

Representation - Draft Modification Report UNC 0686

Removal of the NTS Optional Commodity Rate with adequate notice

Responses invited by: **5pm on 07 June 2019**

To: enquiries@gasgovernance.co.uk

Representative:	Julie Cox
Organisation:	Energy UK
Date of Representation:	7 June 2019
Support or oppose implementation?	Oppose
Relevant Objective:	<p>c) None</p> <p>d) Negative</p> <p>g) None</p>
Relevant Charging Methodology Objective:	<p>a) Negative</p> <p>b) None</p> <p>c) Negative</p> <p>e) None</p>

Reason for support/opposition: Please summarise (in one paragraph) the key reason(s)

Energy UK does not support a piecemeal approach to reform of the transmission charging arrangements and does not believe this Mod would enable compliance with the EU TAR code. Energy UK considers the charging arrangements are complex and since National Grid's allowed revenue is fixed, changes lead to a re-distribution of revenue recovery rather than a nett change in revenue to be recovered from customers. A detailed impact assessment with a balanced judgement of the merits for certain winners and losers is needed.

Ofgem seems to concur with this view in refusing urgency for this proposal on 10 April¹ noting that the proposal does not enable a fully compliant solution and in its decision

¹ <https://www.ofgem.gov.uk/publications-and-updates/uniform-network-code-unc-686-removal-nts-optional-commodity-rate-adequate-notice-urgency-application>

letter for UNC proposals 0636² *'we think that the OCC should not be looked at in isolation, but should be considered holistically in the context of the wider charging landscape'*.

Commentary on Relevant Objectives:

- c) Efficient discharge of the licensee's obligations usually relates to undue preference. It is not apparent that the removal of the optional charge furthers this since its intention is to provide more cost-reflective charges for exit points close to entry points, which may not be undue preference. The issue of other charges having impacted the applicability of the charge does not seem sufficient reason to simply remove it absent wider consideration.
- d) If charges are not cost reflective, see (a) below, then competition is not facilitated
- g) Legal opinion³ provided in response to UNC 0678 mods suggests that an optional charge is compliant so there may be no basis for this proposal in respect of this relevant objective. Furthermore, this proposal would not ensure the UK is compliant with NC TAR.

Also, in respect of Relevant Objective (a) the impact on efficient and economic operation of the pipeline system would be negative if parties built private pipelines to bypass the NTS. A number of Energy UK members have indicated there are strong commercial incentives to do so. In such circumstances as allowed revenue remains the same the charges at other points would rise, impacting all customers, including those embedded within the DNs

Commentary on Charging methodology objectives:

- a) A regime absent an optional charge or some mechanism recognising gas transportation over particularly short distances costs less than average charges is not cost reflective.
- b) Energy UK accepts that a review of the optional charge regime is appropriate but a piecemeal approach, considering it in isolation of other aspects of the charging regime, including other developments, is not appropriate.
- c) If charges are not cost reflective, see (a) above, then competition is not facilitated.
- e) Legal opinion⁴ provided in response to UNC 0678 mods suggests that an optional charge is compliant so there may be no basis for this proposal in respect of this relevant objective

² <https://www.ofgem.gov.uk/publications-and-updates/unc636-b-c-d-updating-parameters-national-transmission-system>

³ <http://www.gasgovernance.co.uk/0678/Reps>

⁴ <http://www.gasgovernance.co.uk/0678/Reps>

Implementation: *What lead-time do you wish to see prior to implementation and why?*

Do not support implementation

Impacts and Costs: *What analysis, development and ongoing costs would you face?*

Energy UK as a trade association – none

However, Energy UK members, many of whom utilise the optional commodity charge may face significant cost increases at certain sites if the current arrangements were to be curtailed at short notice. We note this may be as short as two months, which is inadequate when contracts and trading positions will already be in place. Ofgem recognised this in its decision for UNC proposals 0636⁵. Therefore, if Ofgem were to decide to implement 0686 it must explain why its views expressed in respect of mod 0636 have now changed. We would recommend that Ofgem seeks information from affected parties as it did for UNC mod 0636 and conduct an impact assessment.

Additionally, if Ofgem were to approve this proposal with effect from 1 October 2019 before making a decision in respect of Mod 0678, which is yet to begin the ACER final consultation process, then the baseline for the 0678 proposals will have changed and it is not clear how this would affect governance processes for 0678.

Legal Text: *Are you satisfied that the legal text will deliver the intent of the Solution?*

Not reviewed

Are there any errors or omissions in this Modification Report that you think should be taken into account? *Include details of any impacts/costs to your organisation that are directly related to this.*

Please provide below any additional analysis or information to support your representation

⁵ https://www.ofgem.gov.uk/system/files/docs/2018/07/unc0636_d.pdf - page 5