



Penny Garner
Joint Office of Gas Transporters
By email to: enquiries@gasgovernance.co.uk

14 May 2019

Dear Penny

Re: UNC Modification 0686: Removal of the NTS Optional Commodity Rate with adequate notice

ESB submits this representation per the email received from the Joint Office of Gas Transporters on 18 April 2019, in addition to the points raised by Workgroup in its assessment of the above Modification against the relevant objectives.

Compliance

The Proposer of 0686 seeks to justify this Modification on the grounds of compliance with TAR NC and National Grid's Transporter Licence. Ofgem's Urgency decision on 0686¹ was based on the grounds that refusing Urgency would not cause a "party to be in breach of any relevant legal requirements". We therefore disagree with the Proposers assertions. The OCR is relevant to only one of three compliance points noted in Ofgem's 0621 decision letter,² in which it was clear that the commodity element in the approach was the identified compliance issue within the context of a full and enduring change to the methodology. UNC 0686 would not remove or change the standard commodity charge, therefore the compliance position versus TAR NC Article 4(3)(a) on flow-based charging would remain unchanged. Concerning inefficient bypass, Ofgem has indicated that if a real risk of inefficient bypass were demonstrated then a suitable product to address this would not be ruled out.

Eventual removal of OCC in any form would be a potential conclusion of 0670R if it found that OCC could not be compliant and could not be justified. Note 0670R progress was suspended during 0678 development to prevent overlaps, distraction and avoid uncertainty of baseline; the aim was for full and detailed analysis to be carried out to resolve the issue of inefficient bypass in the GB context, with the intention of incorporation in a single change of regime. This is aligned with Ofgem's decision on UNC 0636, in which it states: "*we consider there are benefits to reviewing the OCC as part of the wider-scale reform*".

Uncertainty & instability

The Proposer states that UNC 0686 can be implemented separately to 0678, which would lead to one year or less of a regime, which may or may not be followed by a 0678 alternative

¹ <https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/book/2019-04/UNC0686%20-%20Urgency%20decision.pdf>

² <https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/page/2018-12/Ofgem%20Decision%20Letter%200621.pdf>

including an optional charge. The proposer cites provision of “*a transition step to a more compliant solution*” as a positive; the transition period in 0621 was seen by Ofgem in its decision letter as a negative aspect. Uncertainty and repeated changes in a regime result in the inclusion of risk premia in prices; short-term change will lead to unnecessary instability and step changes in end-user gas and power prices. The current situation with 0686 and 0678 has already led to increased complexity in commercial terms. It is clear that 0686 is counter to the aims of predictability and stability of charging, which are key to the GTCR and TAR NC.

Impacts

Material detrimental impacts on large gas users will be caused as contracts for Gas Year 2019 have already been concluded. Workgroup was not able to carry out this analysis for reasons of data access and so these consumer impacts have not been assessed. Ofgem issued a call for evidence for 0636, in order to gather confidential information from OCC users to gain understanding of potential impacts. If 0686 were to progress, we recommend Ofgem refer to this and/or consider a similar exercise for this Modification.

The Proposer has included analysis of benefits that would be passed through to end-users. Given timelines for contracting and the lag in pass-through to small end-users in particular, the likelihood of these benefits being realised by consumers is minimal.

As with 0636 before, the impact of this proposed change is wide ranging: whole system economics need to be considered. This includes electricity markets as well as gas, as National Grid’s analysis clearly indicates that power station exit points are OCC users. Also the effects on the entire United Kingdom should be reviewed.

Summary

- Industry and Authority focus should be placed on 0678 as the overarching, fundamental change to the charging methodology in GB. Ofgem’s rejection letter for 0636 in 2018 upheld this view (concerning 0621 at that time as the charging methodology Modification).
- It would be prudent for review and development of an enduring solution for inefficient bypass to be conducted contiguously with 0678, as was prescribed in GCD11.
- This would avoid swings and uncertainty in charging from a short-term change, mindful of the objectives of 0678 for predictability and stability of charging.
- This would also allow for the solution to be reviewed in full by ACER, neighbouring NRAs and other interested parties via consultation, as was outlined in 0636C and 0636D.

Yours sincerely

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ESB