Representation - Draft Modification Report UNC 0729

Applying a discount to the Revenue Recovery Charge at Storage Points

Responses invited by: 5pm on 11 September 2020

To: enquiries@gasgovernance.co.uk

Please note submission of your representation confirms your consent for publication/circulation.

Representative:	Kirsty Ingham Kamila Nugumanova
Organisation:	ESB GT
Date of Representation:	
Support or oppose implementation?	Oppose
Relevant Objective:	**a)** None **b)** None **d)** None **e)** None **g)** Negative
Relevant Charging Methodology Objectives	**a)** None **b)** None **c)** None **e)** Negative

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

We do not believe that justification for this change is as strong and clear as suggested by the modification. As suggested by the proposer, the key justification is compliance with the EU legislation, in particular the NC TAR. We do not believe that the proposed modification further enhances GB compliance with relevant EU legislation. Specifically, we note the reference to Article 9 as the underlying justification for the proposed application of discount for storage facilities.

While we agree that Article 9 does require TSOs to set tariff discounts for storage points, we note the ENTSOG Guidance[1] that refers to these discounts being '*in effect adjustments to the results of the RPM, but separate from the benchmarking, rescaling and equalisation identified in Article 6.*'

ENTSOG highlights that '*benchmarking, rescaling and equalisation foreseen by Article 6(4)(a)-(c) are adjustments to reference prices, whereas adjustments foreseen by Article 9 are adjustments to capacity-based transmission tariffs.*'

It is clear from the NC TAR text as well as the ENTSOG guidance document that the tariffs that are subject to discount are tariffs directly resulting from the RPM. ENTSOG explains the option of '*reconciliation via a reference price methodology and a complementary revenue recovery charge*'. Since the RRC charge is complementary and is calculated via a separate ex-post process, we believe it does not fall into the requirement outlined in Article 9.

To support this view, we note the example of the Netherlands' implementation of NC TAR. In this approach storage discount is applied to the reference price of each storage entry and exit point, where the reference price is calculated by the RPM. The over- or under- recovered revenue resulting from the application of the discount are recovered by an ex-ante rescaling option which allocates the 'missing revenues" over all entry and all exit points. The approach specifically notes that entry and exit points of gas storages are also rescaled – so there is no exemption from the rescaling factor for points that have enjoyed a discount. Similarly, in their response to the Belgian proposals for implementation of NC TAR, ACER recommended that CREG include certain missing elements in its final decision, including 'a calculation of the tariffs resulting from the application of the proposed methodology without factoring in the reconciliation of the regulatory account', and noted that this data is key to understand the proposed RPM independently of the reconciliation of over- or under-recoveries, which is a secondary calculation.

Therefore, we do not believe there is compelling evidence to demonstrate that application of the proposed discount to storage sites would better facilitate compliance with EU legislation. Furthermore, we believe it is not complaint with NC TAR and will have negative impact on the UNC Relevant Objective 'g' and Relevant Charging objective 'e'. We expect Ofgem to undertake a full EU compliance review within their decision-making process.

Furthermore, we are concerned that application of discount at the reconciliation process stage may create further uncertainties for the rest of the charging base in addition to those presented by within year RRC application.

[1] https://www.entsog.eu/sites/default/files/entsog-migration/publications/Tariffs/2018/TAR1004_180501_2nd%20%28revised%29%20Implementation%20Document_High-Res.pdf

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

We support the proposal for implementation in line with Ofgem's direction. We do not believe that the original ask for implementation in October 2020 is achievable.

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

On the basis of our current understanding of the impacts of the proposal as outlined and forecasted by the proposer, as well as our experience with the current charging methodology, we do not anticipate any material costs arising from the development or implementation of this modification. However, there is a great uncertainty around how the charging structure and the wider market behaviour may change following the implementation of UNC 678A. Specifically, the exact scale of RRC and its variations are still to be demonstrated by the actual data. Therefore, it is hard to assess the exact impacts of this proposal with a high degree of certainty at this point.

As noted above, if the proposed application of discount at the reconciliation round (i.e. the RRC charge) is implemented, it may cause further uncertainty for the remaining charging base which is constantly changing. Thus, additional resource may be required for forecasting, reconciliations and compliance. Further uncertainty and volatility of charging leads to risk premia being applied, which contribute to higher costs to end users.

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

We expect the proposer and NGG to carry out a full-scale legal review to ensure there are no inconsistencies with other parts of EU or GB legislation.

Modification Panel Members have requested that the following questions are addressed:

Q1. Respondents are requested to provide a view as to whether Article 9(1) TAR NC requires that a discount must be applied to the capacity reserve prices only or whether the discount must also be applied to the Transmission Services Revenue Recovery Charges (see section 'EU Code Impacts' of the Workgroup Report).

We believe the discount should be applied to capacity reserve prices only. Please see our response summary on p. 1 above for justification of this position.

Q2. Respondents are requested to provide views on the proposed implementation date.

As above, we support implementation in line with Ofgem's Direction.

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.*

No comments

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

No comments