Representation - Draft Modification Report

UNC 0636 0636A 0636B 0636C 0636D

Updating the parameters for the NTS Optional Commodity Charge

Responses invited by: 5pm on 14 June 2018

To: enquiries@gasgovernance.co.uk

Representative:	Samuele Repetto
Organisation:	Edf Trading Limited
Date of Representation:	14.06.2018
Support or oppose implementation?	0636 - Oppose 0636A - Oppose 0363B - Oppose 0636C - Oppose 0636D - Oppose
Expression of preference:	*If either 0636, 0636A, 0636B, 0636C or 0636D were to be implemented, which would be your preference?* On a least worst basis 0636B and 0636D
Relevant Objectives:	0636: **g)** None 0636A: **g)** None 0636B: **g)** None 0636C: **g)** None 0636D: **g)** None

Relevant Charging Methodology Objectives:	0636: **a)** Negative **b)** Negative **c)** Negative **e)** None 0636A: **a)** Negative **b)** Negative **c)** Negative **e)** None 0636B: **a)** Positive **b)** None **c)** Positive **e)** None 0636C: **a)** Negative **b)** Negative **c)** Negative **e)** None 0636D: **a)** Positive **b)** None **c)** None **e)** None

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

Introduction

EDFT is of the view that all of the modification proposals should be rejected and changes made to OCC should coincide with the introduction of the new NTS charging arrangements proposed in Modification 0621 (or its alternatives). We see no benefit in separating out OCC for change in October 2018 for a number of reasons, not least:

- Implementing two changes to OCC over a one year horizon will be disruptive to the market and consumers and as a result will undermine contractual arrangements and limit the ability of customers and suppliers to enter into longer term, stable commitments

- It is expected that the changes to be made in Oct 2019, as a result of the implementation of one of the 0621 modifications, will be material. All of the 0621 modifications propose replacing the current LRMC Reference Price Methodology with either CWD or Postage Stamp Methodologies, which, in their own right will result in significant changes to capacity reserve prices, at both entry and exit. Any change to OCC in Oct 2018 will be superseded by further changes to underlying capacity charges and the associated OCC methodology in Oct 2019. It should also be noted that further changes to charges will be introduced in 2021, not least to enable the future functioning of an OCC service. Markets can only function effectively when the underlying governance framework is stable and predictable. Making an unnecessary change in Oct 2018 will destabilise the governance framework, creating uncertainty and a lack of transparency. This will be hugely detrimental to customers.

- As highlighted in the Workgroup Reports for modifications 0636 and 0621, any changes which are introduced following the implementation of Mod 0636 (or its alternatives) will undermine the work carried out in support of Mod 0621 (and its alternatives). The impact analysis included in the report is absent of any ramifications particular to Mod 0636 (and its alternatives) and therefore, cannot be relied upon to advise the industry on the subsequent impacts on 0621 (and its alternatives). In short, the analysis produced as part of the 0621 report uses the current OCC arrangements as the "baseline" and any change to this "baseline" will not be considered when industry compiles responses to the 0621 consultation process. For this reason we believe that any changes brought about via the implementation of Mod 0636 (or its alternatives) will render the 0621 governance process invalid.

- The lead times available between decision and implementation are likely to be minimal. We are certain that Ofgem will need to carry out an Impact Assessment in relation to this suite of 0636 Modifications given the lack of consideration in the Workgroup Report given to the impacts on consumers and security of supply (we cover this in more detail at the end of this response). Where Ofgem concludes that an IA is required it would be reasonable to expect a consultation period of eight weeks, which will remove the possibility of a 1 October 2018 implementation, certainly when including an adequate lead time of a minimum of 2 months. For reasons stated later in this response, an implementation which does not align with the commencement of a Gas Year would be untenable.

0636 and 636C

Both of these proposals adopt the key aspects of Option 1 of GCD11 for the purposes of establishing a pipeline portfolio and the application of a steel index (Mod 636C in relation to non-IP related OCC routes). This approach is based on the assumption that there is a direct read across between the wider distribution of pipeline diameters and their related RIIO-T1 costs and the construction of private pipeline systems. There is no evidence to support this assumption.

In addition, this radical approach will undermine historical investment decisions made by developers when assessing the option of building a private pipeline or using the NTS i.e. whether or not to bypass the NTS. Those who elected to use the NTS may no longer be in a position to change this view and respond to the changing cost differentials. This could be due to practical reasons such as land availability, plant location, lifespan of existing offtake facility .For this reason, it can be argued that any significant change to OCC arrangements would discriminate against existing users of the service

In addition, both proposals include an M function which is related to the previous year's consumption at the offtake. This is counterintuitive when considered in parallel with the overriding justification for the inclusion of an OCC service. The OCC service was developed to ensure efficiency in the use of the NTS, specifically designed to discourage inefficient bypass. As such, the cost of using OCC should align with the cost of constructing and operating a private pipeline. We are not aware that any customer/developer would construct a pipeline system based on anything but expected peak day utilisation i.e. the size and costs associated with building, operating and maintaining a pipeline would be assessed on the basis of reasonable expectation of peak utilisation. Where the OCC rate is determined by reference to historical, and in the vast majority of cases significantly lower flows than peak, the subsequent reference price will in no way provide a suitable benchmark for assessing the options of bypassing or using the NTS.

On the basis of the above, it is clear that these proposals will not facilitate the achievement of Relevant Charging Objectives a, b and c.

0636A

This inclusion of a distance cap which has been derived by excluding a fixed proportion of OCC flows from being able to access the product is entirely arbitrary and without proper justification. For this reason it fails to facilitate any of the Relevant Charging Objectives and will actively discriminate across customers

0636B

This proposals has some merit as it limits the changes to the formula to an uplift on underlying costs to RPI. Unlike Mods 0636 and 0636C, the proposal ensures that the OCC tariff is updated in line with price inflation and does not attempt to undermine existing OCC arrangements by falsely applying costs. It should also be noted that the proposal is consistent with the majority of Mod 0621 proposals, absent a distance cap and therefore, could be considered as a reasonable transition towards a likely enduring solution. We believe 0636B may have some positive effect with regards to RO a and c in that cost reflective charges can facilitate competition. However, we would like to reiterate that the positive effect would be short-lived since as of 1st October 2019 commodity charges would not be allowed at IPs according to TAR network code.

Notwithstanding the possible positive effect with regards to RO a and c, we do not believe for reasons expressed at the beginning of the response that this proposal, or any of the other proposals should be implemented.

0636D

Similar arguments in favour of this response can be presented to support the progression of this proposal, however, we are not convinced that the interpretation of the requirements under the EU Tariff Code are valid and are sufficient to recommend individual treatment of IPs.

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

The lead time for implementation should be 6 months, as an absolute minimum. Any shorter lead time will undermine contractual arrangements between suppliers and customers and potentially beach trades entered into to optimise transmission charges.

Where notice is limited, or the date of implementation does not fall on the 1 October there would be costs related to business agreement already entered into (or in the process of being structured) whose contractual terms take as a reference the current availability of OCC; such terms are not necessarily amendable at a later stage.

Impacts and Costs: *What analysis, development and ongoing costs would you face? Please specify which Modification any issues relate to.*

When reopening of contracts is possible, a shipper would face costs associated with both the commercial and legal aspects of unwinding trading positions and structuring new alternatives (when/if possible).

Legal Text: *Are you satisfied that the legal text will deliver the intent of the Solution? Please specify which Modification any issues relate to.*

n/a

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.*

The Report is very high level and the analysis presented is both generic and static.

Industry is unable to properly assess the impacts of the proposals as the analysis does not attempt to take into account any possible changes in consumption behaviour e.g. in response to higher OCC rates, nor does it focus on the impacts on individual customers (for commercially sensitive reasons).

As a result, an Impact Assessment is essential if Ofgem is to take an informed decision and properly identify the impact on customers (both those using OCC and the subsequent costs/benefits to non-OCC customers).

Beyond the cost implications for individual customers, including an appreciation of their ability to pass through costs into secondary markets, such as the UK power market. An IA should also focus on security of supply and the ability of GB to attract gas supplies (existing and new) as well as the potential impacts on GB market gas prices where the cost of "landing" gas become more expensive.

Finally, the IA should consider any ramifications for the market in general of introducing changes to the OCC at relatively short notice e.g. impacts on contractual relationship between suppliers and customers and gas producers and shippers. Consideration should be extended to trading impacts, in particular at beach level where most trading is carried out to optimise gas entry costs

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

EDF trading considers that changes proposed by 0636 and its alternatives are likely to have significant distributional impacts with a number of parties seeing a large increase in transportation charges whilst others see a small decrease. For such reasons the wider consequences of this proposals need to be appropriately examined by means of an IA capable of considering impacts on the generation sector, import and exports.