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:	Helen Edwards
Organisation:	Nephin Energy
Date of Representation:	22 June 2018
Support or oppose implementation?	Options 621B and 621J are opposed. See below for our comments on the specific structures we support.

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 preference expressed

Standard Relevant Objective:	We do not disagree with the assessment on the report (Table 1, page 35) which shows all the proposals to be either positive or neutral in meeting the relevant objectives but this does not form a basis for differentiating the decision and optimising the solution.

Charging Methodology Relevant Objective:	We do not disagree with the assessment on the report (Table 2, page 50) which shows all the proposals to be either positive or neutral in meeting the relevant charging objectives but this does not form a basis for differentiating the decision and optimising the solution.

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

Nephin is not commenting on the options individually but on the components of change. We feel that structuring the consultation in terms of individually sponsored options is not helpful to the process. Dependence on individual stakeholders tabling alternatives which reflect their interests means the process lacks coherence. The response template itself shows how unwieldy the consultation structure is.

In general Nephin prefers to see solutions which are a pragmatic balance of the interests of the users of the system – this makes it more stable, less prone to significant changes in behaviour, which undermine the expectations on which the tariff structure is built – essentially 'gaming' the system - and therefore is enduring. It also should have built-in self-correction. It is important for the gas market in Ireland that the GB market operates effectively to support security of supply and reliable price signals.

Given how much is proposed to change, we are concerned that there is not an ongoing review of how things are working, with an obligation to report by the TO and to review by Ofgem. Indeed the process of implementation is entirely prescribed - 2 years on one structure which retains significant commodity based revenue recovery followed by the full capacity regime – rather than recognising responses to behaviour change and the need to adapt.

The UNC process is suited to the development of innovation with positive proposals from system users, rather than to evolving and improving the network systemically. The ongoing saga of the Optional Commodity Charge, which has been recognised as not fit for its purpose for many years, is a case in point.

<u>Capacity Reference Price</u>

Nephin agree with the aim of increasing the collection of allowed revenue through capacity charges and broadly support CWD as the most appropriate Reference Price Methodology. It is relatively stable, transparent and seen to be equitable. It also distributes the whole revenue pool and recovers it is the capacity allocation is sound.

We do recognise the concerns raised by the proposer of Option J that CWD may be creating disincentives when there is excess capacity. St Fergus as an outlier in the WAD with a distance of around 700km compared with the next longest of 562. On balance however, concern to see a cost-driver – distance - in the model argues against postage stamp.

<u>Transition</u>

We are concerned about the two elements of delay in implementation.

1. <u>FCC</u>

The reason for using a transition from using Obligated Capacity to a National Grid forecast seems clumsy. On the one hand, doubts are cast on the robustness of a National Grid forecast, on the other Obligated Capacity is known to be well above booked capacity. De facto this is a way of retaining a significant under-recovery to be collected through a continuing commodity charge. The process proposed of a cut-over from Obligated Capacity to Forecast Capacity after two years seems fragile, and not entirely coherent given that the National Grid forecast is expected to reflect new Shipper behaviour in a period when the capacity regime has been only partially implemented. Our preference would be to try to get the National Grid forecast in place and potentially a hybrid forecast which would not leave such significant under-recovery.

2. Treatment of Existing Contracts

This is a balance between honouring existing agreements and making the change quickly to allow the new regime of charging according to capacity to start working. There is likely to be significant discrimination between customers of essentially the same class and this should be allowed for as short a time as possible. We question whether two years is necessary. In the transition the low booking prices must be topped up either by new participants, in an uplift on their charge, or by all end users through the TO charge. These all distort competition.

Multipliers, Discounts and Interruptibles

These are all systems of adjustment to encourage shipper behaviour within the main framework; to the extent they are included in EU Tariff Code they have proved to be useful in different transmission regimes. This underlines our point above that obligations must be put in place to proactively review and adapted where necessary through the transition period and not simply wait for ad hoc individually sponsored changes through the UNC.

The future role of interruptible flow, which has been a major feature of the GB market, is the most difficult to anticipate. The options are uniform in suggesting 10% except for 621J which takes it to 100% for storage – we do not offer an alternative starting point.

Interconnection Points

A main EU TAR issue is that revenue recovery tariffs can't be commodity based. So until the revenue recovery element can be reduced, exemptions imply taking yet more revenue recovery from GB customers. This should create motivation for a faster implementation.

Storage and bi-directional flow

Nephin have no comments.

NTS Optional Charge

The report recognises this is essentially a side issue to the main body of work and could be handled separately. In responding to Mod 636 we have supported the immediate implementation, in October 2018, of a change which is not dissimilar to most of the Options. Our opinion remains that it is a priority to implement 636 in October 2018.

Our concern in responding to Mod 636 was to implement an increase in the rate and hence reduce the TO level as quickly as possible. In our response to Mod 636 we supported the uprating of charges based on improved cost analysis rather than RPI but in principle the proposals are similar. In order to get something in place quickly, some of the options for Mod 636 exempted cost recovery from IPs. This consultation, Mod 621, proposes a capacity-based recovery for IP Exit points linked into the capacity charge changes and we would support this. Most of the Options here include uprating the rates and continuing the Optional Charge for two years until 2021 and limit its distance to 60km which we would not oppose. The standalone review of the charge through Mod 636 was focussed and fairly comprehensive.

We do not expect an Optional bypass tariff to be eliminated altogether. The problem of exit points very close to entry points is significant in CWD because it aggregates gas from all entry points to each exit point so it is likely that some alternative tariff will need to be offered on an enduring basis. But it needs to be closely aligned to the specific problem. Like 621C we believe any enduring solution should be linked to the new charging regime, so that it is matched to the economics of new investment. Effectiveness of the alternative charge only up to 60km would seem a good aspiration for the new solution.

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?*

   We have highlighted the risks of not having a proper process to monitor and review through implementation and Interim phases.

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)?*

   As above. We do not believe the interim period has been properly constituted to institute and understand behavioural change when it is still so dependent on commodity based cost recovery.

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?*

   We 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?*

The inclusion of distance in CWD as a historic cost driver supports a more equitable allocation of costs.

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?*

No comment.