

## 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](mailto:enquiries@gasgovernance.co.uk)

<b>Representative:</b>	Gerry Hoggan
<b>Organisation:</b>	ScottishPower Energy Management Ltd
<b>Date of Representation:</b>	14 <sup>th</sup> June 2018
<b>Support or oppose implementation?</b>	0636 - Oppose 0636A - Oppose 0636B - Oppose 0636C - Oppose 0636D - Oppose
<b>Expression of preference:</b>	<i>If either 0636, 0636A, 0636B, 0636C or 0636D were to be implemented, which would be your preference?</i>  None
<b>Relevant Objectives:</b>	0636: g) Negative  0636A: g) Negative  0636B: g) Negative  0636C: g) <b>Negative</b>  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)**

The following general comments are applicable to all of the proposals

- It is recognised that since first implemented, utilisation of the Optional Commodity Charge (OCC) has expanded beyond how it was initially envisaged, largely as a result of a greater proportion of revenue now being recovered via commodity charges. That allied to the lack of a review of the design of the charge or input elements to the charge calculation have resulted in a persuasive case for a fundamental examination and potentially overhaul of the OCC.
- However that need for review needs to be considered in the current context and as ever with any issue relating to charging, a wider assessment should be conducted to try to identify and quantify resultant impacts elsewhere in the charging regime and beyond to shipper commercial operations.
- Currently the ongoing charging review under MOD0621 Amendments to the Gas Transmission Charging Regime and its Alternatives (MOD0621) have attempted to adopt a holistic approach to reform of the overall charging regime. The OCC and its impacts have been a central factor in the analysis of the current arrangements whilst it has also been recognised that there is a need for a comprehensive review of the

structure and design of any such similar charge as part of the future enduring arrangements.

The timing of this proposal, and any of the consequential Alternatives, is such that it risks undermining a significant part of that work, in that it will substantially impact the baseline against which MOD0621 will have been assessed. There appears to be no clear governance process that would allow the re-opening of that supporting analysis in the event of any of these proposals being implemented and even if there were the time delays occasioned would seriously jeopardise timeous implementation of MOD621, with potential for EU Tariff Network Code non-compliance as a consequence.

- In terms of timing
  - if implemented at its earliest the charge will be applicable for no more than 1 year assuming that either MOD0621 or any of its Alternatives is in turn implemented as at 1<sup>st</sup> October 2019. Shippers will have been faced with significant change for only a comparatively short period and in some instances with the potential for yet further significant change to enduring arrangements beyond the transitional period.
  - Shippers will all but inevitably have been left with little or no time to make appropriate contractual provision incorporating the revised charges in the conventional contract round for Gas Year 2018/19, as highlighted in representations by [Petronas](#) and [ESB](#) during the development of the proposals.

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

Allowing for the potential impacts of implementation of any of these proposals it is critical to ensure that adequate advance notice of changes in charges can be provided to allow parties to make appropriate provision within their commercial arrangements. Should Ofgem determine that an Impact Assessment is also necessary (see below) then it is difficult to envisage how any such adequate notice of change could be provided ahead of 1<sup>st</sup> October to take effect for Gas Year 2018/19.

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

**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 not subjected the various legal texts to full legal review although we are reasonably comfortable that they will deliver the intent of the respective proposals.

**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.*

None identified

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

We consider that the proposals are “important” as defined by Section 5A of the Utilities Act 2000 and Ofgem’s Impact Assessment Guidance. In determining importance and relevant applicable criteria we would contend that the proposed changes will lead to significant additional costs for certain industry participants who utilise the current OCC arrangements, as evidenced by the analysis conducted during the development of the proposals.

For that reason we believe that Ofgem should carry out an Impact Assessment to determine the extent of those impacts and to inform its decision making against its wider statutory objectives.