

## 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](mailto:enquiries@gasgovernance.co.uk)

<b>Representative:</b>	Christiane Sykes
<b>Organisation:</b>	Shell Energy Europe Ltd
<b>Date of Representation:</b>	7 June 2019
<b>Support or oppose implementation?</b>	Oppose
<b>Relevant Objective:</b>	<p>c) /None</p> <p>d) Negative</p> <p>g) None</p>
<b>Relevant Charging Methodology Objective:</b>	<p>a) Negative</p> <p>b) None</p> <p>c) Negative/None</p> <p>e) None</p>

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

The industry is currently facing an almost unprecedented level of uncertainty with respect to changes to the GB charging regime. Proposal 0678 and the associated alternative proposals each warrant further consultation by Ofgem, including an Impact Assessment to ensure that the effect on consumers, cross border trade, liquidity, wholesale gas prices and the power market have been fully assessed and understood by stakeholders. Any changes to address inefficient bypass of the NTS are best pursued through this route, rather than in isolation and absent of an Impact Assessment.

According to the Workgroup 0670R: Review of the charging methodology to avoid the inefficient bypass of the NTS, the objective of the Workgroup recognises 'an enduring need [to avoid inefficient bypass of the NTS] despite of or due to future uncertainty' and further points out that construction of independent pipelines bypassing the NTS risks increasing costs as they are spread over a smaller base<sup>i</sup>. The extent to which this could impact tariffs and flows to GB are not as yet quantified but should be taken into account when assessing proposals to remove the optional charge.

Ofgem in its decision to reject urgency status for this proposal, refers to a statement made by National Grid Gas as part of the 0670 Workgroup that 'Short Haul should be considered as an integral part of an overall methodology and not in isolation'. We agree with this assessment and whilst work is ongoing to better understand the range of options, established principles and potential outcomes in the context of wider changes to the GB charging regime, this proposal risks undermining the ongoing work and assessment of the other proposals by seeking to change the charging regime before the costs and benefits of an optional charge are fully understood.

This proposal does not offer more certainty to the market. In contrast, it creates greater uncertainty as alternative options to address inefficient bypass of the NTS could be implemented after this proposal is planned to take effect. Implementing a fundamental change to the GB charging regime on a potentially transitional basis could negatively impact existing contracts and increase the perception of risk with respect to flowing gas to / from the GB market.

In addition to the above points, please follow this [link](#) for our arguments opposing implementation of Modification Proposal 0636, rejected by Ofgem in July last year. We believe our arguments still stand, which are based on incomplete analysis, interaction with existing charging proposals, impact on existing contracts and contract negotiation, certainty and predictability and the benefits of implementing an enduring solution rather than proposals which may only be in place on an interim basis.

Moreover, we believe the basis on which Ofgem rejected proposal 0636 and alternatives still stand, that is, incomplete analysis, due account not given to the benefits of avoiding inefficient by-pass of the NTS and 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.'

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

For the reasons given above in addition to the points made in our response to Modification Proposal 0636, we do not support this proposal.

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

The impact and costs cannot be fully understood until an Impact Assessment is carried out as part of a holistic review of proposed changes to the GB charging regime.

With respect specific impacts and costs to our business, we would welcome a bilateral call with Ofgem to discuss.

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

Insert Text Here

**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.*

Insert Text Here

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

Insert Text Here

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<sup>4</sup><https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/book/2019-05/190604%20NTSCMF%200670R%20Workgroup.pdf>