

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:	Alastair Tolley, Head of Policy and Regulation
Organisation:	EP UK Investments Ltd
Date of Representation:	7 June 2019
Support or oppose implementation?	Oppose
Relevant Objective:	<ul style="list-style-type: none"> c) Negative d) Negative g) None
Relevant Charging Methodology Objective:	<ul style="list-style-type: none"> a) Negative b) Negative c) Negative e) None

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

EPUKI considers that some form of shorthaul tariff remains an important part of the gas transmission charging regime to avoid inefficient bypass of the NTS. The complete removal of the Optional Commodity Rate would make charges less cost-reflective for offtakes located close to entry points and increase the risk of system bypass. The primary justification for this modification is compliance with the Tariff Network Code, but as the modification does not address any other aspects of the design of the charging regime it will not deliver compliance. Given that wider compliance issues should be addressed through UNC0678, which will supersede any decision on UNC0686, we do not consider that the proposed interim solution is sensible or proportionate.

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

EPUKI opposes implementation of this modification. However, in general we consider that significant changes to the gas charging regime should only be implemented at the start of a Gas Year to ensure that contracts and processes can be structured appropriately. We consider it unlikely that Ofgem would be able to undertake an Impact Assessment and reach a decision on UNC0686 by the end of July 2019 to allow for implementation in October 2019 and we therefore consider that the earliest this modification should be implemented is October 2020. In that case, it would be preferable to await Ofgem's decision on UNC0678, which is expected to include a decision on the enduring shorthaul arrangements, rather than proceeding with this modification.

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

This modification would represent a substantial change to the NTS charging arrangements. EPUKI would therefore need to update its internal analysis and modelling and re-educate staff. Contracts would also need to be updated to reflect the removal of the Optional Commodity Rate.

In the absence of a shorthaul tariff, EPUKI would incur cost undertaking design, planning, construction and maintenance of a bypass pipeline.

The modification could also negatively impact the amount of generation from EPUKI's power stations in future and could affect investment decisions, including decisions about the remaining lifetime of the plants.

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

No EPUKI comment.

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 Modification Report does not fully consider the risk of system bypass in the absence of a shorthaul tariff or the impact that this would have on other users. EPUKI believes that there are many offtakes where bypass of the NTS is a genuine possibility. The decision to construct a bypass pipeline may not be taken by each offtake in isolation. Where several large offtakes are located close to each other (for example, in an industrial area), these parties could choose to share the costs of a bypass pipeline leading to substantially lower capital and maintenance charges. The ability to share pipelines will therefore increase the likelihood of bypass. EPUKI is aware of several CCGT owners that are located in close proximity and are developing proposals for a joint bypass pipeline.

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

The rationale for this modification is that the NTS Optional Commodity Rate (OCR) is not compliant with the Tariff Network Code (TAR NC) and should therefore be removed from 1 October 2019. However, as recognised by Ofgem in its decision on urgency for UNC0686, 'TAR NC necessitates a number of changes to the GB gas charging arrangements, including but not limited to: the introduction of floating payable prices; the cessation of commodity charges, and; the setting of discounts for storage. UNC686, by removing the OCC, would not ensure that the prevailing NTS Charging Methodology is compliant with TAR NC.'

UNC0686 would only address one small aspect of compliance with TAR NC, without addressing wider considerations. Further modifications will be required to ensure compliance with TAR NC and this is already in progress through UNC0678. We do not consider that changes should be made to the charging regime on a piecemeal basis, especially when they do not deliver compliance by themselves. Ofgem indicated in its decision on UNC0636 that a shorthaul tariff should be considered holistically with other changes to the charging regime and we support this position.

We note that Ofgem has not yet reached a decision on whether a shorthaul tariff is a necessary part of the charging regime in future. In its decision on UNC0636, Ofgem recognised that 'Customers of the NTS derive benefits from the OCC as it provides an additional source of revenue which would not be available should certain network users decide to construct alternative pipelines'. EPUKI considers that there should be a suitable ongoing incentive to avoid inefficient bypass of the NTS. Although the OCR results in some "redistribution" of cost from OCC users to non-OCC users, this may be an efficient outcome, provided the redistribution is at an appropriate level. UNC0686 does not give proper consideration to the wider benefits of a shorthaul tariff and the appropriate level of redistribution between users.

EPUKI therefore does not consider that there is a convincing case completely to remove the shorthaul tariff, especially as the charging regime would remain non-compliant with TAR NC following implementation of UNC0686. Alternative designs of tariff to discourage inefficient bypass of the NTS have been proposed by industry (including those in alternatives to UNC0678) and these should be fully assessed before any action is taken with regard to the OCR.

UNC0686 is intended to be an interim solution until wider gas charging reform has been implemented. We consider that the enduring charging regime should contain a shorthaul tariff to discourage inefficient

bypass of the NTS and the UNC0686 modification proposal recognises that this is a possibility. Removing the OCR on a temporary basis would require parties to amend their contracts and business plans at short notice and would undermine investment decisions which have already been taken on the assumption that there would be a shorthaul tariff in place on an enduring basis. For this reason, we would expect Ofgem to carry out a full Impact Assessment to determine the effects on different parties, taking account of potential unintended consequences, before reaching a decision on this modification. We do not consider that the disruption caused by the removal of the OCR would be justified given that an enduring solution which supersedes UNC0686 may be approved by Ofgem in the near future.