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:	Henk Kreuze
Organisation:	Vermilion Energy Ireland Ltd
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:	0621

Standard Relevant Objective:	It is not clear that the proposals are compliant with EU 2017/460.
Charging Methodology Relevant Objective:	It is not clear that the proposals are compliant with EU 2017/460.

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

Since the current methodology is non-compliant with EU 2017/460, some change is necessary for October 2019. If any one of these proposals were to be implemented then 621 is Vermilion's preference, even though in our view this is still not fully compliant (see reasons below).

0621

- Do not support the Optional Charge: as only a capacity alternative should be considered and subject to appropriate conditions
- Do not support a transition period: not needed, as volume can be used as proxy for capacity booking, as multipliers are 1

0621A

- Do not support the Optional Charge: as only a capacity alternative should be considered and subject to appropriate conditions
- Do not support a transition period: not needed, as volume can be used as proxy for capacity booking, as multipliers are 1

0621B

- Do not support the Optional Charge: as only a capacity alternative should be considered and subject to appropriate conditions

- Do not support an enduring arrangement that uses Obligated capacity

0621C

- Do not support an enduring Optional Charge that is not adequately cost justified, not supported by capacity commitments, and availability is not subject to appropriate conditions. The justification for not applying this proposed Optional Charge to DN offtakes is lacking.

- Do not support a transition period: not needed, as volume can be used as proxy for capacity booking, as multipliers are 1

0621D

- Prefer a CWD methodology rather than a square root CWD

- Do not support a transition period: not needed, as volume can be used as proxy for capacity booking, as multipliers are 1

0621E

- Do not support the Optional Charge: as only a capacity alternative should be considered and subject to appropriate conditions

- Do not support a transition period: not needed, as volume can be used as proxy for capacity booking, as multipliers are 1.

0621F

- Do not support the Optional Charge: as only a capacity alternative should be considered and subject to appropriate conditions

- Do not support a transition period: not needed, as volume can be used as proxy for capacity booking, as multipliers are 1

0621H

- Do not support the Optional Charge: as only a capacity alternative should be considered and subject to appropriate conditions

- Do not support a transition period: not needed, as volume can be used as proxy for capacity booking, as multipliers are 1

0621J

- Prefer a CWD methodology

- Do not support the Optional Charge: as only a capacity alternative should be considered and subject to appropriate conditions

- Do not support a transition period: not needed, as volume can be used as proxy for capacity booking, as multipliers are 1

0621K

- Do not support the Optional Charge: as only a capacity alternative should be considered and subject to appropriate conditions
- Do not support a transition period: not needed, as volume can be used as proxy for capacity booking, as multipliers are 1

0621L

- Do not support the Optional Charge: as only a capacity alternative should be considered and subject to appropriate conditions
- Do not support a transition period: not needed, as volume can be used as proxy for capacity booking, as multipliers are 1

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

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

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.*

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 current proposals with multipliers of 1 for firm products provide incentives for short term rather than longer term capacity bookings. In this situation to ensure non-discrimination profiled bookings should not only be available but be a viable option to all system Users. The 1 in 20 booking obligation on the Distribution Networks should therefore be revisited and may be best addressed within any RIA.

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)?*

   While Vermilion considers it may be appropriate to use obligated capacity as a driver of relative costs between different entry and exit points it does not believe it is necessary to use obligated values to derive the absolute reference prices. It is already known that bookings will not be close to obligated values. It is possible for National Grid to use a more accurate Forecast of Contracted Capacity (at the very least in aggregate) from October 2019 which could be refined in due course if a specific forecast at each location is considered necessary.

   This is particularly so if proposing multipliers of 1, as the volumes at entry (with some allowance for the existing entry capacity bookings) and exit points (with some allowance for the fact that DNs have to book for their 1 in 20 Licence conditions) can be used as proxy for the capacity booking.

   This will lead to a lower step change from the transition to the enduring period.

   The proposal to have an interim period simply postpones changes from 2019 to 2021 (or later depending on the specific proposal) rather than removing the likelihood of significant change.

   Given that full compliance with EU 2017/460 is expected by October 2019 it is unclear how a transition could be considered fully compliant. There has already been time since March 2017 for change to have started.

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?*

   Vermilion does not understand why entry capacity should continue to be offered at current prices rather than be subject to the new rules. This may encourage some quarterly bookings where prices are low and expected to rise in future. This would seem to be exacerbating the issues that appear to be of concern regarding shorter term entry capacity purchases.

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?*

   It is not clear that the proposals are compliant with EU 2017/460 in particular:

   (1) The level of commodity charges as a percentage of the total Transmission Services revenue may not be consistent with article 4 (3) "The transmission services revenue shall be recovered by capacity-based transmission tariffs." National Grid analysis shows the current percentage for entry is around 33%. For exit the starting position is better at close to 70% but this falls to below 60% in the Transition period. Note these figures do not include the current SO commodity charges which will be considered "Non-Transmission charges" under the new regime.

(2) The optional charge as proposed in many of the proposals should be shown to reflect the real costs of any potential by-pass pipeline and should take into account the fact that a by-pass pipeline would be a long term commitment. It would be hard to justify compliance if there were only low (or no) capacity booking or an alternative revenue commitment. Care should be taken to ensure it would not be considered discriminatory. If any form of discount is based on the costs of alternative pipelines then such costs and their use in any formula must be credible and in particular any capacity value used should be consistent with the utilisation of such by-pass pipeline. Such a formula should not introduce step-changes (which can lead to inefficient outcomes) as is the case if an arbitrary distance cut off is used. Mod 621D which does not propose an Optional Charge for short-haul routes is the only proposal that does not face this issue.

Further, ENTSOG considers short-haul as a 'firm capacity product with conditions' allowed by Article 4(2) of the TAR NC rather than a commodity charge under Article 4(3).

(3) Interruptible charges should reflect the risk of interruption and it is not clear that a single figure (of 90% discount to the firm price) is appropriate. There should be some link to the availability of capacity and so specific consideration should be given to the relative level of risk in the case of virtual reverse flows where there is no firm capacity available.

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 CWD model which uses a distance element can be considered broadly cost-reflective and appropriate for a Transmission network such as in GB. A postalised model may be more appropriate for a smaller highly meshed geography such as GB distribution networks.

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 minimum 50% discount for storage is mandated under article 9(1) of EU 2017/460. This would seem a reasonable starting point. Further discounts should be avoided as they add to the level of charges that must be recovered from other points on the network.

Insert Text Here

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.*

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