

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:	Adam Bates
Organisation:	South Hook Gas Company Limited
Date of Representation:	7 th June 2019
Support or oppose implementation?	Oppose
Relevant Objective:	<p>c) Negative</p> <p>d) Negative</p> <p>g) None</p>
Relevant Charging Methodology Objective:	<p>a) Negative</p> <p>b) Negative</p> <p>c) Negative</p> <p>e) None</p>

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

Competition

We do not believe the removal of the Optional Commodity Charge better facilitates effective competition between shippers and suppliers – in fact it may be detrimental by causing gas to flow through private pipelines. The analysis within the modification indicates that the combined standard commodity rate would be £700/GWh and we believe this would create a significant incentive for Exit Points close to Entry Points to look to bypass the NTS.

The only impact analysis within the Modification looks at the aggregate commodity charge level should OCC flows be reduced. There has been no analysis conducted within the Modification to identify the subsequent impacts on competition that the removal of the OCC has on sites that currently avail to the OCC (noting that a number of these could economically build a private pipeline).

Compliance

We do not believe the removal of the OCC furthers compliance with EU TAR. There is no provision within EU TAR that explicitly defines that the current OCC charge is non-compliant. To “further” compliance (in terms of this modification) commodity charges need to be addressed – not the “secondary” OCC charge which is based upon commodity charges. As a result, we do not believe this modification furthers compliance with EU TAR.

Process

Ofgem stated within its UNC 0636 Authority Decision letter¹ that “*the OCC should not be looked at in isolation but should be considered holistically in the context of the wider charging landscape*”, therefore we question why this has been raised as a standalone modification and not as an alternative to UNC 0678. There are UNC 0678 Modifications which exclude a Shorthaul option (albeit to be addressed via UNC 0670R). Therefore, if Ofgem deem it appropriate to not include an Optional Charge within a GTCR solution then they have the option to do so as part of the UNC 0678 process.

We believe an Optional Charge solution is an essential part of any Charging Methodology and therefore do not support the removal of such charge without a full review. We do agree that the current Optional Commodity Charge needs to be reviewed and this should be done holistically with the wider charging methodology – as it has been within several UNC 0678 proposals and within the ongoing 0670R review group.

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

Should the modification be implemented, we would expect to see a minimum lead time of 2 month – in line with the current charging publications

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

As above in our reasons for opposition

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

Yes

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.*

The analysis undertaken within the modification is at a high level and somewhat subjective. It only seeks to determine i) what the varying levels of commodity charges are at different OCC utilisation levels, and ii) the believed impact on consumers. The analysis makes no reference the impact that removing the OCC would have on those

¹ <https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/book/2018-07/Ofgem%20Authority%20Decision%20Letter%20UNC0636%20310718%20D.pdf>

Users that currently avail to the charge. The analysis also assumes that all other things are kept equal aside from the change in commodity prices – which is unlikely to be the case given some flows would leave the NTS (whether because of exit points ceasing operations completely or investing in a private pipeline). We believe a more a more balance impact analysis to determine the merits of the proposal prior to any implementation.

We believe the removal of the OCC would result in several NTS Users building private pipelines which would consequently cause supply and demand to be removed from the NTS. We believe that this reduction in supply and demand would likely have an impact on the operational of the NTS, however this modification contains no analysis on this topic and therefore we feel it is incomplete.

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