

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:	Sam Repetto
Organisation:	EDF Trading Limited
Date of Representation:	07 th June 2019
Support or oppose implementation?	Oppose
Relevant Objective:	<p>c) Negative</p> <p>d) Negative</p> <p>g) Negative</p>
Relevant Charging Methodology Objective:	<p>a) Negative</p> <p>b) Negative</p> <p>c) Negative</p> <p>e) Negative</p>

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

EDF Trading (EDFT) is of the view that the modification proposal should be rejected and any amendment to present NTS Optional Commodity Rate should coincide with the introduction of the new NTS charging regime currently under consideration (UNC 0678 and alternatives). We see no benefit in separating out changes to OCR arrangements and direct for a change in October 2019 of one single aspect of the gas charging regime while UNC 0678 is still under consideration.

With respect to compliance with the EU Tariff Code, we deem the mod has a negative impact since the most robust and effective way to ensure full compliance with implementation of EU TAR code is through a wider approach which takes into consideration the entirety of the gas charging arrangements and not one element in isolation.

With regards to facilitating competition, the proposer suggest OCR removal could level the playing field and help to reduce transportation costs to domestic gas customers. However, conversely removing OCR completely may have a negative impact on gas flows via

interconnections (additional costs to gas flows) and as a result adversely impacting wholesale gas market liquidity. In fact, current arrangement helps attract gas from Norwegian sources and therefore both support liquidity, competition and diversification of supply.

The proposer also suggests this mod to be a transitional improvement; however, we still believe a short term change to charging regime which is due to be superseded by a more comprehensive review (UNC0678) is detrimental to proper functioning of the market. In fact, multiple changes to charging regime in a short time period would increase uncertainty and can ultimately impact the willingness to participate to the market activity.

More generally we consider this modification carries strong similarities with the rejected UNC 0636, (while going further and asking for the complete removal of OCR). In practice current circumstances are very similar to what it was experienced with UNC 621 and UNC 636 in 2018. We observe that the regulator clearly commented on UNC 636 that OCC should not be looked at in isolation but should be treated as part of the comprehensive solution about gas charging in GB. In fact Ofgem commented that “ *A piecemeal approach at this time could create unnecessary uncertainty and undermine long-term planning and effective competition. This would not be compatible with our statutory duties and regulatory principles*”. We agree, and we believe that the negative opinion about a piecemeal approach is still valid to date and therefore UNC 678 should be rejected for similar reasons.

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

If any implementation of OCR changes occurs, the lead time for implementation should be 6 months, as an absolute minimum and occur at a 1st October date. Any shorter lead time or alternative date will undermine contractual arrangements between suppliers and customers who are locked into fixed-term contracts and potentially beach trades entered into to optimise transmission charges.

Where notice is limited, or the date of implementation does not fall on the 1 October there would be costs related to business agreement already entered into (or in the process of being structured) whose contractual terms take as a reference the current availability of OCR; such terms are not necessarily amendable at a later stage. Even when reopening of contracts is possible, a shipper would face costs associated with both the commercial and legal aspects of unwinding trading positions and structuring new alternatives (when/if possible).

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

As already observed in the past, EDFT considers that the proposed changes are likely to have significant distributional impacts with a number of parties seeing a large increase in transportation charges whilst others see a small decrease. We believe a more thorough assessment of consequences should consider any ramifications for the market in general of removing to the OCC at relatively short notice e.g. impacts on contractual relationship between suppliers and customers and gas producers and shippers. Consideration should be extended to trading impacts, in particular at beach level where most trading is carried out to optimise gas entry costs. A short notice removal or change to OCR might also have a detrimental impact on interconnector flows and this seems not to be properly assessed. As an example, at Bacton IP OCC

arrangements are currently in use. Removing such arrangements could ultimately having a disruptive effect on incoming gas flows and in turn on wholesale gas trading.

For such reasons, the wider consequences of any modification of OCR arrangement should be examined in conjunction to the wider changes to the gas charging regime to comprehensively consider impacts on the generation sector, import and exports and ultimately on end consumers.

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

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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.*

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

We note that Ofgem mentioned in its UNC0621 decision letter that the issue with OCC stems from the commodity element rather than the concept of ensuring a way to avoid inefficient by-pass of the gas network which per se was considered as justifiable. Several alternatives to UNC 0678 provide solutions in this matter in a more comprehensive and efficient way. It is therefore strongly preferable to reject UNC 0686 and allow for this matter to be addressed within the ongoing, more comprehensive gas charging review process.