

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:	Colin Williams
Organisation:	National Grid
Date of Representation:	05/06/2019
Support or oppose implementation?	Comments
Relevant Objective:	<p>c) None</p> <p>d) Negative</p> <p>g) None</p>
Relevant Charging Methodology Objective:	<p>a) Positive</p> <p>b) None</p> <p>c) Negative</p> <p>e) None</p>

We are of the view that Standard Relevant objective (c) and Charging Methodology Relevant Objective (b) overall are not furthered by the Proposal. When reviewing this objective, we have considered previous Ofgem decisions on related Modifications and the justification within the proposal. The proposal does not provide justification as to why the NTS Optional Commodity charge should be removed in isolation without reviewing the rest of the charging methodology. UNC0636 (which proposed changes to the current NTS Optional Charge without considering the broader charging methodology) was rejected by Ofgem. At the time, broader UNC changes were being considered under UNC0621. UNC0621 was rejected in December 2018 and UNC0678 was raised in January 2019 and UNC0678 is a comprehensive set of proposed changes to the charging methodology, incorporating full EU Tariff Network Code (TAR NC) compliance and addressing Ofgem’s reasons for rejecting UNC0621.

UNC0686 was raised towards the end of the UNC0678 UNC change governance process in the knowledge that UNC0678 and all the alternatives, propose to remove the current NTS OCC. Some introduce a new Optional Capacity Charge, others advocate UNC0670R as the most efficient means of reviewing arrangements for managing inefficient bypass of the NTS through a transportation charging framework.

The proposer stresses compliance with the TAR NC for the removal of the NTS Optional Commodity Charge (NTS OCC). To propose partial or incremental compliance does not deliver full compliance with TAR NC, something key to moving to a TAR NC compliant regime. Given UNC0678 is also being considered by Ofgem, as mentioned above, should UNC0686 be implemented before UNC0678 then this could be a disruptive period for Users, managing two step changes in the charging framework in potentially quick succession. Taken together, we do not believe this furthers the Licensee's obligations as per Relevant Objective (c) and Charging Methodology Relevant Objective (b). For the same reason on TAR NC compliance we are of the view this does not further Relevant Objective (g) and Charging Methodology Relevant Objective (e). We comment further on TAR NC Compliance elsewhere in this response.

We believe Charging Methodology Relevant Objective (a) would be furthered by this Modification. Charges reflecting the costs incurred by the Licensee (summarised as "cost reflectivity") in its transportation business is a challenging objective to comment on as it is subjective in its interpretation. We consider cost reflectivity in this context as the method by which the charges recover the costs of the NTS (which are the allowed revenues for the year in question). The removal of a charge that no longer fulfils its original intent (access to the NTS OCC is no longer limited to points representing a genuine risk of bypass) to the extent that its "cost-reflectivity" has been diluted, improves the cost reflectivity of the methodology. Whilst not ideal overall, as it does not propose a review of the whole methodology (e.g. including why high commodity charges exist driving part of the problem with access to the NTS OCC), it reduces the non-cost reflective nature of the current NTS OCC in terms of how it is used and the volume of uptake as any cost reflectivity assumption should also consider the likelihood of bypass.

In our view, Relevant Objective (d) and Charging Methodology Relevant Objective (c) would not be furthered by this Modification. With UNC0678 being considered by Ofgem, and with UNC0686 being presented at a similar time, this could leave industry managing two large changes potentially very close together. If a decision to implement 0678 is made before reaching a decision on UNC0686 then, in our view, UNC0686 is not implementable.

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

We provide comments on this proposal.

As we have highlighted in our proposal of UNC0678 and UNC0670R we believe it is necessary to review any arrangements for managing inefficient bypass within the context of the whole charging methodology. One key argument by the proposer is that of furthering compliance with the TAR NC. Whilst it can be argued that a commodity based charge not stipulated under Article 4 of TAR NC is non-compliant, there is no other consideration of how the rest of the current charging methodology is compliant. There are other areas which can be interpreted as non-compliant that are not addressed so furthering compliance is a challenging assumption to make overall (i.e. all aspects of the current methodology remain except the NTS Optional Commodity Charge).

Several points were raised in the Workgroup and we don't believe these concerns have been adequately addressed in the Workgroup Report (i.e. following discussion in the Workgroup) or in the Proposal. These are:

1. Reviewing OCC in isolation. This was one of the reasons UNC0636 was rejected. How this is addressed in this proposal is not clear.
2. Removal of OCC would not ensure prevailing methodology is compliant with TAR NC. This was mentioned as part of the UNC0621 decision letter. This point is also not addressed specifically. One can infer that the proposal is not advocating the prevailing methodology is or is not compliant with TAR NC only that by removing NTS OCC from it, would further compliance.

We agree that the level of access to the NTS OCC and amounts redistributed to those paying standard commodity rates means that the NTS OCC warrants review. National Grid has raised a review group proposal, UNC0670R, to provide a wholesale review of the arrangements for managing inefficient bypass of the NTS through the transportation charging framework, which we believe is a more suitable vehicle for delivering changes in this area recognising that UNC0678 is also being considered by Ofgem.

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

Should it be implemented the lead times as given in the proposal are sufficient.

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

The impacts and costs presented in the analysis section of the proposal present two areas worth commenting on:

1. The impact on commodity charges quoted in the Modification proposal are broadly accurate. Should the numbers be updated with recent data, would not be materially inaccurate or differ much from those presented by the proposer. National Grid highlighted the impact on TO and SO Commodity charges in the workgroup report. We also highlighted that the overall amount charged via Transportation charges (the “cost of National Grid”) remains unchanged.
2. The consumer bill impacts are presented without calculation of their values. We cannot comment on the values as they are not transparently calculated. Any impact on consumers would need to consider how charges are ultimately passed on to different consumers. We do not believe it is accurate to say that consumers could benefit to the values presented without supporting comments from suppliers and other industry parties or without a broader market assessment.

One element remains unchanged when considering the impact of these proposed changes and may have an impact when considering how transportation charging impacts are ultimately passed through to Consumers:

- The overall amount charged via transportation charges (the “cost of National Grid” to the market) and the amount of revenue levied to the industry would remain *unchanged*. Some parties would pay more and some would pay less.
- This change moves monies between parties, and assuming no behavioural change, it would result in increased charges to those currently utilising the NTS OCC and reduced charges to those not utilising the NTS OCC. Overall the amount to be collected by commodity charges would remain unchanged given the capacity revenues would remain unchanged.

Regarding the impact of implementation of this proposed change on process and systems, there would be a minimal cost to implement this solution to remove the NTS OCC.

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

We are satisfied with the Legal Text presented.

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 errors identified.

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

The Final Modification Report for UNC0678 (and alternatives) is now with Ofgem for decision. Should Ofgem direct implementation of UNC0678 before a decision on UNC0686, then UNC0686 cannot be implemented as the charge it proposes to remove would have already been removed.

UNC0678 and all its alternatives propose the current NTS Optional Commodity Charge ends. Some propose a new NTS Optional Capacity Charge, therefore all, in part, deliver the desired result of UNC0686, the removal of the current NTS Optional Commodity charge.

The proposer suggests that National Grid will be in breach of its Licence without this change, specifically on grounds of compliance with TAR NC. This proposal suggests compliance is only furthered, not *delivered*, should it be implemented. National Grid has raised UNC0678 to deliver full compliance with TAR NC and this is with Ofgem for decision. By raising UNC0678 we believe we are delivering in line with our obligations and only Ofgem can direct implementation of a new charging methodology and the timing of such implementation. National Grid does not have control of when Modifications are implemented and it is important to provide Ofgem the time for due process and implement changes to the UNC effectively.

The proposal refers to removal of the NTS OCC with “adequate notice” and suggests that “A TAR NC Methodology is necessary by 31 May 2019 to have TAR NC compliant capacity charges effective from 1 October 2019”. By permitting changes after this date, which then proposal does, the proposer is acknowledging that compliance can be achieved after 31 May and 31 October should Ofgem decide this. Therefore, whilst the 31st May is the compliance date of TAR NC, compliance can be delivered afterwards in line with an Ofgem decision.