

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:	Iwan Hughes
Organisation:	VPI Immingham LLP
Date of Representation:	13/06/18
Support or oppose implementation?	<p>0636 - Support/Oppose/Qualified Support/Comments * <i>delete as appropriate</i></p> <p>0636A - Support/Oppose/Qualified Support/Comments * <i>delete as appropriate</i></p> <p>0636B - Support/Oppose/Qualified Support/Comments * <i>delete as appropriate</i></p> <p>0636C - Support/Oppose/Qualified Support/Comments * <i>delete as appropriate</i></p> <p>0636D - Support/Oppose/Qualified Support/Comments * <i>delete as appropriate</i></p>
Expression of preference:	<p><i>If either 0636, 0636A, 0636B, 0636C or 0636D were to be implemented, which would be your preference?</i></p> <p>0636 - / 0636A / 0636B / 0636C / 0636D * <i>delete as appropriate</i></p>
Relevant Objectives:	<p>0636: g) Positive/Negative/None * <i>delete as appropriate</i></p> <p>0636A: g) Positive /Negative/None * <i>delete as appropriate</i></p> <p>0636B: g) Positive/Negative/None * <i>delete as appropriate</i></p> <p>0636C: g) Positive/Negative/None * <i>delete as appropriate</i></p> <p>0636D: g) Positive/Negative/None * <i>delete as appropriate</i></p>

Relevant Charging Methodology Objectives:

0636:

- a) ~~Positive/Negative/None~~ * delete as appropriate
- b) ~~Positive/Negative/None~~ * delete as appropriate
- c) ~~Positive/Negative/None~~ * delete as appropriate
- e) ~~Positive/Negative/None~~ * delete as appropriate

0636A:

- a) ~~Positive (until 1st October 2019) /Negative/None~~ * delete as appropriate
- b) ~~Positive/Negative/None~~ * delete as appropriate
- c) ~~Positive/Negative/None~~ * delete as appropriate
- e) ~~Positive/Negative/None~~ * delete as appropriate

0636B:

- a) ~~Positive/Negative/None~~ * delete as appropriate
- b) ~~Positive/Negative/None~~ * delete as appropriate
- c) ~~Positive/Negative/None~~ * delete as appropriate
- e) ~~Positive/Negative/None~~ * delete as appropriate

0636C:

- a) ~~Positive/Negative/None~~ * delete as appropriate
- b) ~~Positive/Negative/None~~ * delete as appropriate
- c) ~~Positive/Negative/None~~ * delete as appropriate
- e) ~~Positive/Negative/None~~ * delete as appropriate

0636D:

- a) ~~Positive/Negative/None~~ * delete as appropriate
- b) ~~Positive/Negative/None~~ * delete as appropriate
- c) ~~Positive/Negative/None~~ * delete as appropriate
- e) ~~Positive/Negative/None~~ * delete as appropriate

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

- 1.1 VPI is part of Vitol Group who submitted alternative modification 0636A which suggests a 115km distance cap for Optional Commodity Charge (OCC) users.
- 1.2 VPI supports the principle of the OCC and believes that it successfully discourages large users close to entry points from building private pipelines.
- 1.3 VPI agrees with sentiment expressed in the recent 0636 letter from Petronas Energy Trading Limited (dated 28th March 2018.) This letter accurately highlights the current level of uncertainty as well as challenges face by shorthaul users ahead of the next gas year. By this, the timing of 0636 has severely impacted counterparty's ability to enter into new firm commercial arrangements from 1st October 2019 onwards.
- 1.4 VPI support Ofgem, as a minimum, deferring implementation of any changes to the short haul tariff until at least the 1st October 2019. We remain concerned that Ofgem will be asked to make a determination around 0636 without the necessary comprehensive, quantified analysis and impact assessments (e.g. for all customers, UK plc and security of supply, markets/ existing agreements.)

1.5 VPI believe that Ofgem should provide clarity around ongoing interactions between modifications 0636, 0621 and 0653 – the impacts of which should be fully considered. Given the complexity around comparing modifications and suggested alternatives, VPI supports an alternative route from the 1st October 2019 which restricts the scope of changes to compliance with EU TAR NC. This approach would allow time for incremental evidence led changes accompanied by thorough analysis to be implemented over a longer period.

0636:

2.1 VPI does not agree that 0636 is more cost reflective for short haul users. 0636 calculates M values (Maximum NTS Exit Point Offtake Rate) using a user's previous year's gas flows which will vary year on year. This is not consistent with our interpretation of the OCC - the cost of which should be linked to a user's historic decision not build a private pipeline to bypass the NTS. 0636 may result in the OCC becoming a variable tariff which means that is also assumed that the cost of building physical pipelines could dramatically change year-on-year. The GB energy market is undergoing a significant period of change so it also remains unclear – if 0636 was an enduring solution - what impact increased/decreased OCC tariffs would have on lower/higher consumption.

2.2 VPI believe that the calculation of OCC tariff for genuine shorthaul users should be independent of cost recovery mechanisms for new gas transmission investment.

0636A

3.1 0636A is a practical approach which seeks to address the concern that large users and shippers are entering into shorthaul commercial contracts over ever increasing distances. Following engagement with National Grid, a distance cap of 115km was proposed as an interim solution before 0621/0653 could be implemented on the 1st October 2019 (see comments in 1.5.) VPI note that several 0621 modifications recommend a 60km distance cap between 2019 and 2021.

3.2 VPI believes that 0636A presents a transitional solution which will result in minimal disruption to commercial agreements struck by the market whilst also addressing concerns that some longhaul offtakers are able to utilise shorthaul tariffs at the expense of all other users. It is not clear at this stage - without the necessary impact analysis - what the impact will be on all end consumers.

3.3 VPI notes that 0636A and 0636B do not take account of EU Regulation 2017/460 which requires different arrangements at interconnection points from the 1st October 2019. As stated previously, VPI recommends that a more limited charging solution is implemented from the 1st October 2019 which is compliant with EU Regulations. Although VPI agrees that a modification is either “compliant” or “not compliant” we do not agree that these practical proposals discriminate against interconnection points as there will be further changes to gas charging frameworks ahead of the stated deadline for EU compliance.

0636B

4.1 As stated in 2.1 VPI continues to believe that the OCC tariff should reflect historic investment decisions to not bypass the NTS.

0636C

5.1 636C uses the same annual flow based calculation as 0636. We do not believe calculating variable tariffs using the previous year's annual flows is the appropriate way to reflect foregone costs of building private gas network infrastructure.

5.2 VPI note that there are challenges delivering 0636C within the timescales available.

0636D

6.1 As stated in 2.1 VPI continues to believe that the OCC tariff should reflect historic investment decisions to not bypass the NTS.

6.2 VPI note that there are challenges delivering 0636D within the timescales available.

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

7.1 See comments in 1.4

7.2 Given the time spent already engaging around 0621, modification 0636 has resulted in additional uncertainty around the timing of regulatory decisions and gas charging processes.

7.3 VPI strongly believes that 0636 should have reached a decision/ timed out well ahead of the timescales required by National Grid to publish NTS charges for the next gas year. Timescales around 0636 are now unacceptably short with many counterparties requiring at least a six month lead time to manage positions and the impact on cash flow.

7.4 VPI does not believe 0636 implementation after the 1st October 2018 is appropriate as this would immediately impact any firm OCC contracts struck in the market – which due to the physical delivery requirement, allow for very limited contract re-opening provisions.

7.5 As stated in 1.5, VPI request that Ofgem clarify the interaction between 0636, 0621 and 0653. It is entirely possible that other new modifications could also be raised over the summer.

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

8.1 As stated in 1.3, counterparties are currently unable to enter into firm commercial shorthaul agreements from 1st October 2018 onwards. This is due to both sides being exposed changes in the OCC tariff which will damage underlying profitability as well as the viability of the agreed contract.

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

9.1 No 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.*

10.1 Referred to in 1.4

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

11.1 No comment