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:	Christiane Sykes
Organisation:	Shell Energy Europe
Date of Representation:	14 June 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?* ** delete as appropriate*
Relevant Objectives:	0636: **g)** Negative 0636A: **g)** Negative 0636B: **g)** Negative 0636C: **g)** Negative 0636D: **g)** Negative

Relevant Charging Methodology Objectives:	0636: **a)** Negative **b)** Negative **c)** Negative **e)** Negative 0636A: **a)** Negative **b)** Negative **c)** Negative **e)** Negative 0636B: **a)** Negative **b)** Negative **c)** Negative **e)** Negative 0636C: **a)** Negative **b)** Negative **c)** Negative **e)** Negative 0636D: **a)** Negative **b)** Negative **c)** Negative **e)** Negative

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

Incomplete analysis

The full impact of the proposals on consumers, cross border trade and liquidity, wholesale gas prices and the power market have not been fully assessed. All proposals will have a significant impact on persons engaged in the shipping and supply of gas and in the generation of electricity, yet there has been limited analysis to enable these parties to understand the magnitude of the impact.

Impact Assessments provide a structured framework for understanding the impacts associated with important proposals and as per Ofgem's guidance, should be proportionate and transparent with a view to promoting a competitive, secure and environmentally sustainable internal European energy market, as required by the Third Package. 0636 and the associated alternatives will impact competition, security of supply and cross-border trade but there has been no analysis to enable network users to understand how or the extent to which these areas will be impacted.

No assessment has been made of the effect of the proposals on gas flows to the GB market but if the economics for directing gas to GB changes as the result of proposed changes to the optional commodity tariff then this could have a material impact on gas prices and market liquidity. In light of this, it seems there is a clear need for an Impact Assessment to ensure that a fully informed, transparent and impartial decision can be made, which takes into account a review of the wider impact of the proposals and its interactions with EU regulation.

0621/0636 Interaction

In the event that 0636 or any of the alternatives are implemented prior to implementation of modification proposal 0621, 0621 will need to be amended as the proposed changes to the optional commodity tariff will no longer reflect the prevailing regulation, which will have been changed to reflect implementation of 0636. Changes to 0621 will likely be required to the proposal, solution, relevant objectives and supporting analysis and customer impacts sections. There is no defined governance route to amend 0621 once the Final Modification Report has been published but amendments will be required, which will likely unduly delay implementation of 0621 and therefore, NC TAR compliance by May 2019.

Impact on existing contracts and ongoing contract negotiation

Proposing changes to the GB tariff methodology, which impact existing contracts and ongoing contract negotiations and with insufficient time to take account of the proposed changes, increases costs and risks for network users, not only in GB but also in Ireland, and in other neighbouring markets, often without recourse to amend those contracts to reflect any amendments to the optional commodity tariff.

Ireland in particular, could be exposed to a material impact as it relies on gas flows through the Moffat Interconnector. The impact is exacerbated if there are any field issues for Irish domestic gas production, as it would lead to increased flows through Moffat and potentially high and unpredictable tariffs brought about by the changes proposed in 0636 and the associated alternatives. There has been no assessment to understand the extent of this risk. We question whether this is line with the EU network access regulation, which stipulates that tariffs must not restrict liquidity nor distort trade across borders.

Certainty and predictability

Tariff certainty and stability is paramount to a well-functioning gas system. As part of the GCD11 process, there was a preference to defer reviewing the broader objectives of the NTS Optional Commodity Charge until there was more certainty regarding GTCR and EU TAR NC. Furthermore, in Ofgem’s decision not to grant urgent status to the proposal, Ofgem saw benefit in these issues (i.e. TAR NC) being considered in the round as 0621 may have an effect on the issues covered by this modification. Whilst we welcome the fact that the proposal was not processed as urgent, it has still not been possible to assess the proposed changes to the optional commodity tariff as part of a broader review of charging regime and as such, 0636 and the associated alternatives have not been fully assessed in the context of EU regulation nor provided sufficient time for formulating and enduring solution for avoiding inefficient bypass of the NTS, which the optional commodity charge was initially put in place to achieve.

Given these uncertainties and the timing of these proposals, we suggest that Ofgem either rejects or suspends consideration of 0636 and the associated alternatives so a more workable and enduring solution can be found and the impacts fully understood, with sufficient time for network users to incorporate those changes into their internal strategies.

0636:

Adjusting the assumed capacity of the alternative by-pass pipeline against which the OCC charges are calculated by replacing the MNEPOR in the current formula with the average daily flow at the exit point from the previous Gas Year divided by 75% does not reflect the costs associated with avoiding inefficient bypass of the NTS as pipelines are not built to facilitate average flow rates but built to facilitate the maximum offtake rate, which is captured by the current calculation.

Moreover, the costs of building a pipeline do not fluctuate based on the previous year's average flow rate. A change to the definition of 'M' within the Optional commodity tariff formula, is, not, therefore, cost-reflective and is in conflict with the Relevant Charging Objective (a), which is to ensure tariffs are best calculated to reflect costs incurred. As referenced in the Draft Modification Report, there is no provision for adjusting the M value when there have only been flows for part of a gas year, which further exacerbates the issue.

In addition, charges based on fluctuating parameters further increases the risk in existing contracts and ongoing contracts negotiations ahead of Gas Year 2018, which reference a fixed enduring rate. This leaves buyers exposed in particular, where they may have already tied in their end users on a fixed price for the year. This could have a negative impact on Relevant Charging Objective (c) securing effective competition between shippers and suppliers.

0636A

Introducing an arbitrary distance cap is not cost-reflective and whilst we accept that the optional commodity tariff was envisaged to capture entry and exit sites in close proximity to each other, the limiting factor should be inherent in the calculation, rather than imposing an arbitrary limit, which does not reflect alternative costs of bypassing the system.

0636B

Whilst it is anticipated that these proposals will work in the interim, prior to implementation of 0621, the proposals have to be evaluated on an enduring basis as there are no guarantees that the proposals under 0621 will be implemented. On this basis, this proposal fails to meet the requirements under the EU tariff network code (NC TAR), which must be in place for May 2019, as it would discriminate against Interconnection Points (IPs), where commodity charges will no longer apply.

0636C

See response regarding MNEPOR above.

0636D

See response to 0636B.

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

National Grid’s reasonable endeavour’s licence obligation to give 150 days notice of changes to charging methodology should apply, given the material impact of the proposed changes the methodology for calculating the optional commodity tariff.

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

Either insufficient analysis to enable us to specify or commercially confidential reasons for not being able to complete this.

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

We have lacked sufficient time to fully assess all of the legal text.

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.*

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