

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:	Roddy Monroe																							
Organisation:	Gas Storage Operators' Group																							
Date of Representation:	8 th May 2019																							
Support or oppose implementation? (Please note you will be asked for your reasoning further below)	<table border="1"> <tr><td>0678</td><td>Oppose</td></tr> <tr><td>0678A</td><td>Oppose</td></tr> <tr><td>0678B</td><td>Oppose</td></tr> <tr><td>0678C</td><td>Support</td></tr> <tr><td>0678D</td><td>Oppose</td></tr> <tr><td>0678E</td><td>Support</td></tr> <tr><td>0678F</td><td>Support</td></tr> <tr><td>0678G</td><td>Oppose</td></tr> <tr><td>0678H</td><td>Oppose</td></tr> <tr><td>0678I</td><td>Oppose</td></tr> <tr><td>0678J</td><td>Oppose</td></tr> </table>		0678	Oppose	0678A	Oppose	0678B	Oppose	0678C	Support	0678D	Oppose	0678E	Support	0678F	Support	0678G	Oppose	0678H	Oppose	0678I	Oppose	0678J	Oppose
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0678J	Oppose																							
Expression of Preference (Please note you will be asked for your reasoning further below)	<p>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?</p> <p>0678E</p>																							

Standard Relevant Objective:

0678	
a)	Negative
b)	Negative
c)	Positive
d)	Negative
e)	None
f)	None
g)	Positive
0678A	
a)	Negative
b)	Negative
c)	Positive
d)	Negative
e)	None
f)	None
g)	Positive
0678B	
a)	Negative
b)	Negative
c)	Positive
d)	Negative
e)	None
f)	None
g)	Positive

**Standard Relevant
Objective
(continued):**

0678C	
a)	Negative (Positive compared to 678)
b)	Negative (Positive compared to 678)
c)	Positive
d)	Negative (Positive compared to 678)
e)	None
f)	None
g)	Positive
0678D	
a)	Negative
b)	Negative
c)	Positive
d)	Negative
e)	None
f)	None
g)	Positive
0678E	
a)	Negative (Positive compared to 678)
b)	Negative (Positive compared to 678)
c)	Positive
d)	Negative (Positive compared to 678)
e)	None
f)	None
g)	Positive

**Standard Relevant
Objective
(continued):**

0678F	
a)	Negative (Positive compared to 678)
b)	Negative (Positive compared to 678)
c)	Positive
d)	Negative (Positive compared to 678)
e)	None
f)	None
g)	Positive
0678G	
a)	Negative
b)	Negative
c)	Positive
d)	Negative
e)	None
f)	None
g)	Positive
0678H	
a)	Negative
b)	Negative
c)	Positive
d)	Negative
e)	None
f)	None
g)	Positive

Standard Relevant Objective (continued):

0678I	
a)	Negative
b)	Negative
c)	Positive
d)	Negative
e)	None
f)	None
g)	Positive
0678J	
a)	Negative
b)	Negative
c)	Positive
d)	Negative
e)	None
f)	None
g)	Positive

Charging Methodology Relevant Objective:

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

**Charging
Methodology
Relevant Objective
(continued):**

0678A	
a)	Negative
aa)	Negative
b)	Negative
c)	Negative
d)	None
e)	Positive

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

0678C	
a)	Positive
aa)	Positive
b)	Negative (Positive compared to 678)
c)	Negative (Positive compared to 678)
d)	None
e)	Positive

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

**Charging
Methodology
Relevant Objective
(continued):**

0678E	
a)	Positive
aa)	Positive
b)	Negative (Positive compared to 678)
c)	Negative (Positive compared to 678)
d)	None
e)	Positive

0678F	
a)	Positive
aa)	Positive
b)	Negative (Positive compared to 678)
c)	Negative (Positive compared to 678)
d)	None
e)	Positive

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

0678H	
a)	Negative
aa)	Negative
b)	Negative
c)	Negative
d)	None
e)	Positive

**Charging
Methodology
Relevant Objective
(continued):**

0678I	
a)	Negative
aa)	Negative
b)	Negative
c)	Negative
d)	None
e)	Positive
0678J	
a)	Negative
aa)	Negative
b)	Negative
c)	Negative
d)	None
e)	Positive

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

0678 (Oppose)

The proposal does not account for the benefits/costs of storage facilities such as security of supply, managing price volatility through matching demand and supply, and reducing capacity requirements for the network. For this reason the proposal is not cost reflective and represents a cross subsidy from storage Users to other Users of the system.

In addition, the proposal exempts all Existing Contracts from the application of a Revenue Recovery Charge which will exacerbate the difference in the total cost between new and Existing Contracts. This has not been demonstrated to be reasonable or necessary to comply with the EU Tariff Code. In particular, it fails to recognise that Users who acquired Existing Contracts other than at Storage Points would have expected to be exposed to the Revenue Recovery Charge applied at the time of purchase, in the form of TO Commodity Charges and, quite reasonably, would have expected to be exposed to any future Revenue Recovery Charge, however that might be applied.

In this proposal the protection of RRC will be lost when NTS capacity is transferred to storage customers. This will impose undue costs on storage operators, or shippers acting on behalf of the operators which acquired and hold entry capacity for the purposes of selling bundled storage services to customers which includes the transfer of Existing Entry Capacity (where the RRC is not reflected in the total cost of the storage service). In the majority of cases the capacity was acquired to ensure the release of incremental capacity and subsequently any third party User wishing to acquire delivery services from a storage operator (including Entry Capacity) will potentially face higher charges than would otherwise be the case if the capacity was retained by the original purchaser. This will result in discriminatory pricing for storage users and/or storage operators who are likely to have to absorb these additional costs for the purposes of using or selling capacity at the relevant storage facility.

0678A (Oppose)

The same criticisms apply to this proposal as set out in Mod 0678

0678B (Oppose)

The same criticisms apply to this proposal as set out in Mod 0678

0678C (Support)

The same reasons set out in support of Mod 0678E apply in relation this proposal.

0678D (Oppose)

The same criticisms apply to this proposal as set out in Mod 0678

0678E (Support)

This proposal includes an “allowance” for the general contribution to system flexibility and security of supply provided by storage facilities by including an 80% capacity charging discount for storage facilities. The method employed to determine the level of the 80% discount can be found here <https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/book/2019-02/WWA%20GSOG%20NTS%20CapacityDiscountsReport270219finaldraftv0%205.pdf>

Further, the proposed protection of all storage capacity holdings from the application of a Revenue Recovery Charge is consistent with the requirement to avoid double charging and is consistent with the conclusions stated by Ofgem in its Gas Transmission Charging Review. Implementation of this proposal would limit the imposition of further costs onto storage which provides significant benefits to Users and customers. At a time where storage owners are subject to significant economic pressures, any unjustified increases in transmission costs will seriously undermine the prospects for operating existing or developing new storage capacity in GB.

The proposal applies a Revenue Recovery Charge on all other capacity products, including Existing Contracts. This approach ensures that Existing Contracts are not awarded a further discount the new contracts and recognises that Users who acquired Existing Contracts were exposed to Revenue Recovery Charges at the time of purchase and would reasonably have expected to continue to contribute to any future under-recovery via some form of Revenue Recovery mechanism. The exemption for RRC will also ensure that Existing Entry Capacity can be transferred on an equal basis between users of the facility i.e. no price discrimination between users of storage.

0678F (Support)

The same reasons set out in support of Mod 0678E apply in relation this proposal.

0678G (Oppose)

The proposal does not account for the benefits/costs of storage facilities such as security of supply, managing price volatility through matching demand and supply, reducing capacity requirements for the network. For this reason the proposal is not cost reflective and represents a cross subsidy from storage Users to other Users of the system.

0678H (Oppose)

The same criticisms apply to this proposal as set out in Mod 0678G

0678I

The same criticisms apply to this proposal as set out in Mod 0678. Further, we see no justification for the introduction of an Irish Security Discount as the Irish circumstances do not meet the criterion for applying a discount, on the basis that Ireland is not an “isolated Member State”.

0678J

The same criticisms apply to this proposal as set out in Mod 0678

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

Prior to Implementation

We would wish to see:

- A full impact assessment and analysis of any proposals before any changes are decided.
- A lead time between decision and effective date of 12-18 months to allow businesses suitable time to plan and prepare for any potential changes. It should be noted that the Gas Storage Year runs between May and April, with capacity offerings and sales typically taking place at least 6 months prior. A fundamental change to the NTS charging arrangements needs to be accommodated in the services offerings (and prices) made by storage operators. For these reasons, we believe that the earliest date on which any of those modifications should become effective is October 2021.

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

Consequences for the market of higher cost for Storage

All proposals will result in higher variable costs for UK storage facilities and is likely to result in:

- Fewer opportunities to move gas in and out of the storage, reduced operability, reduced ability to support the network balance efficiency, and reduced security of supply.
- Operation of UK storage sites being unprofitable and unviable, resulting in future site closures, and creating a barrier for future investment in existing and new storage facilities.
- Loss of competitiveness of UK storage sites
 - o against continental facilities, and an increase in reliance on foreign facilities and interconnectors to meet UK demand.
 - o against flexibility imported to GB “just in time” (LNG, Norwegian gas able to re-profile (anticipate or defer NTS supply)) at no additional network cost.

Changes in Market Behaviour

The new proposals are also likely to see changes in behaviour across the industry. In storage we would be likely to see a change in booking strategies towards a minimisation of costs through short-term booking. This again is likely to place restrictions on storage facilities in being able to react swiftly to market needs, increasing price volatility, increasing risks on supply, and increasing network maintenance costs and potentially overall network capacity requirements.

New IT requirement for seamless NTS capacity booking

Current National Grid systems for booking capacity at short notice will need a full overhaul to allow flexible booking, as they currently support options to flow with low premiums (capacity fee) and higher strike price (commodity fee), whereas current proposals will move to options with higher premiums (capacity) and lower strike price (commodity). At the time of writing no IT development cost indications have been provided by Xoserve

New contractual and IT developments to avoid the Revenue Recovery Charge

In all proposals except 678C, 678E and 678F the protection of RRC will be lost when NTS capacity is transferred to storage customers. To avoid the application of RRC, storage operators will have to design new contractual offers that place the delivery of the gas at the NBP rather than at the Storage Connection Point. Developing such new products and to operating them in a context of low automation capabilities for the nomination and booking on the XoServe / National Grid IT systems will generate additional costs, further impacting the viability and costs of operating storage sites..

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.*

The legal text delivers the solutions set out in Modifications 678C/E/F

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.*

Notwithstanding the significant contributions made by Storengy and WWA to the process, via the submission of numerous papers and contributions at the workgroup meetings, we believe that the evidence provided in these papers has not been adequately reported in the workgroup report and they should be considered as valuable reference documents contributing to the decision making process. In addition, the analysis provided in the annexes of both 0678E and F has not been referenced in the workgroup report. In both cases the analysis performed is focused on the impacts of the proposal on other Users, unlike most of the separate analysis reports submitted by other proposers which do little more than reproduce high level price and revenue information already contained within the sensitivity models.

Importantly, the contributions made by storage to consumer welfare had not been considered by the workgroup (and the report) in a satisfactory manner. Consumer welfare is multi-layered and crosses over a number of the UNC and charging objectives, but boil down to implementing a charging methodology which limits or reduces costs and enhances security.

In the case of costs, the workgroup report identifies the NTS costs which will be incurred by customers (taking into account the modelling assumptions), however, it fails to quantify other cost impacts. In particular, the increased costs to gas storage are significant across all of the modifications.

- The analysis produced in the Annexes of 0678 E and F shows that a 50% discount at storage will result in aggregate charges increasing by up to £9m in 2019/20 (for 678A) based on assumed levels of cycling and excluding the impact of Existing Contracts on entry costs)

The analysis produced by Storengy uses actual 2018 flows and includes the impact of Existing Contracts held at storage points. In this case the additional cost to storage of a 50% discount under CWD is £4.3m in 2019/20 .

Were an 80% discounted to be afforded to storage, the analysis provided in the annexes to 0678E and F shows that capacity charges would increase by nominal amounts to recover the “shortfall” in revenue, when compared to a 50% discount (total reduction in revenue is £7m, or around 1% of total Transmission Revenue).

In its 0621 report to Ofgem, Baringa recognises that an increase in the storage discount will have nominal impacts on the wider industry, in terms of subsequent increases to tariffs:

“...discounts would be expected to have a significant effect on tariffs paid by a small number of directly affected users and only a limited impact on the larger body of other users.”

Finally, the workgroup report fails to investigate the security of supply benefits afforded by storage. Based on the analysis provided in this section and in the next section of this response, the functions performed by storage are multi-faceted and generally undervalued. In National Grid FES 2017 document the impact of storage closure is considered in accordance with its demand scenarios. It concludes that in two of the scenarios additional capacity would be required to be developed to meet the N-1 test and in all scenarios there would be increased complexity (and we assume cost) in operating the NTS

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

0678E

(the analysis provided here can equally applied to 0678C and F in relation to the setting the level of discount at storage to 80%)

Analysis was provided in support of 0678E and contained in Annex 3 of the proposal. It is disappointing that the workgroup report failed to make reference to the analysis, rather citing separate submissions by other proposers which cannot be reasonably described as providing the reader with any sense of impact of the various proposals, rather directly replicating the price outputs from the Sensitivity Model.

The analysis provided in Annex 3 should be read in conjunction with the reports submitted by WWA (for GSOG) and Storengy which in combination provide detailed expositions of the justification for a higher storage discount and its subsequent impacts.

In terms of the wider impact of setting an 80% discount impact for storage the key observations are summarised below (in the absence of satisfactory commentary In the workgroup report):

The total cost of NTS charges incurred by storage Users under the current regime, based on the Mod 678 Sensitivity Model assumptions and the cycling assumptions set out in 0678E Annex 3 table 1, are @£1.3m.

Using the same assumptions, the costs under 0678E are @£3.2m. A difference of approximately £1.9m.

Under 0678 and 0678A, which apply a 50% discount, the aggregate costs are @£8m and @£10.2m respectively + applicable Revenue Recover Charges, in the event that they are applied, when transferring capacity to storage customers.

In terms of p/th variable cost impact, based on the cycling assumptions set out 0678E Annex 3, the following additional costs, when compared to current costs, will apply to storage flows.

Mod 0678 = 0.48 p/th

Mod 0678A = 0.64 p/th

Mod 0678E = 0.14 p/th

As a comparison the commercial offer for SY 19/20 at Stublach charges 0.50 p/th for all of the existing variable costs. In the case of all storage facilities, the cost burden will likely be absorbed by storage operators, assuming that the NBP price spreads do not respond to the additional costs of moving gas in and out of store. This outcome further undermines the fragile economics of owning and operating gas storage facilities and at best may lead to a reduction in storage cycling.

This is supported by the observation made by Baringa in its 0621 report for Ofgem:

“Our analysis finds that under a number of alternative tariff methodologies, storage facilities may face a significant reduction in revenues, although the effect of changes in gas transmission tariffs is small relative to the potential effects of changes in wider gas market conditions. If operating costs are sufficiently low, storage facilities are likely to remain open under any of the tariff methodology options analysed in this report. However, revenues may be insufficient to

justify significant further investment, including refurbishment costs.” and

“...However, we also note that storage operators are likely to be accustomed to changes in market conditions and spreads, and regular changes in market conditions mean that the impact of such changes averages out over time. The impact of changes in the tariff methodology would be seen as permanent and would therefore not be assessed in the same way.”

In terms of refurbishment costs, the cost of overhauling a single compressor every 10 years is approximately £500k, which when added to the increase in NTS costs set out above, confirms that storage operators will find it hard to justify such expenditure and are likely to reduce available capacity and/or close facilities.

Given the benefits, both direct and societal, which storage brings to the market (see WWA report) any limitation in the utilisation of storage, be that in terms of overall capacity availability or reduced cycling, will have hugely detrimental impacts on the wider market. From a security of supply perspective, GB will become more dependent upon non-domestic supplies. This may have physical consequences at certain times of “tightness” particularly where neighbouring markets are competing for scarce supplies, and price consequences, where the marginal supply of gas, previously provided by storage is fulfilled by more expensive alternatives.

Impacts on dependent markets should also be considered e.g. where the price, or volatility in gas prices increase there will be knock-on impacts on the power market, as the gas power generation sector reflects the increase in fuel costs in the power price, where it is assumed that gas generation is the marginal price setter on the power market.

The Baringa 0621 report recognises that at times, storage is the marginal source of gas and when this is the case may result in inflated prices, where the increased cost of NTS charges is represented in the price of gas (assuming the purchaser of gas storage is exposed to any increases in NTS charges):

“Being the most price-responsive supply source in the Baseline scenario, interconnector imports are the marginal supply point for much of the year, ramping up in the summer months to supply gas for injection into storage. St Fergus and storage become marginal supply sources in other periods. In the winter months, supply from beach terminals and storage displaces interconnector imports. Contracted LNG imports at Milford Haven play only a small role in the overall supply mix.”

Finally, in the papers submitted by Storengy and WWA additional observations and analyses have been provided to reinforce the proposals set out in Mod 621A. In summary, the papers state the following:

- Storage flows coincide with system demands which in turn provide price benefits (and balancing cost benefits) to Users and National Grid. Storengy estimates that the reduction in balancing costs generated by storage operations saves GB customers around £122m p.a.
- Storage contributes to UK security of supply, which is understood by many commentators including the EU Commission to be external to storage operators in the form of a public good. The societal benefit is three-fold: firstly through reduced overall gas prices to consumers; secondly, by dampening price market price volatility (providing in combination with the first point, “price security”); and finally, with the GB gas market becoming more import dependent, storage provides a level of guaranteed gas supplies which reinforces physical security of supply
- Storage provides benefits to the Transmission Operator by reducing network investment costs as recognised by CEER and numerous other market experts. These investment cost savings are likely to be in pipelines and compressor infrastructure and based on analysis

produced by independent consultants could be anywhere between £40m to £140m p.a. for GB.

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>As a general observation, as the price of all capacity products is positive then we would expect Users to focus on the acquisition of daily, or within day entry capacity products. This is unrelated to the differential in prices between existing and new contracts, it being simply a strategy which will minimise overall User entry capacity costs in the absence of scarcity.</p> <p>We would also expect that the secondary market for capacity will become more “active”. At certain entry points, the volume of existing capacity purchased will exceed daily flow requirements, both in aggregate and on an individual portfolio basis, Where this is the case, existing entry capacity will have commercial value and sellers will offer surplus capacity to Users requiring capacity for the requisite period. On this basis, we expect that the differential between existing contracts and new contracts will diminish at certain points, noting however, that on transfer, where existing contracts are protected from the imposition of the RRC, in the case of a number of the mods, this protection is removed. In such cases, we expect trades beyond the boundaries of the NTS (beach, LNG tanks, Gassco Area D...) to be entered into to maintain RRC protections.</p>
2.	<p>What date should the changes proposed by the modifications become effective and why?</p> <p>It seems clear that an effective date of 1 Oct 2019 is not achievable. Assuming that this is the case the earliest effective date should be 1 Oct 2021. The Storage Year 2020/21 is going to be marketed in the second half of 2019, at a time where the new NTS price structure is still likely to be unknown. Hence a start date of 1 Oct 2021 that will impact Storage only from Gas Year 2021/22 will allow storage operators and their customers to adjust to the new set of prices and to develop products and operational processes accordingly.</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 if the discount is greater than 50%</p> <p>WWA sets out in its supporting paper a justification for a discount of 80%</p> <p>The methodology employed is satisfactory, as it recognises the unique characteristics of storage and attempts to build upon the base RPM employed at the NTS level. Crucially, the proposed discount, we would argue, provides for a more realistic “valuation” of the system and social benefits which are particular to the existence and operation of storage facilities. These benefits are stated in the WWA and Storengy papers submitted during the Mod 678 development process and are located on the Joint Office website. (WWA paper and Storengy paper).</p> <p>As stated in the Modification proposals 678C/E/F a 50% discount represents the minimum discount which must be applied by TSOs at storage points. This minimum discount</p>

	endeavours to remove the incidences of double charging, recognising that storage provides a parking service for gas already entered into the system, to be delivered to consumers at a later date. This level of discount does not, in any way, attempt to represent the contribution made by storage to system flexibility of security of supply, and therefore will continue to stretch the operational viability of storage sites. An 80% discount goes some way in redressing this deficiency, albeit we would argue that this probably does not go far enough, given the significant benefits provided by storage, as set out in the two papers detailed above
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>We do not wish to comment on this question</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>In relation to modification proposals 678 C/E/F, GSOG is of the view that all of these proposals are compliant with the relevant legally binding decisions. The EU Tariff Code, Article 9 permits the application of capacity discounts of 50% or higher at storage points. All three of these modifications comply with Article 9 in this respect.</p> <p>Modification proposals 678 C/E/F propose that capacity held at storage points should be excluded from the application of Revenue Recovery Charge. This exclusion applies to both Existing and “new” contracts at storage. The EU Tariff Code does not prescribe the form nor application of Revenue Recovery Charge and on this basis the proposals are compliant. It should be noted the 678C does not exclude “own use gas” (or the equivalent level of capacity booking) from the Revenue Recovery Charge, however, it is our understanding that the volumes are negligible and currently are not measured for the purpose of determining the application of commodity charges (as is required under the UNC). Furthermore, it is our understanding that the investment required to modify and operate systems to apply any such charge would outweigh the revenue received.</p> <p>Modification proposal 678F requires the introduction of a capacity surrender process. Such a process is neither permitted nor excluded in the EU Tariff Code, as such this construct is beyond the “reach” of the fundamental framework and obligations the Code and should be viewed as compliant</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>By keeping the FCC Methodology outside of the UNC, this ensures that it is not subject to UNC governance procedures and therefore, not open to continued review and proposals for change by UNC parties. The FCC methodology is a fundamental component of both CWD and Postage Stamp RPM’s and as such any variation will necessarily result in a change to capacity tariffs. Gas market participants have repeatedly stated that stability and predictability should be at the heart of any new pricing methodology. Where a cornerstone of the RPM is open to modification, or at the very least open to proposed changes, this will unsettle the market and compromise these two core objectives.</p> <p>In the case of modification proposals 678E/F it is proposed that the FCC methodology can only be varied following a consultation exercise initiated by National Grid, subject to</p>

	Ofgem's power to intervene. This approach is consistent with limiting the number of reviews of the FCC methodology; ensuring stakeholders are engaged with any proposed changes while delivering certainty, stability and predictably to the overall charging regime.
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