

Representation - Draft Modification Report

UNC 0678; 0678A; 0678B; 0678C; 0678D; 0678E; 0678F; 0678G; 0678H; 0678I; 0678J;

Amendments to Gas Transmission Charging Regime

0678	Amendments to Gas Transmission Charging Regime
0678A	Amendments to Gas Transmission Charging Regime (Postage Stamp)
0678B	Amendments to Gas Transmission Charging Regime
0678C	Amendments to Gas Transmission Charging Regime (Postage Stamp)
0678D	Amendments to Gas Transmission Charging Regime including a Cost based Optional Capacity Charge
0678E	Amendments to Gas Transmission Charging Regime – Treatment of Storage
0678F	Amendments to Gas Transmission Charging Regime – Treatment of Unprotected Entry Capacity Storage
0678G	Amendments to Gas Transmission Charging Regime including a Cost based Optional Capacity Charge
0678H	Amendments to Gas Transmission Charging Regime (Postage Stamp) including a Cost based Optional Capacity Charge
0678I	Amendments to Gas Transmission Charging Regime including Wheeling and an Ireland Security Discount
0678J	Amendments to Gas Charging Regime (Postage Stamp) including a Cost Based Optional Capacity Charge

Responses invited by: 5pm on 08 May 2019

To: enquiries@gasgovernance.co.uk

Representative:	Sam Repetto	
Organisation:	EDF Trading Ltd	
Date of Representation:	08.05.2019	
Support or oppose implementation? (Please note you will be asked for your reasoning further below)	0678	Comments
	0678A	Comments
	0678B	Qualified Support/Comments
	0678C	Comments
	0678D	Comments
	0678E	Qualified Support/Comments
	0678F	Comments
	0678G	Comments
	0678H	Comments
	0678I	Comments
	0678J	Comments
Expression of Preference (Please note you will be asked for your reasoning further below)	If <i>EITHER</i> 0678; 0678A; 0678B; 0678C; 0678D; 0678E; 0678F; 0678G; 0678H; 0678I <i>OR</i> 0678J were to be implemented, which <u>ONE</u> Modification would be your preference? 0678/0678A/0678B/0678C/0678D/0678E/0678F/0678G/0678H/0678I/0678J * delete	

**Charging Methodology
Relevant Objective:**

0678	
a)	Positive
aa)	Positive
b)	negative
c)	Positive
d)	None
e)	negative

0678A	
a)	positive
aa)	none
b)	None
c)	none
d)	none
e)	negative

0678B	
a)	Positive
aa)	Positive
b)	Positive
c)	Positive
d)	None
e)	negative

0678C	
a)	Positive
aa)	none
b)	None
c)	Positive
d)	None
e)	Positive

0678D	
a)	Positive
aa)	Positive
b)	Positive
c)	Positive
d)	None
e)	negative

0678E	
a)	Positive
aa)	Positive
b)	Positive
c)	Positive
d)	None
e)	negative

0678F	
a)	Positive
aa)	Positive
b)	Positive
c)	Positive
d)	None
e)	negative

0678G	
a)	Positive
aa)	Positive
b)	Positive
c)	Positive
d)	None
e)	negative

0678H	
a)	Positive
aa)	none
b)	None
c)	Positive
d)	None
e)	negative

0678I	
a)	Positive
aa)	negative
b)	Positive
c)	n/a
d)	None
e)	Positive

0678J	
a)	negative
aa)	negative
b)	None
c)	Positive
d)	None
e)	negative

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

Similarly, to the UNC process for 621, there has been a high number (10) of alternatives being raised which made the assessment by respondents challenging. It is usually difficult to provide specific weights to the relative importance of any single modification as we consider all proposals generally contain improvements over the current charging methodology in respect of compliance with the Regulation and the EU Tariff network code but some achieve this more extensively than others. However, none include all elements we deem most appropriate. We therefore focus on commenting on the most important element of discussed in the UNC Draft Modification Report and its alternatives.

0678 (comments)

With regards to the Reference Price Methodology (RPM), Capacity Weighted distance (CWD) methodology allows for the allocation of historical and current costs associated with the delivery of the NTS. Based on the reasonable assumption that the NTS is static, or in decline, the methodology seeks to ensure that all Users of the system make a contribution to the provision of the NTS on the basis of distance and capacity (the two cost drivers) thus more closely reflecting principles for transmission services as set out in Art 4 1a of TAR NC. The better distribution of costs amongst entry/exit shippers should also promote competition.

Postage Stamp removes the distance element of CWD and applies equivalent charges at entry and exit points (independently). In short, the same charge is applied to all Users of the system irrespective of where gas is delivered or offtaken. This could be regarded as the most basic form of cost allocation without any reference to underlying cost drivers. In this sense it cannot be regarded as cost reflective and will have the biggest impact on the distribution of costs across Users and customers. This implies a deviation from EU TAR NC guiding principle of cost-reflectivity, and in our opinion does not fully satisfy Charging Relevant Objective a). Generally, we do not consider Postage Stamp a more cost-reflective pricing methodology over CWD which instead contains a locational element. Gas transportation costs are sensitive to both the distance gas needs to travel and the capacity needed to transport it. We therefore consider retaining a locational element in the RPM as appropriate.

Despite this we favour CWD versus Postage Stamps, we acknowledge that the former is still far from perfect as it appears that the application of the CWD methodology coupled with a move towards full capacity pricing can be regarded as non-fully cost reflective for some locations. CWD does not reflect in a realistic way the use of the network and therefore incorrectly apportions network costs resulting at times in disproportionate costs for short distances. The fact that distances are averaged and do not reflect physical flow on the network is a drawback which need careful assessment in Ofgem Impact Assessment. We believe considering a form of point-to-point service could mitigate such shortcoming.

Although arguments can be constructed which also dispute the level of cost reflectivity of the CWD methodology, these may well be outweighed by the benefits which its introduction may present, such as simplicity, transparency and stability in charging compared to PS and current methodology. In this respect, we deem that CWD approach is more predictable and stable in nature and better suited to a system that is about use and revenue recovery associated to use rather than linked to investment (assumed NTS is currently static and not in expansion).

With regards to Revenue Recovery charge, we consider that not appropriate exempting Existing Contracts from recovery charge. This will unduly exacerbate the price differential between new and existing contract and as a consequence shippers that purchase new capacity will be burden with a unnecessarily large proportion of Allowed Revenue.

678B (conditional support)

UNC678B uses CWD methodology coupled with a derived form of optional charge ("short haul"). We deem that coupling CWD with an optional charge goes some way to compensate for the CWD effect of higher charges at exit points close to entry points. To some extent this can be considered as improving its cost reflectivity and thus going in the direction of satisfying CMRO a).

Our conditional support for UNC678B is motivated by two elements of 678B we regard as not fully adequate or in need of additional commentary. The first relates to the governance of FCC Methodology. To date, the FCC methodology has been a matter for NG to determine. We agree on the need of increased transparency and we see somehow positively the effort to include the methodology under UNC governance. This said, we are concerned that very divergent views on FCC methodology set up could lead to continuous modifications being raised. This would lead to uncertainty in the reference price determination the medium long term which is detrimental for the market..

Secondly, EDFT favours the application of an 80% discount for storage facilities ensures charges are cost reflective and facilitate competition (see more comments on the relevant section). UNC0678B lacks this element. Same comments on Revenue Recovery charges apply for 678B.

Finally we understand the rationale allowing for an implementation date as directed by Ofgem but we strongly oppose any implementation earlier than 1 Oct 2020 and we are also concerned about a possible mid-year implementation date (see further comments below)

0678E (conditional support)

It provides for a 80% discount to storage which we think appropriately considers the benefits of gas storage in terms of security of supply and facilitation in system imbalance management. It also Conditional support is due to the fact that 678E does not allow for any form of point-to-point discount which we deem useful to mitigate CWD shortcoming of resulting at times in disproportionate costs for short distances.

678C (comment)

Please refer to reasons expressed in 0678A: a postage stamp methodology is less likely to be cost reflective than CWD which contains location element that we believe ensures more efficient network investment

However, we acknowledge the rationale put forward for including a Revenue Recovery charge applied to Existing contracts (SSE 's legal analysis). We recognise that the level of protection granted to existing contract should not shield them against an adjustment to ensure that Allowed Revenue is recovered each year.

678 A, H, J (Comment)

We consider Postage Stamp a flawed methodology as it assumes that there are no cost drivers in relation to the use of a pipeline network and that all charges, at all entry points and all exit points should be the same. Over time, the NTS has been extended to include more remote entry and exit points and logically the cost of bringing gas in or taking out of these locations should make a greater contribution to historical costs. This is also reflected in the TAR NC principle related to cost reflectivity. In practice tariffs should reflect the costs incurred by the TSO.

These comments should be read in conjunction with our later critique of the CWD, noting that EDFT supports some degree of geographical pricing, but this should not be to the detriment of competition. For the reasons above we cannot support any of such modifications

Implementation: *What lead-time do you wish to see prior to implementation and why? Please specify which Modification if you are highlighting any issues.*

EDFT deems appropriate an implementation date no earlier than 1st October 2020 or 1st October of a following year. EDFT would discourage any proposal for a mid-year implementation. The minimum implementation lead time for such fundamental charging modifications is 15 months.

Also, it appears there is consensus among industry that transportation charges must be published at least 2 months in advance, or earlier. For this to be true newly implemented transportation charges should be published by 01 August 2019 which seem unrealistic. Even with current statutory NG obligation to publish NTS charges 30 days ahead of implementation, considering the present timeline this seems impossible unless Ofgem takes a firm decision without any further assessment after receiving finalised modification report. We believe providing a decision without carrying an Impact Assessment for such extensive an impactful change would not be appropriate. As a result, implementation on 1st October 2019 is not considered realistic.

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

Legal Text: *Are you satisfied that the Legal Text will deliver the intent of the Solutions for each Modification? Please specify which Modification if you are highlighting any issues.*

Are there any errors or omissions in this Modification Report that you think should be further considered? *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

Based on the materials produced, it appears that the time needed to properly discuss and analyse the subject matter was underestimated. The proliferation of modification proposals was apparently not expected and the original 0678 proposal raised by National Grid was granted urgent status on 25 January with a defined series of workgroup meetings with a very intense schedule to produce a draft workgroup report within deadline. It also appears that due to the vast number of alternatives most time was devoted to considering new additions and differences and it was difficult for National Grid to undertake analysis or for proposers to refine proposals. It is concerning that errors were found in the FCC methodology and that the existing contract price impact analysis was issued only few days before the last workgroup meeting thus limiting the discussion around such impacts.

Given the extent of change we consider critical that Ofgem undertake a Regulatory Impact Assessment. Since UNC678 and its alternatives proposals have various possible distributional impacts in the long term, it will be important that an assessment is carried out on the total impact of these adjustments, discounts and other charges to NTS customers and to the end consumer and consider a number of trade-offs between various compliance and regulatory issues.

Consultation Questions Requested by the Authority

The Authority has requested that the following questions be considered by Respondents when writing their responses.

Question Number	Question
1.	<p>What impact, if any, do you think tariff differentials between existing and new contracts will have on users booking behaviour?</p> <p>From a trading perspective two major points to reflect upon are to what degree additional costs can be passed on and possible existing contractual obligations in place. The former is surely possible to some extent. However, additional capacity cost incurred by shippers may still impact the economics of trading activity and the current prolonged uncertainty over capacity price in new contract is to some degree hindering trading activity. With regards to existing contractual obligation shippers will need to consider the new price level and assess if current strategies still have economic sense. One point we consider positively is the potential increase if secondary capacity market. Existing contract holders would have an incentive to sell excess capacity when available. This would offer the opportunity to market participants to purchase capacity at a tariff that is potentially more attractive than the tariff paid for existing contracts thus increasing optionality on the market.</p>
2.	<p>What date should the changes proposed by the modifications become effective and why?</p> <p>EDFT deems appropriate an implementation date no earlier than 1st October 2020 or 1st October of a following year. EDFT would discourage any proposal for a mid-year implementation.</p> <p>A date other than 1st October is not considered appropriate as it raises contractual issues and uncertainties which would impact shippers' operations. It is important to consider that a mid-year implementation date could compromise commercial positions of trading companies. It would impact already established trading positions and contracts which commonly take account of transmission charges following the Gas year cycle. A 1st October date for the application of new charges is therefore necessary to accommodate the commercial and contractual planning which is structured around the gas year (1 October to 30 September) and rely on having good foreknowledge of what transmission charging arrangements are likely to be. In addition, we note that National Grid confirmed a derogation from Licence may be required where the capacity charges would take effect other than 01 October bringing additional work to implement transmission charges outside the traditional 1st October.</p> <p>We also note that a non-1st October implementation date could lead to compliance issues as may be viewed in contradiction with definition of reference price used in Art 6 of TAR NC. Such price is defined with a duration of one year while a change on non-1st October date would only last until the subsequent 1st of October to be then changed again for the following Gas year.</p> <p>We suggest Ofgem to rule out a possible mid-year implementation so to ensure certainty and consistency and to avoid any unknown which would compromise the willingness of market players to engage in trading activity in GB.</p>
3.	<p>The proposals have different specific capacity discounts for storage sites. What level of storage discount do you consider is appropriate and can you provide clear justification</p>

	<p>if the discount is greater than 50%</p> <p>We consider proposals which stipulate the minimum 50% discount for storage should be regarded as providing nothing more than a recognition that a lower discount would result in double charging of storage users. We note that the EU TAR NC provides justification for a discount to be awarded to storage. Its rationale includes avoiding double charging and acknowledging the contribution to system flexibility and security of supply. Not only the EU TAR NC provides no explanation as to how the 50% discount was derived and but its wording is open-ended and does not specifically limit the discount to such percentage.</p> <p>We support a higher level of discount at 80% for storage facilities which can ensure charges are cost reflective and facilitate competition. A 80 % discount would ensure profitability for storage facilities not only in the short-term but also in the long term enable adequate level of further investment (adequate maintenance and refurbishment). We also note Ofgem's decision on UNC 621 stating that with lower level of discount some storage facilities may encounter challenges in continuing operations in the medium to longer-run. Considering storage facilities can have an important role related to security of supply and flexibility of the system it is essential to set discounts for storage at a level that enables their economic operations in the long term. Finally, we also note that there are precedents for setting storage discount higher than 50% where ACER acknowledges consistency with EU TAR NC art 9.1 such as in the case of Germany (75% proposed) or Belgium (100% proposed at exit point to storage.),</p>
4.	<p>Can you provide reasons why an NTS Optional Charge is or is not justified? If you consider an NTS Optional Charge is justified, which proposal do you prefer and why is it compliant with TAR NC?</p> <p>As a principle, we consider the concept of short-hauling as a legitimate tool providing an appropriate discount to shippers (and customers) in cases where a private pipeline is a realistic alternative due to geographical proximity between entry and exit points. The service aims at facilitating the operation of the system by avoiding economic incentives to bypass the system and therefore ensuring higher level of utilisation and revenues which otherwise might be lost. As such, some form of discount to avoid inefficient by-pass of the NTS is justified.</p> <p>With regards to issues previously raised by Ofgem in its UNG 621 rejection later: namely, commodity based charges and treatment of IPs vs. non-IPs we note that proposals that do include a form of point-to-point service provide for the charge to be capacity based and provide similar arrangements at IPs and non-IPs . This should provide additional comfort to Ofgem in considering retaining a form of point-to point service in GB. We also consider that a form of optional charge incentivises where to locate and flow gas on the network and as such can potentially promote Standard Relevant Objective a)</p> <p>We deem retention of the optional charge is a mitigating factor for a lower than ideal level of cost reflectivity. A form of capacity based short haul services combined with CWD RPM would provide some degree of price increase mitigation and more cost-reflective charges for some sites thus helping to correct instances where proximate entry and exit points both have high Reserve Prices. Also, proposals which include point-to-point services also do include an additional system utilisation element (fee) ensuring user commitments which can be viewed as a positive aspect. Among different proposals, we support what described in the UNC Draft Modification Report as NTS Optional Charge “method 1” since we understand this to be fully transparent in how charges are derived using deterministic calculations hence providing a higher degree of information on short haul service usage than is currently the case.</p> <p>Finally, we note that ACER recently commented on conditional products and related discount noting that not only in GB but also in Germany, Belgium and the Netherlands form of point-to-point services are offered either short haul or wheeling (despite in NL it is</p>

	<p>expected to be phased out in 2020). The Agency commented that their analysis does not provide a clear answer on the necessity of conditionalities should be removed in full while recommending a country-based analysis. To our understating this implies point-to-point services are not rule out by the Agency to date.</p>
5.	<p>Do you consider the proposals to be compliant with relevant legally binding decisions of the European Commission and/or the Agency for the Co-Operation of Energy Regulators?</p> <p>We consider all <u>proposals</u> generally <u>contain improvements over the current charging methodology in respect of compliance with the EU Tariff network code</u>. However, as stated above we think an implementation date other than 1st Oct could lead to compliance issues as may be viewed in contradiction with definition of reference price used in Art 6 of TAR NC which should be for the duration of one year. Clearly an implementation not following the traditional gas year will imply a reference price with shorter duration for the 1st year of implementation.</p> <p>Also, modification proposing the inclusion of for FCC methodology under UNC framework ensure more transparency is provided with regard to having clear capacity forecast values. Thus being more in line with principle state in Art 7 of EU TRA NC with regard to the ability to reproduce calculation for reference price.</p>
6.	<p>It is proposed that National Grid Gas may review or update the Forecasted Contracted Capacity (FCC) Methodology following consultation with stakeholders, unless Ofgem (upon application by any Shipper or Distribution Network Operator) directs that the change is not made as per its powers under Standard Special Condition A11(18) of National Grid's Licence. Do you believe that this governance framework is fit for purpose? Please provide reasons for your answer.</p> <p>As mentioned above, we agree on the need of increased transparency and we see somehow positively the effort to include the methodology under UNC governance. This should lead to a more concerted approach in determining forecasted values and a more diverse input in what and how to take into account in forecasting network utilisation. However, we are concerned that divergent views on FCC methodology set up could lead to continuous modifications raised by network users in the attempt to customize the methodology via UNC modification process. This would lead to uncertainty in the reference price determination the medium long term which is detrimental for the market. We recommend that this should be avoided so to ensure that the FCC methodology is properly set up in the long term and provide shippers with a future-proof and stable way of assessing a major input to reference prices determination. In short, we deem appropriate to include FCC review in UNC as long as the process is properly governed and not subject to continued proposal for changes.</p>