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:	John Costa
Organisation:	EDF Energy
Date of Representation:	22 June 2018
Support or oppose implementation?	0621 - Comments 0621A – Comments 0621B - Comments 0621C – Comments 0621D - Comments 0621E - Comments 0621F - Comments 0621H - Comments 0621J - Comments 0621K – Comments 0621L – Comments
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?*

Standard Relevant Objective:	0621 **a)** Positive in the Interim – Negative in the enduring **c)** Positive in the Interim – Negative in the enduring **d)** Positive in the Interim – Negative in the enduring **g)** Positive in the Interim – Negative in the enduring 0621A **a)** Positive in the Interim – Negative in the enduring **c)** Positive in the Interim – Negative in the enduring **d)** Positive in the Interim – Negative in the enduring **g)** Positive in the Interim – Negative in the enduring 0621B **a)** Positive in the Interim – positive in the enduring **c)** Positive in the Interim – Positive in the enduring **d)** Positive in the Interim – Positive in the enduring **g)** None in the Interim – Positive in the enduring 0621C **a)** Positive in the Interim – Negative in the enduring **c)** Positive in the Interim – Negative in the enduring **d)** Positive in the Interim – Negative in the enduring **g)** Positive in the Interim – Negative in the enduring 0621D **a)** None in the Interim – Negative in the enduring **c)** Positive in the Interim – Negative in the enduring **d)** Positive in the Interim – Negative in the enduring **g)** Positive in the Interim – Negative in the enduring 0621E **a)** Positive in the Interim – Negative in the enduring **c)** Positive in the Interim – Negative in the enduring **d)** Positive in the Interim – Negative in the enduring **g)** Positive in the Interim – Negative in the enduring 0621F **a)** Positive in the Interim – Negative in the enduring **c)** Positive in the Interim – Negative in the enduring **d)** Positive in the Interim – Negative in the enduring **g)** Positive in the Interim – Negative in the enduring 0621H **a)** Positive in the Interim – Negative in the enduring **c)** Positive in the Interim – Negative in the enduring **d)** Positive in the Interim – Negative in the enduring **g)** Positive in the Interim – Negative in the enduring 0621J **a)** None in the Interim – Negative in the enduring **c)** Positive in the Interim – Negative in the enduring **d)** Positive in the Interim – Negative in the enduring **g)** Positive in the Interim – Negative in the enduring 0621K **a)** Positive in the Interim – Negative in the enduring **c)** Positive in the Interim – Negative in the enduring **d)** Positive in the Interim – Negative in the enduring **g)** Positive in the Interim – Negative in the enduring 0621L **a)** Positive in the Interim – Negative in the enduring **c)** Positive in the Interim – Negative in the enduring **d)** Positive in the Interim – Negative in the enduring **g)** Positive in the Interim – Negative in the enduring

Charging Methodology Relevant Objective:	0621 **a)** Positive in the interim – Negative in the Enduring **b) aa)** Positive in the interim – Negative in the Enduring **b)** Positive in the interim/ negative in the Enduring **c)** Positive in the interim/ negative in the Enduring **e)** Positive in the interim/ negative in the Enduring 0621A **a)** Positive in the interim – Negative in the Enduring **a) aa)** Positive in the interim – Negative in the Enduring **b)** Positive in the interim/ negative in the Enduring **c)** Positive in the interim/ negative in the Enduring **e)** Positive in the interim/ negative in the Enduring 0621B **a)** Positive in the interim – Negative in the Enduring **aa)** Positive in the interim – Negative in the Enduring **b)** Positive in the interim/ negative in the Enduring **c)** Positive in the interim/ negative in the Enduring **e)** Positive in the interim/ negative in the Enduring 0621C **a)** Positive in the interim – Negative in the Enduring **aa)** Positive in the interim – Negative in the Enduring **b)** Positive in the interim/ negative in the Enduring **c)** Positive in the interim/ negative in the Enduring **e)** Positive in the interim/ negative in the Enduring 0621D **a** None in the interim – Negative in the Enduring **aa)** Positive in the interim – Negative in the Enduring **b)** Positive in the interim/ negative in the Enduring **c)** Positive in the interim/ negative in the Enduring **e)** Positive in the interim/ negative in the Enduring 0621E **a)** None in the interim – Negative in the Enduring **aa)** Positive in the interim – Negative in the Enduring **b)** Positive in the interim/ negative in the Enduring **c)** Positive in the interim/ negative in the Enduring **e)** Positive in the interim/ negative in the Enduring 0621F **a)** Positive in the interim – Negative in the Enduring **aa)** Positive in the interim – Negative in the Enduring **b)** Positive in the interim/ negative in the Enduring **c)** Positive in the interim/ negative in the Enduring **e)** Positive in the interim/ negative in the Enduring 0621H **a)** Positive in the interim – Negative in the Enduring **aa)** Positive in the interim – Negative in the Enduring **b)** Positive in the interim/ negative in the Enduring **c)** Positive in the interim/ negative in the Enduring **e)** Positive in the interim/ negative in the Enduring

Charging Methodology Relevant Objective (continued):	0621J **a)** Positive in the interim – Negative in the Enduring **aa)** Positive in the interim – Negative in the Enduring **b)** Positive in the interim/ negative in the Enduring **c)** Positive in the interim/ negative in the Enduring **e)** Positive in the interim/ negative in the Enduring 0621K **a)** Positive in the interim – Negative in the Enduring **aa)** Positive in the interim – Negative in the Enduring **b)** Positive in the interim/ negative in the Enduring **c)** Positive in the interim/ negative in the Enduring **e)** Positive in the interim/ negative in the Enduring 0621L **a)** Positive in the interim – Negative in the Enduring **aa)** Positive in the interim – Negative in the Enduring **b)** Positive in the interim/ negative in the Enduring **c)** Positive in the interim/ negative in the Enduring **e)** Positive in the interim/ negative in the Enduring

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

EDF Energy is generally supportive of these amendments to gas Transmission Charing raised to implement both EU Tariffs Code and Ofgem’s Gas Transmission Charging Reform. UNC621 is a fundamental change to the current NTS charging regime and is important for NTS customers.

Apart from moving to a capacity based charging regime from a commodity one as the EU TAR Code requires, it also removes many of the discounts (short-term and short-haul) which were causing distortions in the allocation of costs. We therefore consider large parts of this reform deliver better cost targeting of Transmission charges in the interest of consumers who should see a benefit. However, we only see this effect in the interim period due to how clear and transparent the methodology and supporting analysis is. In the enduring period we believe there are flaws in the methodology that will lead to less predictable, stable and cost reflective charges (and potentially less compliant) which ultimately will be bad for competition and consumers.

In the interim period Grid’s proposal, and thus the basis of many of the alternatives, creates a relatively simple methodology that parties will be able to replicate to recalculate charges due to the denominator for calculating capacity prices (Forecasted Contracted Capacity) being based on Obligated Baseline capacity which is a published and stable figure. However, Grid’s proposal in the enduring (and in almost all the alternatives) is to create a forecast of FCC close to anticipated bookings, the methodology for which has yet to be developed. The assumed FCC that Grid has used in their modelling for the enduring period is Grid’s estimate of historical flows based on an average across the year. This produces an arbitrarily lower NTS capacity baseline, from peak installed capacity to a “theoretical likely average use”. Using anticipated capacity bookings based on average daily flows materially changes the share of capacity used as a charging basis between users. This is a material change and yet there appears to be little or no justification provided for what will create material distributional effects. This “flow based” charging model is a major shift from today’s peak capacity charging methodology and will create a significant distribution of costs amongst NTS offtakers compared to today.

In addition there appears to be no clear method behind Grid's forecast of contracted capacity. It is not clear how they will determine the anticipated average use of users. This is unacceptable. We therefore do not believe any of these modifications will meet Art. 7a, c, or d of EU Tar (see end section) as the charges can't be easily replicated and look to create a potential distortion of costs between users. None of these modifications should be implemented without a proper and robust methodology for the Enduring period and an Impact Assessment looking at these effects and impacts on consumers.

We believe that the analysis and evidence presented to date is fairly limited in being able to judge whether replacing the LRMC methodology with CWD better meets the relevant objectives. We note the workgroup's view that the LRMC model is no longer that relevant for a partially amortised network that is in decline where forward price signals are no longer needed as today its more about appropriate network cost allocation. In this sense CWD may be a better model for allocating costs as it will create a more stable tariffs going forward. In terms of Postage stamp or Square root models proposed, these will dampen any locational signals which are still important to maintain. For these reasons we do not think UNC621d or UNC621e will better facilitate Grid's Charging Relevant Objectives A & C.

In the interest of creating stable and predictable charges we believe there are merits in the 2-year interim period before the move to full capacity based charging, that is in all the modifications bar UNC621b which proposes to prolong the interim period and recovery of Transmission charges via Commodity charges indefinitely. Given UNC621b would create a similar regime to today there are questions as to how compliant with EU TAR Art.4.3 which states commodity may only be used "in part" to recover transmission revenues. It might not also meet Ofgem's GTCR objectives given the opinion in their February 2017 letter[1] was that "*commodity charges should not be used for the purpose of managing under/ over recovery as their derivation does not incorporate the required drivers".*

However, as stated in response to Ofgem's specific question on this interim period below we believe Ofgem could look at the merits and legality of a transitional period in their Impact Assessment they have commented to do as part of their assessment.

Shorthaul – it makes sense that this formula is updated and carried on for the interim period where the TO Commodity charge still exists as that's what the formula is currently pegged to, however going forward the charge would have to change. It does not specifically exist in EU TAR but if there were one it would need to be a more cost reflective charged pegged against Transmission pipeline investment costs – I.e. Capacity not commodity.

Storage discounts – we believe the default discount of 50% is insufficiently reflective of the benefits that storage facilities currently provide to the NTS, Users and consumers. These benefits and their cost savings are clearly highlighted in WatersWye's (WWA) storage benefits paper attached to GSOG's UNC621a alternative[2] which states that a discount of 86% is more appropriate. Given this discount is more reflective of their respective benefits it can be considered better cost targeting and therebefore good for competition. Indeed, the fact that so many of the alternative proposals include the 86% discount, including those from proposers that do not own storage such as DN operators, reflects this opinion that storage sites should warrant a higher, more appropriate discount than the default 50% which would pile on more undue cost onto gas storage facilities that are currently struggling to stay open. We have already seen the largest GB storage facility Rough close and no new facilities being built since EDF Energy's Hill Top Farm 8

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[1] https://www.ofgem.gov.uk/system/files/docs/2017/02/gas_transmission_charging_policy_view_21_feb_2017.pdf

[2] https://www.gasgovernance.co.uk/sites/default/files/ggf/book/2017-12/WWA_GSOGMod621Alernate_coretextv2.0.pdf

years ago. The 86% figure doesn't fully protect storage facilities under this change however it will mean further facilities are less likely to close which will increase Security of Supply in the interest of consumers.

0621

As stated above we are generally supportive of most elements of this reform which Grid are proposing in their modification for the interim period. However, because of the flaws in producing cost reflective, stable and predictable charges in the enduring period as highlighted above we do not believe it will further Grid's RO's as it could have a detrimental impact on competition.

0621A

See 621 above – this modification reflects Grid's original modification 621 but has a higher storage discount of 86% stated in WWA's storage Benefits paper. The exact benefit that storage might provide needs further assessment but this is a small element of the overall modification.

0621B

See above – this modification has some merit by prolonging the Interim period and thus commodity as the Revenue Recovery charge indefinitely, however we are unsure whether it is complaint with EU TAR and Ofgem's GTCR objectives. A formal view from Ofgem would be useful as this question kept getting raised in the workstream meetings without any definitive views.

0621C

See 621 above - unfortunately, Centrica's proposal was the least discussed and thus developed and as such wasn't fully completed and had no analysis of the likely impact it might have. As such it is difficult to say if it would further any of Grid's RO and for this reason we cannot support it, noting that the shorthaul proposals pegged to Capacity has some merits and should be developed further.

0621D

See 621 above - Wales & West's proposal to replace LRMC model with a Square Root of distances model is likely to dampen appropriate cost allocation and thus competition and as such doesn't better meet Grid's ROs. WW's modification also removes Shorthaul completely which could be said to be complaint with the Third Package EU Regulation 715/2009 which prohibits specific point to point tariffs.

0621E

See 621 above - Uniper's proposal has some logic given gas turbines entering into the next T-4 Capacity Mechanisms auction due in Q1 2019 will have certainty of the effects of the full implementation of EU TAR code and capacity based charging when bidding for Oct.2022 delivery. However, this certainty is already in all the proposals, to the extent parties can replicate charges in the Enduring period, and so there is no justification for delaying this impact for a year for existing CM Plants and as such we can't see how this betters Grid's ROs as it will delay any benefits of EU TAR by another year. Also, the fact that this proposal keeps storage discounts at 50% is less likely to meet Grid's RO compared to all the other 6 alternatives that have 86% reflecting WWAs analysis and benefits to the system.

0621F

See 621 above - IUK's mod proposes that bi-directional Interconnectors receive the same 86% level of discount that storage sites are proposing because of the fact that they respond to system prices in the same way as storage as they offer the same benefits to the system. However, since they have not supplied any economic analysis to support this assertion, unlike Storengy's modification UNC621a, it cannot be said this will further Grid's ROs. For this reason, we do not support it as it might create distortionate effects on competition.

0621H

See 621 above - we do not believe it is compliant with EU TAR which states it's only the initial capacity reference price that is protected, not the Revenue recovery uplift. Implementing ENI's proposal would see the missing revenue recovery from historical contracts smeared across other parties which would be detrimental to competition. Also, Grid has now raised UNC662 "Revenue Recovery at Combined ASEPs" which looks at how to treat abandoned capacity and this issue of Entry capacity purchased for stranded projects or projects never built should be dealt with there. For these reasons we do not support UNC621h.

0621J

See 621 above - we do not support RWE's proposal for the same reasons as UNC621d stated above as it dampens locational signals completely by introducing uniform Entry and Exit prices, something Ofgem was keen to avoid in their GTCR opinion papers as less cost reflective as stated above. As such it could be detrimental to competition. Also, it only has storage discount at the default level of 50% and doesn't reflect the full benefits storage brings to Users and Consumers as stated above. For these reasons it doesn't further Grid's ROs.

0621K

See 621 above - Gateway LNG proposes that keeping storage discounts at 100% discount for Off Peak Exit capacity ensures that the cost of providing this capacity is correctly reflected in the product tariff. While we believe the benefits accrued to system operation, users and consumers are higher than 86% the 100% is not backed up by any economic analysis to justify a higher discount. For this reason, it is not clear that it would better further Grid's RO but we believe Ofgem could look at this in their Impact Assessment they have commented to do as part of their assessment.

0621L

See 621 above - Shell's alternative proposes to include the volume behind historical Entry Capacity contracts in the calculation of Capacity references prices, instead of taking them out as the other modifications do, thereby creating lower outturn Capacity reference prices. This means the residual smear will be higher which may not be cost reflective and thus worse for competition. Also, the fact that this modification proposes the default 50% storage discount means that it is not reflective of system operator costs. As stated above WWAs economic analysis clearly shows evidence based benefits of storage to the system and users and not implementing this level of discount would be detrimental to storage facilities and competition (e.g. in the event more storage assets were to close as a result of this reform).

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

We believe reform of this size and magnitude should have appropriate implementation leads time of at least 6 months. Therefore, if Ofgem opines before March 2019 this should provide sufficient time for the market to react and imbed the reforms, however a decision earlier than 6 months is always welcomed.

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

Implementation costs would be related to the administration costs of changing contracts and tariffs etc but not expected to be high. However, given the flaws and unpredictability of how these new prices might affect Shippers' businesses there could cause a significant increase in cost.

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.*

N/a

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?*

    a. *We believe that while Grid has produce some extensive analysis some of it is unclear and wrong in places which has made it difficult to assess the potential impacts of the modification. Ofgem's IA should undertake a full assessment of the different elements of the modification and their effects on users and the market. It would also be useful if the impact assessment could breakdown the impact further by looking at a) the impact of removing discounts and new ones from 10% interruptible to new Shorthaul, b) the impact of moving to Capacity based regime and c) the impact of distributing costs via new CWD, postage or Sq. Route methodology.*

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 behavior 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)?*

    a. *As stated above, we believe there is merit in having a transitional period to better understand and imbed transportation charge reform, especially one the size of UNC621. However, this needs to be weighed up against the legality of Grid's proposals in terms of complying with the legally binding EU TAR code which clearly requires Capacity as the charge for recovering Transmission investment costs. Art.4.3 says that commodity may only be used "in part" and thus its clear that is not what is happening in interim period and hence why UNC621b cannot be implemented.*

    b. *It would also be useful to consider how these proposals affect cross border trade in their IA.*

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?*

    a. *None, so long as Ofgem implements or gives a clear "minded to" decision a few months before the next set of QSEC and AMSEC auctions.*

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?*

    a. *There is always a scope for interpretation of EU regulations as unfortunately legal text is not always clear however it seems that Grid's legal opinion is that their original modification is compliant, otherwise questions could be asked as to why they've gone down certain routes. As stated in 2a response above it is not clear the interim period is compliant and while there might be loose interpretation allowed Ofgem has to ultimately decide whether it better meets the UNC objectives in the consumer's interest.*

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?*

Art.7 of TAR has the following requirements below. We certainly do not believe it will meet the criteria in Art. 7a given how difficult it will be to replicate charges in the interim period. We also do not believe Grid's methodology will be compliant with Art.7.c and d given the significant redistribution of costs in the Enduring period. As stated it is difficult to answer this question without a proper economic impact assessment which Ofgem has already committed to do so the answer to this question should be teased out there.

a. *enabling network users to reproduce the calculation of reference prices and their accurate forecast;*

b. *(b) taking into account the actual costs incurred for the provision of transmission services considering the level of complexity of the transmission network;*

c. *(c) ensuring non-discrimination and prevent undue cross-subsidisation including by taking into account the cost allocation assessments set out in Article 5;*

d. *(d) ensuring that significant volume risk related particularly to transports across an entry-exit system is not assigned to final customers within that entry-exit system;*

e. *(e) ensuring that the resulting reference prices do not distort cross-border trade.*

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?*

    a. *Difficult to comment – while WWA's storage benefits paper clearly identifies the benefits storage sites provide to the system, Users and Consumers there has not been any similar analysis to date to show Interconnectors provide the same level of benefits or that support the discounts that are being proposed by UNC621f.*

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 – while there could have been some more analysis particularly on the consumer impacts, it is a thorough and well written and unbiased report. Well done Joint Office.