Representation - Draft Modification Report

UNC 0678; 0678A; 0678B; 0678C; 0678D; 0678E; 0678F; 0678G; 0678H; 0678I; 0678J;

Amendments to Gas Transmission Charging Regime

0678	Amendments to Gas Transmission Charging Regime
0678A	Amendments to Gas Transmission Charging Regime (Postage Stamp)
0678B	Amendments to Gas Transmission Charging Regime
0678C	Amendments to Gas Transmission Charging Regime (Postage Stamp)
0678D	Amendments to Gas Transmission Charging Regime including a Cost based Optional Capacity Charge
0678E	Amendments to Gas Transmission Charging Regime – Treatment of Storage
0678F	Amendments to Gas Transmission Charging Regime – Treatment of Unprotected Entry Capacity Storage
0678G	Amendments to Gas Transmission Charging Regime including a Cost based Optional Capacity Charge
0678H	Amendments to Gas Transmission Charging Regime (Postage Stamp) including a Cost based Optional Capacity Charge
0678I	Amendments to Gas Transmission Charging Regime including Wheeling and an Ireland Security Discount
0678J	Amendments to Gas Charging Regime (Postage Stamp) including a Cost Based Optional Capacity Charge

Responses invited by: 5pm on 08 May 2019

To: enquiries@gasgovernance.co.uk

Representative:	Christiane Sykes
Organisation:	Shell Energy Europe Limited
Date of Representation:	8 May 2019
Support or oppose implementation? (Please note you will be asked for your reasoning further below)	0678 Oppose 0678A Oppose 0678B Support 0678C Oppose 0678D Qualified Support 0678E Oppose 0678F Oppose 0678G Qualified Support 0678H Oppose 0678I Qualified Support 0678J Oppose
Expression of Preference (Please note you will be asked for your reasoning further below)	*If **EITHER** 0678; 0678A; 0678B; 0678C; 0678D; 0678E; 0678F; 0678G; 0678H; 0678I **OR** 0678J were to be implemented, which __**ONE**__ Modification would be your preference?* 0678/0678A/0678B/0678C/0678D/0678E/0678F/0678G/0678H/0678I/0678J* *delete* One of the many difficulties with using the code modification process to implement the European NC TAR is that out of the eleven modifications proposed, no single proposal achieves the best outcome in terms of NC TAR compliance and compliance with the national relevant licence objectives. Having said this, **modification 0678B seems to offer the best outcome for the market** by proposed implementation of the CWD methodology and a clear and transparent formula for calculating the optional capacity charge. Whilst National Grid's publication of forecast tariffs for each proposal goes some way to enabling network users to reproduce the calculation of reference prices, the ability to accurately forecast tariffs is less clear as the input data is indicative only and potentially subject to significant change. Moreover, the comparison of reference prices does not take into account the many nuances between each proposal and the wider market impacts. We trust that Ofgem's final consultation will include this in their Impact Assessment to ensure that network users have a fuller understanding of the wider impacts of each proposal and are, therefore, better positioned to express a preference for the modification that best suits the interests of the GB market and consumers, whilst also ensuring compliance with EU and national regulatory and licence objectives. Cont. on following page…

Expression of Preference (cont.)	As further explained below and in previous correspondence with Ofgem, removing the optional charge in its entirety could have a material impact on competition in and commercial activities related to the shipping, transportation or supply of gas. Removal of the optional charge could also result in a fall in demand at Interconnection Points and risks diverting gas flows to other markets as the attractiveness of the GB gas market undermined. For these reasons, we support maintaining the optional tariff in the form which best mitigates the above risks and oppose the modifications, which exclude an optional charge.

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

SEEL supports a 1 October 2020 implementation date to give network users sufficient lead time to fully assess the impact of the implemented proposal, amend their capacity booking strategies, update their systems and take any mitigating actions as appropriate.

Achieving compliance with the relevant notification timescales for changes to the charging regime and tariffs will be very hard to achieve with an October 2019 effective date and the limited lead time risks undermining existing contracts. Furthermore, the significant and unprecedented uncertainty brought about by proposed fundamental changes to the charging regime within a constrained timeline represents a major challenge when negotiating new contracts with an October 2019 start date.

A change mid-contract period presents the greatest risk of undermining existing contracts as it will be unfeasible to reopen them mid-contract period, thereby exposing counterparties to an uncontrollable risk. This could impede competition between shippers as it could lead to winners and losers without the option to renegotiate, which is damaging to commercial relationships.

Referencing SSE's QC legal advice, only a 1 October Effective date should apply and charges must be published 4 months in advance of this date, to ensure compliance with the NC TAR and NC CAM.

Legal Text: *Are you satisfied that the Legal Text will deliver the intent of the Solutions for each Modification? Please specify which Modification if you are highlighting any issues.*

Ensuring the legal text accurately reflects the intent of the proposals and that the proposals can work in practice is paramount but we have not had time to adequately review the legal text of each of the eleven proposals.

We understand, however, that some inconsistences have been identified between the legal text and the proposals, which illustrates the risks of proposing fundamental changes to the charging regime within constrained timelines, making it difficult to accurately assess and forecast the impact of the proposals and compliance with the relevant EU and national regulatory and licence objectives.

Are there any errors or omissions in this Modification Report that you think should be further considered? *Include details of any impacts/costs to your organisation that are directly related to this.*

0678 and all alternative modification proposals.

The Draft Modification Report is as well developed as feasible, given the constrained timelines and the breadth and complexity of the eleven proposals under consideration.

We are deeply concerned, however, that for those without the resources to attend the frequent working groups organised to develop the report and to assess the analysis as and when it was presented and frequently amended; navigating the numerous documents, models and analyses, is extremely challenging. Consequently, there is a substantial risk that impacted parties are unable to fully understand the impact to inform a meaningful response to this consultation.

The interaction of these proposed changes with government objectives such as the MERUK should also be considered. MERUK is the central government obligation, which requires oil and gas operators to maximise economic recovery of the UK Continental Shelf (UKCS: UK Offshore area). The impact of the proposals on the MERUK and the associated benefits of ensuring the UKCS is an attractive basin to invest in facilitates diversity of supply, an economic and efficient network, ultimately, lowering costs for consumers.

We trust that Ofgem's overarching Impact Assessment as part of a final consultation will ensure the suite of proposals are analysed using a consistent model and accurate and reliable input data.

Consultation Questions Requested by the Authority

The Authority has requested that the following questions be considered by Respondents when writing their responses.

Question Number	Question
1.	What impact, if any, do you think tariff differentials between existing and new contracts will have on users booking behaviour?
2.	What date should the changes proposed by the modifications become effective and why?
3.	The proposals have different specific capacity discounts for storage sites. What level of storage discount do you consider is appropriate and can you provide clear justification if the discount is greater than 50%
4.	Can you provide reasons why an NTS Optional Charge is or is not justified? If you consider an NTS Optional Charge is justified, which proposal do you prefer and why is it compliant with TAR NC?
5.	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?
6.	It is proposed that National Grid Gas may review or update the Forecasted Contracted Capacity (FCC) Methodology following consultation with stakeholders, unless Ofgem (upon application by any Shipper or Distribution Network Operator) directs that the change is not made as per its powers under Standard Special Condition A11(18) of National Grid's Licence. Do you believe that this governance framework is fit for purpose? Please provide reasons for your answer.

1) What impact, if any, do you think tariff differentials between existing and new contracts will have on users booking behaviour?

The share of fixed price long-term contracts will make up a significant proportion of Forecasted Contracted Capacity (FCC) for many years to come. As per the Baringa analysis, these existing contracts account for 60% of the FCC but potentially only 12% of revenue recovery in 2021-22.

Whilst retrospective changes to existing tariffs should always be avoided, shippers booking capacity under the existing charging regime would have foreseen a change to the commodity element of the tariff, which for 2020-21, could make up 76% of the total revenue requirement from entry.

The ensuing long-term differential between the share of revenue recovery, which existing and new capacity holders are subject to, created by netting off existing contracts when calculating revenue recovery charges, will have an enduring impact on the competitive landscape for booking entry capacity in the GB market. The resulting impact on user booking behaviour could act as a barrier to entry as those wishing to book new capacity and enter into contracts on that basis, would be at a competitive disadvantage to existing capacity holders for the next decade.

To ensure compliance with the NC TAR and also the UK relevant licence objectives, in particular the requirement to facilitate effective competition between gas shippers, we see a strong case to revisit the treatment of existing contracts.

As referenced in the Draft Modification Report, some Workgroup participants believed there would be a distortion in charges between contract prices and 'new' capacity prices as a result of netting-off allowed revenue for existing contracts. It was further noted that the NC TAR does not cover how to treat existing contracts within the RPM and consideration needs to be given to the interaction between under recovery of costs and the revenue recovery approach. Whilst the NC TAR lacks sufficient detail in this regard, according to National Grid's NTSCMF / Sub-Group paper - Forecasting Contracted Capacity (FCC), it was understood in the NC TAR ENTSOG working group that the intention behind the definition of FCC was that generated prices would constitute 'all capacity that has been sold to date plus everything [that] is expected to be sold in remaining auctions/application windows'. This is also consistent with the approach followed in other NW European markets.

In addition, the Workgroup noted that owing to the late publication of the existing contracts additional material, the Workgroup did not have sufficient time to consider this work and as a result, there was almost no opportunity for proposers to amend their proposals or for potential proposers to raise new proposals on account of this.

It follows that potential solutions to address these concerns can be progressed separately from the NC TAR related proposals as there has not yet been time for solutions to the market distortions created by netting off existing contracts to be brought forward.

2) What date should the changes proposed by the modifications become effective and why?

In our view, the changes should take effect 1 October 2020 or the following gas year after that to afford network users sufficient lead time to accurately assess their capacity booking strategies, update their systems and take any mitigating actions as appropriate.

See our response to the question on lead times for more information.

Irrespective of when the proposed changes become effective, we would welcome a decision on the proposals as soon as practicable to minimise the negative impact already experienced owing to the uncertainty created by proposed fundamental changes to the GB charging regime, with no clarity on when the changes should take effect. A timely decision should not, however, be to the cost of a robust and impartial final consultation and Impact Assessment. Should an effective date of October 2020 earliest be implemented and decided on ahead of the final decision on which proposal is to be implemented, this would mitigate an element of risk and uncertainty for the current contract negotiation period.

3) The proposals have different specific capacity discounts for storage sites. What level of storage discount do you consider is appropriate and can you provide clear justification if the discount is greater than 50%.

SEEL welcomes a storage capacity discount, which reflects the value of storage and its contribution to system flexibility and security of supply. We are, however, concerned, that a discount higher than 50% could lead to an increase in other GB tariffs of 1-2%. This may be justified, given the benefits storage offers to the system but we have not had sufficient time to fully assess the analysis in this regard.

4) Can you provide reasons why an NTS Optional Charge is or is not justified? If you consider an NTS Optional Charge is justified, which proposal do you prefer and why is it compliant with TAR NC?

In the context of the Energy Transition, future utilisation of the gas transportation system becomes less certain than has historically been the case. Removing the optional charge could further exacerbate the risk of under-utilisation of the network through removing the current incentives to avoid inefficient bypass of the NTS. Should removal of the optional charge result in converse incentives to bypass the NTS, National Grid would need to recover its allowed revenue from a reduced volume of capacity bookings with a consequential upward pressure on gas transportation tariffs and wholesale prices. Not only does this harm the attractiveness of the GB gas market but could also disincentivise future network utilisation from new and diverse sources of green gas.

Removing the optional charge could have significant implications for flows towards GB and to neighbouring markets, jeopardising market liquidity, in conflict with the EU network access regulation, which stipulates that tariffs must not restrict liquidity nor distort trade across borders.

In addition, Ireland in particular, could be exposed to a material impact if the optional charge is removed as Ireland relies on gas flows through the Moffat Interconnector, which will increasingly be the case as production from Corrib declines. The impact is exacerbated if there are any field issues for Irish domestic gas production, as it would lead to increased flows through Moffat and potentially high and unpredictable tariffs, which could have a consequential impact on end consumers.

5) 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?

Each proposer has raised their proposal on the basis that they deem their proposal to be compliant with relevant legislation. Ofgem will need to seek its own legal advice to inform their final decision as part of an overarching impact assessment of the proposals.

It is worth noting, however, that in accordance with Article 7 of the NC TAR, network users should be able to reproduce the calculation of reference prices and their accurate forecast. National Grid has on numerous occasions stressed the indicative nature of the forecast tariffs given the uncertainty around future bookings. Moreover, discrepancies have been identified between the values input into National Grid's FCC and existing data published by National Grid. This, in combination with a fragmented and complex approach to modelling and lack of transparency of updated FCC values makes it extremely difficult to fulfil the obligation in NC TAR Article 7 (a) which states the reference price methodology should aim at 'enabling network users to reproduce the calculation of reference prices and their accurate forecast'.