Representation - Draft Modification Report

UNC 0621; 0621A; 0621B; 0621C; 0621D; 0621E; 0621F; 0621H; 0621J; 0621K*; 0621L

Amendments to Gas Transmission Charging Regime

* Amendments to Gas Transmission Charging Regime and the treatment of Gas Storage

Responses invited by: 5pm on 22 June 2018

To: enquiries@gasgovernance.co.uk

Representative:	Graeme Hunter
Organisation:	Ceres Energy
Date of Representation:	22 June 2018
Support or oppose implementation?	Please see the issues-based breakdown of our response. Commenting option by option is not constructive with so many overlapping options. Options 621B, retaining Obligated Capacity, and 621J, postage stamp pricing, are opposed.

Expression of Preference:	*If either 0621; 0621A; 0621B; 0621C; 0621D; 0621E; 0621F; 0621H; 0621J; 0621K or 0621L were to be implemented, which ONE modification would be your preference?* No specific option preference.

Standard Relevant Objective:	The workgroup has evaluated all options as neutral or positive compared the existing situation. We do however have some concerns about the impact on effective competition (Objective d)) of the extent and process of change which may not drive the desired behaviours.

Charging Methodology Relevant Objective:	The workgroup has evaluated all options as neutral or positive compared the existing situation and we have no further comment

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

Ceres Energy is not supporting any specific one of these complex and heavily overlapping Options. We feel that the consultation would have been better handled by dealing with the issues on a topic by topic basis. The modification process relies on individual shippers placing formulations which best serve their corporate interests and does not create a straightforward and comprehensive review. The views represented represent a narrow range of direct network users and do not represent the interests of smaller or indirect users.

We welcome initiatives which will reduce the burden of cost recovery which is caused by the low rates of capacity booking. However we are concerned about the offset between the reduction of this cross subsidy and the increased influence of capacity charging on low load factor customers.

We broadly support the Capacity Weighted Distance methodology replacing the unstable, non-transparent LRMC approach which delivered poor cost recovery. Since the NTS is no longer investment driven an allocation methodology such as CWD is preferable and CWD retains the cost driver of distance, albeit a predominantly historic cost driver.

We are concerned about the implementation process since it is far from clear that the Interim stage is a coherent step towards the enduring solution; so much revenue recovery will be left to the TO commodity charge. The use of Obligated Capacity, which is considerably above actual usage, in the methodology seems to be perpetuating the impact of chronic under-booking and hence underpayment for entry capacity.

The exclusion of existing contracts with fixed prices from the methodology also seems to drive cost recovery back to newer system users, typically those with expanding portfolios and smaller customers with fewer options. Ceres would like to see all customers brought into the new structure as soon as possible.

Ceres contributed to the consultation on Mod 636 on the Optional Commodity Charge and feel that the Mod 636 consultation better represented the issue. There seems little actual connection between the new pricing methodology and the proposals for the Optional Charge in this consultation in the short term. As we said in the previous consultation this Optional Charge has developed into an unwarranted cross-subsidy from small customers to very large users and this should be dealt with as soon as possible, not tied into this consultation and delayed until October 2019. Ceres recognise that, under CWD, the Optional Charge has a role when there is an exit point very near an entry point because CWD uses an averaging process. By linking it to the new charging structure, the proper economics for short distances can be matched. We support the proposal that 60km should be the cut-off.

Ceres are not in a position to comment on the detail of the proposed discounts on storage and bi-directional pipelines which access seasonal supplies from Continental Europe. We would be concerned if significantly different effects on seasonal supply were created by different capacity booking discounts. However we also remain concerned about potentially unproductive discounting leading to yet more cross-subsidy.

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

No additional comments

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

No comments

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

No comments

Modification Panel Members have requested that the following questions are addressed: *Please specify which Modification your views relate to.*

1. *Do you believe there is specific issues that should be considered by Ofgem's Regulatory Impact Assessment?*

   The appropriateness of the proposed transition arrangements as the best way to the enduring solution.

Ofgem requested that the following questions be included as part of the consultation. Panel agreed to include these:

2. *The rationale in the report for having an interim period and using the obligated capacity as the Forecasted Contracted Capacity (FCC) is to avoid significant changes to charges and have a period to understand how booking behaviour changes. How does this compare to having two structural changes to charges (one at the start of the interim period and another at the enduring period)?*

   Ceres feel more consideration should have been given to making an effective transition. We are concerned that the desired behaviours will not be properly incentivised and high levels of discrimination between customers are involved. The whole transition period needs to be overviewed proactively since there is some risk of instability through unexpected behaviour change.

3. *What (if any) consequences do you see from 'interim contracts' being allocated at QSEC and AMSEC auctions in 2019 given the timings of these auctions in the UNC and possible date of Ofgem decision on UNC621? What options are there to deal with these consequences and what impact would these options have?*

   No comment.

4. *Do you consider the proposals to be compliant with relevant legally binding decisions of the European Commission and/or the Agency for the Co-Operation of Energy Regulators?*

   No comment

5. *In what way do you consider the reference price methodologies proposed (Capacity Weighted Distance (CWD), CWD using square root of distance and Postage Stamp) to be cost reflective and meet the criteria in Article 7 of TAR?*

   We consider that CWD is based on a distance cost driver which is appropriate.

6. *The proposals have different combinations of specific capacity discounts for storage sites and bilateral interconnection points. In what way do you consider the different combinations facilitate effective competition between gas shippers and gas suppliers?*

   We do not have an informed comment on this.