

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:	Graham Jack
Organisation:	Centrica
Date of Representation:	6 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)

Future Optional Charge arrangements have been more comprehensively addressed via the suite of 0678 Modifications that are currently with Ofgem for its consideration. The 0678 Modifications offer a range of possible outcomes for Optional Charges and those that offer an alternative solution have done so by considering the transmission charging methodology in the round, i.e. holistically. This holistic treatment of charging arrangements is essential to fully understand how changes to one aspect may impact on others and only in this way will a robust, compliant and improved methodology be properly assessed. Implementing new charging arrangements in a piecemeal fashion will not enable industry to efficiently formulate a complete, new methodology and will only add to, and possibly extend the timescales for, the high level of uncertainty the industry faces over what future charging arrangements will be.

Modification 0686 is therefore unhelpful in that it isolates the Optional Charge for special treatment. Should the modification be implemented in the intended timescales it will require the 0678 Modifications to be returned to workgroup for re-evaluation and new analysis as the UNC baseline rules on which the 0678 solutions were based will have materially changed.

The sense of urgency attached to the modification is unnecessary and unhelpful. It is unnecessary because the solution does not provide an outcome that will result in GB becoming compliant with the EU Tariff Code: many further changes to the current charging methodology are needed to ensure compliance and if compliance is a key objective of this Modification then it clearly fails to deliver this.

The sense of urgency is unhelpful because the assessment of the impact on consumers is highly inadequate and relies on some unverified calculations performed by the Proposer using out of date information. The redistribution of transmission costs among Users will be significant if this modification is implemented and the impact on consumers that rely on current Optional Charge arrangements could cause them serious economic damage. It is therefore essential that such a change is not expedited (on the false premise of compliance with the EU Tariff network code) without a rigorous and objective assessment of the consumer impacts. This has not been provided.

The impact on interconnector flows must also be considered. Optional Charge arrangements are currently in place at the Bacton and Moffat Interconnection Points so to withdraw these arrangements at relatively short notice, without assessing the consequences, could have a deleterious impact on wholesale gas trading. Intuitively, the wholesale cost of gas in Ireland and the Isle of Man will face upward pressure if Modification 0686 were to be implemented and it is therefore advisable that the relevant regulatory authorities responsible for those markets are informed and consulted on the possible impacts.

Modification 0686 is essentially a repeat of Modification 0636 that was raised by the same Proposer. Modification 0636 sought to amend the Optional Charge arrangements to make it less attractive to the market and to significantly limit its applicability. Modification 0686 goes further by seeking to remove the product completely. The only new argument appears to relate to compliance with the EU Tariff Code but implementation of Modification 0686 will not provide compliance with that code: the 0678 Modifications have been developed to specifically and comprehensively provide such compliance whilst Modification 0686 focuses on only one possible aspect.

In rejecting Modification 0636 and its alternatives, Ofgem said:

“Given the wider scale reform currently under consideration, 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. This would allow the simultaneous examination of the OCC with the Standard Commodity Charges. 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”.

This reinforces the view provided above that changes to the charging methodology should be considered in the round.

Modification 0636 (and its alternatives) was rejected by Ofgem following a considerably more detailed and considered workgroup assessment than was provided for Modification 0686. The provision of additional, confidential information via Ofgem’s call for evidence after the 0636 Final Workgroup Report was completed would also have helped Ofgem to arrive at its decision to reject all of the 0636 modifications.

The Workgroup Impact Assessment section of the Draft Workgroup Report for Modification 0686 provides several pertinent quotes from Ofgem's 0636 rejection letter and the points made in these quotes remain relevant for Modification 0686.

Therefore, in the same way that Modification 0636 provided an unhelpful distraction from Modification 0621, Modification 0686 has an undesirable impact on the 0678 Modifications. In conclusion, Modification 0686 should not be implemented for the same reasons that Modification 0636 was rejected by Ofgem.

Modification 0686 asserts that National Grid Gas will be "in breach of its Licence" and "in breach of relevant legal requirements", presumably if Modification 0686 is not implemented. If this were the case, then we would have expected Ofgem to have directly and proactively addressed these issues with National Grid without the need for this Modification.

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

Centrica does not support implementation. A 1st October date for any change to take effect is essential to avoid disruption to commercial arrangements between Shippers and consumers. Implementation on 1st October 2019 is over-ambitious and will not provide Shippers and impacted consumers with sufficient time to review and revise relevant supply contracts. Given the high impact of this Modification, implementation should be contingent on a Regulatory Impact Assessment conducted by Ofgem and this would make 1 October 2019 very difficult to achieve. Therefore, 1st October 2020 would be a more appropriate date for new charges to come into effect.

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

All proposals would require a reassessment of existing commercial contracts that include terms related to the Optional Charge. This would incur time and effort for commercial colleagues and legal advisors. Administration effort would also be required to ensure a timely transition to the new arrangements.

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

No comment.

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 transmission cost information provided in the workgroup report is out of date – it refers to data for Gas Year 2017/ 18 but we are currently more than two thirds of the way into the 2018/19 Gas Year so more up-to-date information should be used for analysis. The omission of any new analysis from National Grid is a significant shortcoming and the analysis provided by the Proposer lacks the impartial objectivity that is required for such a major change proposal.

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

Commentary on the Relevant Objectives

c) Efficient discharge of the licensee's obligations.

With respect to implementation of the EU Tariff Code, the most efficient way of achieving this is to develop, assess and implement a holistic transmission charging methodology. Modification 0686 does not do this and disrupts the more sensible and comprehensive approach taken via the 0678 Modifications. Therefore, Modification 0686 has a negative impact on this relevant objective.

d) Securing of effective competition

Implementation of the modification will likely have a negative impact on wholesale gas market liquidity as gas flows via interconnectors will be adversely impacted and the GB market could prove to be a less attractive destination for Norwegian gas supplies and LNG: Optional Charges help to attract gas to the GB market. The Modification will therefore have a negative impact on this relevant objective.

g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.

Implementation will not provide compliance with the EU Tariff Code and will disrupt industry's attempts to achieve compliance via the 0678 Modifications. Changing the UNC baseline before one of the 0678 Modifications is implemented will require those modifications to be returned to workgroup for reassessment. This will delay GB's ability to comply with the Regulation as soon as possible and for this reason Modification 0686 will have a negative impact on this relevant objective.

Commentary on the Charging Methodology Relevant Objectives

a) Save in so far as paragraphs (aa) or (d) apply, that compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its transportation business

There is no evidence to suggest that the Modification will give rise to more cost-reflective charges. A key issue with the current charging regime is the very high level of TO commodity charges that are clearly not cost-reflective in that they are postalised and solely concerned with making up any shortfall in National Grid's allowed revenue. Some of the issues raised by the Proposer would more appropriately have been addressed had the TO commodity charge issues been reviewed. The "attractiveness" of the Optional Charge is significantly influenced by the scale of the TO commodity charges but the Optional Charge per se is not the root cause of any perceived shortcomings with charging arrangements.

The above view appears to have been shared by Ofgem when rejecting Modification 0636 and its alternatives:

“we note that the ‘cross subsidy’ that UNC636 aims to remedy, may arise in part from the increase in the Standard Commodity Charges; not from the OCC itself. As such, we consider there are benefits to reviewing the OCC as part of the wider-scale reform currently being considered. This would allow the simultaneous examination of the OCC with the Standard Commodity Charges”.

The Optional Charge encourages greater use of the NTS than would otherwise be the case as it discourages the use or development of private onshore pipelines. It also has an influence on where gas is delivered to the NTS by mitigating potentially high NTS entry charges at some entry points (for example, at St Fergus); such gas can be transported via the offshore pipeline network to other entry points or to non-GB destinations.

The modification will therefore have a negative impact on this relevant objective.

b) That, so far as is consistent with sub-paragraph (a), the charging methodology properly takes account of developments in the transportation business

Attempting to introduce partial changes to the methodology to achieve EU Tariff network code compliance is deficient and does not properly or fully take account of developments in the transportation business. In fact, the modification is detrimental to furthering this relevant objective.

c) That, so far as is consistent with sub-paragraphs (a) and (b), compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers

Please refer to the above comments for relevant objective d).

e) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators

Please refer to the above comments for relevant objective g).