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:	Pavanjit Dhesi
Organisation:	Interconnector UK Ltd
Date of Representation:	22 June 2018
Support or oppose implementation?	0621 - Oppose 0621A - Oppose 0621B - Oppose 0621C – Oppose 0621D - Oppose 0621E - Oppose 0621F - Support 0621H - Oppose 0621J - Oppose 0621K – Oppose 0621L - Oppose
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?* 0621F

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

Charging Methodology Relevant Objective:	0621 **a)** Negative **aa)** Negative **b)** Negative **c)** Negative **e)** Negative 0621A **a)** Negative **aa)** Negative **b)** Negative **c)** Negative **e)** Negative 0621B **a)** Negative **aa)** Negative **b)** Negative **c)** Negative **e)** Negative 0621C **a)** Negative **aa)** Negative **b)** Negative **c)** Negative **e)** Negative 0621D **a)** Negative **aa)** Negative **b)** Negative **c)** Negative **e)** Negative 0621E **a)** Negative **aa)** Negative **b)** Negative **c)** Negative **e)** Negative 0621F **a)** Positive **aa)** Positive **b)** Positive **c)** Positive **e)** Positive 0621H **a)** Negative **aa)** Negative **b)** Negative **c)** Negative **e)** Negative (continued overleaf)

Charging Methodology Relevant Objective (continued):	0621J **a)** Negative **aa)** Negative **b)** Negative **c)** Negative **e)** Negative 0621K **a)** Negative **aa)** Negative **b)** Negative **c)** Negative **e)** Negative 0621L **a)** Negative **aa)** Negative **b)** Negative **c)** Negative **e)** Negative

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

0621

IUK is opposed to Mod621 because it distorts competition between GB storage and gas flows accessing Continental European storage facilities via the bi-directional Bacton interconnection point. It creates this market distortion by proposing different charging treatment for assets which provide the same service to consumers. This would be detrimental to cross border trade which in turn contradicts the objectives of the European Tariff Network Code and it would not further the interests of GB consumers. IUK has therefore proposed an alternative modification proposal 621F which addresses these harmful impacts.

0621F

IUK supports a similar capacity discount as applied to storage also applying to the proportion of bookings that are entry = exit at physically bi-directional interconnection points. No discount would be applied to net bookings which are in or out of GB. IUK's proposal avoids a market distortion and would promote effective competition in the provision of seasonal flexibility. It would remove a market distortion for shippers using continental storage via the interconnectors to meet GB's seasonal flexibility needs. It would create more of a level playing field for different sources of seasonal flexibility available to shippers, and ultimately to GB consumers. It would increase the choice for shippers when procuring seasonal flexibility - they can consider continental storage accessed via physically bi-directional IPs or GB-located storage, without the distortion of differential National Grid charges. This is particularly relevant to the GB market and GB consumers following the closure of the Rough storage facility. It is widely recognised that the GB market now has a relatively low level of seasonal storage within national boundaries. Improved access to continental storage, on a levelized and competitive charging basis, would be a step in the right direction to meet the market's current structural needs.

IUK also believes the proposal is necessary for compliance with EU legal rules. Key objectives of the third energy package are to facilitate efficient gas trade and competition across borders. Given that physically bi-directional IPs compete with GB storage and that unequal treatment distorts cross border trade, the Mod621F solution is necessary to ensure GB compliance with:

- Tariffs for access to networks under Regulation (EC) No 715/2009:

  Article 13.1 of *Tariffs for access to networks* in Regulation (EC) 715/2009 which says "*Tariffs, or methodologies used to calculate them, shall be applied in a non-discriminatory manner."*

  And *"Tariffs, or the methodologies used to calculate them shall facilitate efficient gas trade and competition"*

  And 13.2 which requires *"Tariffs for network access shall neither restrict market liquidity nor distort trade across borders of different transmission systems"*

- Commission Regulation (EU) 2017/460 (the TAR Code):

  Under Article 7(e), TSOs must ensure that the reference prices do not distort cross-border trade. It should be noted that a discount for physically bi-directional IPs is entirely consistent with the TAR Code given TSOs can make adjustments to the application of the reference price methodology in accordance with Article 6.4. Under Article 6.4(a), TSOs can make adjustments to reference prices at any given entry or exit point to meet the competitive level of the reference price.

A cost benefit study of this proposal has now been carried out by an independent team of economists at Cambridge Economic Policy Associates (CEPA)[1]. The study shows that the interconnectors at the physically bi-directional Bacton IP do compete with GB Storage. The study has found the Mod 621F proposal would further GB consumers interest. It found that GB consumers can save around £50m -£70m pa, compared to adopting the UNC Mod 621. Moreover, the study shows that this can be achieved without damaging GB gas production or storage interests.

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

Prices effective from 1 October 2019 and publication plan as per appendix 1 of the draft modification report.

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

No comment in addition to those set out in section 7 of the draft modification report

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.*

With respect to Mod 621 F - yes

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?*

[1] http://www.cepa.co.uk/news-details-the-impact-of-applying-equal-charging-treatment?selYear=2018

As required by Regulation (EC) No 715/2009 and the European Tariff Network Code it is necessary to ensure that the assessment includes the impact on cross border trade. The proposals should facilitate, and not distort, this trade. IUK believes that Mod 621F take the necessary steps to ensure that this does happen. By contrast we believe that Mod 621 continues a market distortion and distorts competition between storage and bookings at the Bacton IP.

It is important to assess the impact of the dual regime (maintaining commodity charges for revenue recovery at non-IPs in the transition but moving to the floating capacity regimes at the IPs directly from Oct 2019). This is to ensure there is no discrimination and distortion in the market harming cross border users.

2. *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?*

See response earlier

3. *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?*

See response earlier

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.*

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

0621F - Cost Benefit Analysis showing GB consumers can save between £50- £70m per annum:

For more detail, please see the CEPA study, which can be found on the following link:

http://www.cepa.co.uk/news-details-the-impact-of-applying-equal-charging-treatment?selYear=2018