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:	Stephen Parle
Organisation:	PETRONAS Energy Trading Limited
Date of Representation:	22 June 2018
Support or oppose implementation?	0621 - Oppose 0621A - Oppose 0621B – Qualified Support 0621C - Oppose 0621D - Oppose 0621E - Oppose 0621F - Oppose 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?* **0621B**

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

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 are offering our qualified support to 0621B as we believe the LRMC methodology based on predicted flows has generated a volatile and unpredictable charging environment. We believe a CWD model based on capacity and distance will deliver a fairer, more stable and predictable environment.

We also feel that the proposal to include a specific capacity discount of 86% to be applied to capacity reserve prices at storage sites is more reflective of the contribution made by storage sites in relation to the efficient and economic operation of the network as compared to those proposals that advocate a lower discount. We also note the EU Tariff Code states that a discount of 50% merely avoids users being double charged for use of the system and nothing further. At a time when the available storage capacity in the UK has reduced significantly due to the closure of Rough, any proposal that increases costs for that capacity remaining should be a cause for concern, particularly around security of supply in the UK market.

We do not believe the alternative proposals to 0621B that rely on the use of a FCC derived on the basis of forecast bookings will lead to a cost reflective solution that facilitates competition. Where there is an inevitable under or over recovery the cross subsidisation that results from capacity based revenue recovery charges across all users, regardless of their flows onto the system does not, in our opinion, achieve the relevant objective of securing effective competition. Indeed, we believe it to be anti-competitive for our portfolio for reasons expanded upon below. In summary, we do not feel that the “enduring solution” based on capacity top up charges in the alternate proposals is the correct way forward.

However, our support for 0621B is qualified only as we have concerns around the use of a multiplier of one for short term capacity sales and the introduction of an arbitrary distance cap to the existing OCC calculation that we have addressed below and via our recent response to Modification 0636.

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

The uncertainty around the future of the charging regime has been ongoing for some time and we find this to be unconducive to a favourable business environment and future planning decisions. Stability and predictability are key to our business.

Whilst we are in favour of a CWD model, we believe that the potential for error in calculating the values of FCC in the proposals other than 0621B and the consequences of socialising the associated under recoveries across all users via capacity top up charges (as opposed to using a flow based model) could result in damaging cost increases for our assets and those of other users that we do not believe would be cost reflective. This is particularly true and concerning for assets that are already operating at the margins.

Whilst we appreciate that 0621B will lead to under recovery, we believe that recouping that by reference to flows is a much fairer method of socialising those costs. Relying on calculating the FCC for every point on the Network, which is clearly prone to error, will result in negative distributional impacts where socialisation of the under recovery does not target the relevant users and therefore results in a situation of unfair cross subsidisation. Where a user, in making the maximum contribution to costs by booking capacity at levels at or greater than those provided for in the FCC then the application of any additional charge, absent of flow, will result in that user making surplus contributions. The result will be a final charge that is not cost-reflective and the user will effectively be cross-subsidising others. This is does not align with a pro-competition objective.

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 Impact Assessment should focus on the proposals to modify the OCC and on the proposed multiplier of 1 for shorter term capacity sales. As stated in our response to Modification 636, we do not believe that the full impact of the changes to OCC on individual customers and consumers who stand to be impacted by the change have been adequately considered. Furthermore, the arbitrary nature of the distance cap and the lack of concrete support to advocate this as the correct figure is concerning. To avoid repetition we would draw your attention to our response to Mod.636. With regards to multipliers, we are concerned about the potential impact that high short term capacity costs could have on the ability of the UK market to attract gas flows at short notice in times of system stress and the potential for impact upon security of supply in the UK as a net importing market.

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)?*

   We do not support the move to the enduring period for FCC for the reasons outlined above.

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 would prefer that interim contracts were allocated in the 2019 QSEC & AMSEC auctions but would strongly advocate that a decision is communicated one way or the other prior to the auctions. It is essential that Shippers are able to make long term decisions based upon having the correct charging information to hand prior to any commitment.

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?*

   We would defer to Ofgem with regards to this point.

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?*

   Our qualified support is for 0621B as we believe the combination of a capacity and commodity based charging regime will result in outcomes most aligned with these criteria.

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?*

   There is no direct comparison between interconnectors and storage so we believe it is inappropriate to treat them identically for the purposes of transportation charging.

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.*

Following the publication of the updated analysis and models by National Grid on 13th June, we have not had adequate time in which to consider and analyse this latest information prior to the deadline for submission of responses to the consultation.

We would appreciate it if the Panel were to allow a further window of opportunity to submit views following the next Panel meeting in July to give respondents a chance to take the latest information into account.