

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:	Helen Edwards
Organisation:	Nephin Energy
Date of Representation:	14 June 2018
Support or oppose implementation?	0636 - Qualified Support 0636A – Oppose 0636B - Oppose 0636C - Qualified Support 0636D – Oppose
Expression of preference:	<i>If either 0636, 0636A, 0636B, 0636C or 0636D were to be implemented, which would be your preference?</i> 0636 or 0636C with proposed modification
Relevant Objectives:	0636: g) None for 2018/19 0636A: g) None for 2018/19 0636B: g) None for 2018/19 0636C: g) Positive 0636D: g) Positive

Relevant Charging Methodology Objectives:	<p>0636: a) Positive b) Positive c) Positive e) None in 2018/19</p> <p>0636A: a) Negative b) Positive c) Negative e) None in 2018/19</p> <p>0636B: a) None/minimal b) Negative c) Negative e) None in 2018/19</p> <p>0636C: a) a) Positive b) Positive c) Positive e) Positive</p> <p>0636D: a) None/minimal b) Negative c) Negative e) Positive</p>
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Reason for support/opposition/preference: Please summarise (in one paragraph) the key reason(s)

Whilst none of the solutions is particularly robust to criticism, Nephin believe that it is time to take action. The flaws in the current charge are already distorting market behaviour with £150m annually being moved from one market to another through an inflated TO charge and prices between NBP and the IBP being affected. The changes in underlying costs and the type of sites using the tariff mean that the level of price discrimination on the current tariff is well beyond its original justification. So while the alternatives may not be ideal in terms of meeting the objectives of the transporter and the charging methodology, the status quo is the least acceptable option and directionally correct change should not be pushed back into the 621 timetable, where OCC is a marginal component within a wide review of tariffs and no impression of a way forward.

0636

This option is both a review and update of the methodology, which improves its cost reflectivity and an adjustment of M to try to increase the cost recovery when the site has moved to low load factor usage - a fundamental problem in its current structure as a commodity charge. It has the most impact on the level of cross-subsidy which is being passed between markets through the TO charge. It would be helpful to make explicit

the process by which the charge methodology will be updated and include the process to bring it into compliance with Mod 621 in October 2019.

0636A

Nepkin oppose the introduction of a distance-cap for the OCC. Although it ostensibly addresses disparity between the original intention of a shorthaul tariff to avoid by-pass and its current use, it is arbitrary and creates additional undue discrimination between exit points.

0636B

Nepkin do not rate this proposal highly. Implementing a simple uprating of the multipliers in the formula by RPI since 1998 (after twenty years) is not more cost-reflective than the, albeit less transparent, updating under 636 and 636C. Since this option has low impact on the under-recovery and makes almost no impact on the volume of gas flowing under the OCC rather than standard tariff, it is insufficiently addressing the problem.

0636C

Nepkin recognise the fundamental problem from October 2019, that for cross-border trade, the Optional Commodity Charge, as a commodity charge will not be compliant with the EU Tariff Code. Nothing in this consultation addresses that problem. If it is expedient to delay changes that would affect cross-border trade in order to get an early improvement in the OCC, Nepkin would support this. However the exclusion of IPs should be restricted to those which are truly cross-border.

0636D

As our comments on 636 made clear we do not think this proposal is significantly robust in addressing the over-extensive use of the OCC and the consequent cross-subsidy in TO. The amendment to exclude IPs does not change Nepkin's lack of support for this option.

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

The change should be implemented as soon as possible. Current contractual negotiations are being undertaken in the full awareness of the consultation timetable and buyers and sellers should not be assuming yet further delay. National Grid have pointed out that there is potential for further supply points to migrate to the OCC and therefore exacerbate the problem.

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

No comments

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

No comments

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.*

No comments

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

No comments