution, whilst the ideal solution is rather different if a smart meter itself provides energy rather than volume readings. There may also be a risk that these costs, if significant, could distort competition between suppliers, if the cost of implementation per customer varies between small and large suppliers.</p> <p>However we do accept that there are benefits for other parties along the supply chain:</p> <p>Biomethane producers – lower costs if propane requirements are reduced or eliminated</p> <p>Customers – those close to embedded entry receiving more accurate bills and reduced cross subsidies between other customers</p> <p>Networks - the potential of a more enduring role for their assets if supporting decarbonisation</p> <p>In addition there are wider benefits to society of decarbonising the energy mix and making a contribution towards meeting carbon budgets</p>	
<p><b>Indicative cost impact (if applicable)</b></p>	

7.	Do you envisage any legal or regulatory issues arising if any of the Future
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<b>Billing Methodology options were to be implemented?</b>	
<b>Please treat answer as confidential (delete as appropriate)</b>	<b>No</b>
<p><b>Reasoning</b></p> <p>There will need to be changes to the UNC and Offtake arrangements document. There are likely to be benefits in engaging with all potentially affected parties at an early stage.</p> <p>Commercial issues will also need to be considered</p>	
<b>Indicative cost impact (if applicable)</b>	

<b>8.</b>	<b>Do you have any other comments on the Future Billing Methodology Project? (e.g. issues not covered in this document)</b>
<b>Please treat answer as confidential (delete as appropriate)</b>	<b>No</b>
<p>As indicated in (5) above we would like to have seen a more comprehensive end-to-end assessment of costs and impacts as part of the main project. Absent this there is no defined pathway by which the output of this project may be implemented. We feel this raises wider questions about NIC project appraisal by Ofgem, in terms of transparency, stakeholder engagement and prioritisation, but we accept that is really an issue for Ofgem.</p>	