

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:	Kirsty Ingham / Kamila Nugumanova	
Organisation:	ESB	
Date of Representation:	8 May 2019	
Support or oppose implementation? (Please note you will be asked for your reasoning further below)	0678	Comments
	0678A	Oppose
	0678B	Qualified Support
	0678C	Oppose
	0678D	Oppose
	0678E	Oppose
	0678F	Oppose
	0678G	Oppose
	0678H	Oppose
	0678I	Support
	0678J	Oppose
Expression of Preference (Please note you will be asked for your reasoning further below)	If <i>EITHER</i> 0678; 0678A; 0678B; 0678C; 0678D; 0678E; 0678F; 0678G; 0678H; 0678I <i>OR</i> 0678J were to be implemented, which <u>ONE</u> Modification would be your preference? 0678I	

<p>Standard Relevant Objective:</p>	<p>We broadly agree with the conclusions of the workgroup's review of Standard Relevant Objectives, summarised in Part I (Section 7) and Part II sections of the Modification Report for 0678/A/B/C/D/E/F/G/H/I/J . We note the discussions were nuanced and while outputs of this assessment are listed as only "Positive" or "None", this cannot and does not address the degree of impact versus baseline.</p> <p>We would additionally note that Modification 0678I facilitates Relevant Objective (g) (Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators) in a more efficient manner and to a higher degree than the original proposal and the rest of the alternatives.</p> <p>Specifically, our view is that 0678I better facilitates objective (g) by incorporating elements that achieve the following:</p> <ul style="list-style-type: none"> • Objectives of the Internal Energy Market, such as improving energy security, enhancing regional cooperation by proposing to introduce an Irish Security Discount • Compliance with TAR NC and CAM NC requirements in relation to timing of consultations, publications, notice periods by introducing an explicit requirement for a minimum of 4 months notification period prior to the charges taking effect.
<p>Charging Methodology Relevant Objective:</p>	<p>We broadly agree with the conclusions of relevant the workgroup's review of the Charging Methodology Relevant Objectives, summarised in Part I (Section 7) and Part II sections of the Modification Report for 0678/A/B/C/D/E/F/G/H/I/J. As above, we note the discussions were nuanced and while outputs of this assessment are listed as only "Positive" or "None", this cannot and does not address the degree of impact versus baseline.</p> <p>We would additionally note that Modification 0678I facilitates Relevant Objective (e) (Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators) in a more efficient manner and to a higher degree than the original proposals and the rest of the alternatives.</p> <p>Specifically, our view is that 0678I better facilitates objective (e) by incorporating elements that achieve the following:</p> <ul style="list-style-type: none"> • Objectives of the Internal Energy Market, such as improving energy security, enhancing regional cooperation by proposing to introduce an Irish Security Discount • Compliance with TAR NC and CAM NC requirements in relation to timing of consultations, publications, notice periods by introducing an explicit requirement for a minimum of 4 months notification period prior to the charges taking effect.

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

Overall comments:

We recognise the considerable efforts of the Joint Office and 0678 Working group taken to facilitate this Modification process on the basis of urgency. While the review process has considered as much information and representations as possible, we would like to highlight a number of thoughts and concerns with the overall process:

- Further detailed work and discussion of specific issues could not be undertaken in depth due to a number of critical items being published late in the process. The assessment of impacts of each modification proposal was reliant on the provision of a full FCC model, which was only released two weeks prior to the closing date for the workgroup. We believe the FCC model is the fundamental underlying mechanism for the proposed charging structure and should have been discussed in more detail. We note that under UNC 0621 the intention had been to spend a period of months developing the FCC methodology and governance under the NTSCMF workgroup. Further discussion and analysis would have provided greater transparency and a more efficient and reliable set of data to allow better interpretation of the variables used. Ofgem's extension to the original timeline instructed National Grid to publish specific information and analysis to allow workgroup to digest and question prior to further meetings taking place. The revised timeline was not met. The analysis on historical contracts in particular was delivered very late, only two days ahead of finalisation of the workgroup report. Consideration and discussion of this material was therefore insufficient, and it is unclear whether it met with Ofgem's expectations.
- The sheer number of alternatives and dependency of models on the FCC in the original proposal has made it very difficult for Industry to conduct an adequate review and assess the potential impacts of all modification proposals. All proposals take 0678 as their basis, adjusting many or few elements to meet different, but important, objectives. Therefore, delays in releasing the FCC methodology and associated full model had a cascading effect on development of all of the alternatives and delayed their introduction as well as any detailed analysis of the whole suite of modifications. As a result of the above, elements of various modifications were changing with the release of new data, models and analysis by National Grid. Hence, reviewers did not receive the whole picture of all finalised proposals until very late in the process, and workgroup had insufficient development time for Alternatives. This highlights the flaws in undertaking holistic charging reform through the UNC Modification process, which we previously described in our submission on UNC 0621 in 2018.
- The 0678 Urgency process clearly put the responsibility onto proposers to provide analysis for their Alternative proposals. The timing issues described above mean that material provided has been limited, but also adds concerns on reliability: firstly, the proposer's assessment may not be objective; secondly, due to time constraints errors or shortcuts in analysis are far more likely to have occurred, and thirdly, the lack of an independent sensitivity tool for each Alternative leaves the reviewer with no opportunity to test the analysis. The sensitivity tool provided by National Grid has itself not been subject to quality assurance; apparent errors in the FCC inputs are highlighted in our comments to 0678 below.
- More fundamentally, due to a lack of timely access to the full set of underlying data needed for thorough assessment, a number of elements and detailed features of each proposal still required further consideration and raised additional concerns that could not be addressed in Workgroup due to a lack of time. Picking a preferred option when responding to this consultation is therefore very difficult. However, highlighting strengths and weaknesses of each proposal may provide a framework that could be used by Ofgem and Industry to design a well-considered, holistic and enduring approach to reform of the gas charging regime.

0678

Comments: Overall, we do not believe that either CWD or Postage Stamp methodologies are fully cost-reflective. However, we believe that in the context of GB gas system and its cost drivers, CWD RPM is more relevant and applicable as it takes capacity and distance into consideration when calculating applicable tariffs. Additionally, it reduces cross-subsidies among network users relative to other RPMs.

We do, however, have a number of concerns with the FCC model and proposed reference price calculation. Since the underlying 0678 model has been used by all of the alternatives (including an adapted version by the proposer of 0678B), these concerns would apply to all modifications.

Specifically, we do not believe the model is sufficiently transparent and reproducible. While the methodology used to derive the tariff structure has been explained in a step-by-step process, the underlying data is not easily accessible and transparent. The derivation of the forecast used as an input to the FCC calculation is unclear, even in high level descriptive terms; NG has stated that publication of figures demonstrates sufficient transparency, but without any knowledge of or confidence in the calculations and assumptions behind these figures, this cannot be true. The historical flow data provided in the FCC do not match the historical flow data published by NG at its Data Explorer web pages. The use of several alternative single year datasets to set the maximum option, and therefore the FCC, leads to significant weakness in projecting FCC forward with any certainty, and also gives rise to concerns over stability. For example, total historical exit flows are around one third the level of the total FCC. Substituting historical flows (as provided by NG in the FCC sheet) for the calculated FCC results in a tariff increase at exit of almost 200%. With the move to 100% capacity charging it can be anticipated that bookings will trend towards short-term, profiled bookings in order to be cost efficient; this implies that bookings will become closer to flows. It is clear that potential wide swings in tariffs may result from changed booking behaviours. Therefore, it would be difficult for parties to reproduce the tariff calculation or forecast tariff developments over time as required by Article 7. In addition, the lack of independent quality assurance of the model does not give industry parties the ability to check, verify and challenge accuracy of the model and reference price forecasts.

Furthermore, we have concerns with the content and governance of the FCC Methodology proposed by 0678 and its alternatives that do not have a separate solution for the governance of the FCC Methodology. In particular, the methodology does not explain the way for industry parties to raise concerns and material omissions identified in the FCC. More importantly, it does not explain what circumstances would trigger a change to the methodology, how often the review will take place and what are National Grid's obligations in response to any concerns or requests for review raised by industry parties. We would like to note ACER's comments in response to Danish NRA's proposals that could be interpreted as their view on good practice: "the Agency understands that the period during which this new tariff methodology will be applicable is not fixed. As prescribed in the NC TAR, the methodology will be fixed for at most five years. The Agency recommends to fix the period up front or, as a second-best, to clarify the proposed approach and describe the circumstances that will lead to a new tariff review".

While the methodology document notes that "the FCC is produced as a forecast for the subsequent 5 Gas Years", it does not explicitly say that the methodology itself will be fixed for 5 years and does not provide sufficient explanation as to what the triggers for a potential review would be.

0678A

Oppose: As noted previously, we do not believe either CWD or Postage Stamp methodology to be fully cost-reflective, but in our view Postage Stamp RPM is less applicable to GB as it gives no consideration to prevalent system cost drivers, i.e. distance and capacity. Considering the stretched structure of the GB gas network, the application of a CWD methodology would better reflect the actual transmission costs and the complexity and topography of the network. Moreover, in line with our interpretation of NC TAR, we do not believe the use of Postage Stamp RPM in GB could be easily justified and would require substantial additional analysis and evidence of delivering a greater degree of cost-reflectivity.

Our interpretation of ACER Analysis on the national tariff consultation documents shows that for Postage Stamp RPM to be recognised as cost-reflective and compliant with Article 7, as a minimum the following would have to be demonstrated: the degree of cross-subsidisation for the postage stamp methodology remaining within the threshold of 10% as defined in Article 5(6) of the NC TAR; or “proper motivation why a more cost reflective methodology, such as the CWD methodology, would create problems to the national gas market functioning”, “evidence that implementation of CWD methodology would be overly complicated”.

In light of the available analysis of 0678 and its alternatives proposing a Postage Stamp RPM, we do not believe there is sufficient evidence to demonstrate that Postage Stamp is better justified for the use on the GB network.

0678B

Qualified Support: As noted in the comments above, we believe CWD is a more appropriate methodology to use in the context of the GB transmission system.

In addition, 0678B proposes an Optional Capacity Charge which will encourage greater use of the NTS by way of avoiding inefficient bypass. The proposer of 0678B believes it improves on the solution being proposed by National Grid’s 0678, and benefits from using the CWD methodology as the basis for its approach to the optional charge. We echo this view and agree that the OCC mechanism included in this alternative provides for a more cost-reflective application of the CWD methodology, encourages greater use of the NTS by way of avoiding inefficient bypass, of the entire system as well as specific routes, and facilitates the delivery of gas to the GB market.

0678C

Oppose: Postage Stamp methodology is less preferred as per our comments on 0678A above.

Additionally, 0678C only provides for excluding existing storage entry contracts from the Revenue Recovery Charge, whereas TAR NC acknowledges that the principle of protection of legitimate expectations should apply to all existing capacity that satisfies the criteria to qualify for Article 35. Therefore, proposals in this modification may create unnecessary competitive distortion between storage and non-storage existing entry contracts. Moreover, for the purposes of compliance with Article 35 it would be less ambiguous to include all existing contracts, and not just storage, as defined by relevant clauses of TAR NC.

Additionally this alternative proposes an 80% storage discount, which in our view, also requires additional justification and is motivated by reasons beyond those outlined in the TAR NC. Whilst TAR NC does not prohibit a higher discount for storage, the rules around minimum discounts aim at “avoiding double charging”. The proposal to increase the discount to 80% risks introducing economic support for storage in the GB gas system by using transmission charging. We do not believe this is the right instrument to provide subsidies for storage at a national level.

It should also be noted that 80% storage discount creates an additional increase in tariffs for non-storage system users. Our views on the level of storage discount and criticism of any discount above the minimum level of 50% as prescribed by TAR NC are further discussed in the response to Q.3 below.

0678D

Oppose: We believe that as they stand currently the OCR solutions in 0678D are more difficult to implement due to their proposal to use cost-based qualification criteria. The need for detailed discussion and approval of the underlying cost base would add a level of complexity and make the assessment of the benefits and avoided risks of such solution more difficult.

We note that this OCR proposal contains the same methodology basis as that raised in UNC 0670R (Review of the charging methodology to avoid the inefficient bypass of the NTS). We note the methodology proposed by 0670R has been discussed, further development was deferred due to 0678 and a conclusion is yet to be reached. In our view, the proposed methodology should continue to be developed as part of the 0670R process. We do not believe, it would be an efficient and reliable approach to include this OCR methodology as part of the preferred 0678/alternatives solution.

0678E

Oppose: See our comments on 0678C with regards to Revenue Recovery Charge exclusion.

See our comments on 0678C with regards to the level of Storage discount.

0678F

Oppose: See our comments on 0678C with regards to Revenue Recovery Charge exclusion.

See our comments on 0678C with regards to the level of Storage discount.

In addition to the above, 0678F proposes an establishment of a new process to permit Users holding Unprotected Entry Capacity Contracts to surrender some or all of the capacity subject to prices increasing beyond specified triggers. Our view is that this proposed mechanism creates uncertainty and unpredictability in tariffs due to flexibility in surrender terms. Whilst Storengy's analysis (3 April 2019)¹ illustrates that the overall impact of a storage capacity surrender option will not be significant in the context of total NTS revenue, the exact impact in any given year is difficult to quantify. In the scenario that all of the capacity were surrendered simultaneously, it could lead to non-storage system users being exposed to the full scope of the impact in a particular year.

Additionally, it can be assumed that the industry was fully aware of the approaching changes to the charging regime triggered by the GTCR initiated in 2013 and possibility that UNC 0621 may not be implemented as proposed. Therefore, it does not seem efficient to allow some industry parties to have the benefit of choice between new and existing tariffs where others do not and the impact of their decisions will be reflected on other users.

0678G

Oppose: See our comments on 0678C with regards to Revenue Recovery Charge exclusion.

See our comments on 0678D with regards to OCR proposals.

0678H

Oppose: Postage Stamp methodology is less preferred as per our comments on 0678A above.

See our comments on 0678D with regards to OCR proposals.

0678I

¹<https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/book/2019-04/GCR%20Gas%20Storage%20Benefits%20Document%20%28provided%20by%20Alex%20Nield%2003April19%29.pdf>, p. 10, Appendix 2.

Support: CWD is more preferred as per our comments on 0678.

Additionally, the proposed Ireland Security Discount is consistent with better facilitation of the objectives of an Integrated Energy Market and compliance with the objectives of TAR NC (specifically Article 9).

Moreover, the proposal seeks to add enhanced predictability in prices by adding an explicit clause to TPD Section Y UNC that will state that changes to the FCC methodology can only be amended every four years with a transitory arrangement allowing the FCC methodology to be amended one year after implementation, and subject to consultation. This, in our view, would ensure there is a clear oversight of any reviews or changes to the methodology, while allowing sufficient flexibility to make amendments if needed via a thorough consultative process with Industry.

We support the proposed timeline for sufficient notice to be provided for the effective date for new charges. As explained in more detail under "Implementation" below, CAM compliance requires four months' notice of charges prior to 1 October for the annual IP capacity product. TAR predicates that all charges at entry and exit should be set using the same RPM.

Additional analysis in support of the above is outlined below in the section "Additional analysis or information".

0678J

Oppose: Postage Stamp methodology is less preferred as per our comments on 0678A above.

See our comments on 0678D with regards to OCR proposals.

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

ESB believes that in line with CAM and TAR there must be at least four months' notice prior to 1 October. This is because:

- Article 6 (3) of NC TAR requires that the same reference price methodology shall be applied to all entry and exit points in a given entry-exit system subject to the exceptions set out in Articles 10 and 11.
- With regards to IP points, for the Gas Year starting in October, yearly capacity auctions for IP capacity are set at a default date of first Monday of July as per Article 11(4) of NC CAM. Article 11 of NC CAM requires yearly capacity auctions to be held once a year.
- Article 29 (a) specifies that for interconnection points the reserve prices applicable until at least the end of the gas year beginning after the annual yearly capacity auction shall be published before the annual yearly capacity auction in accordance with the requirements set out in Articles 31 and 32 by the national regulatory authority or the transmission system operator(s).
- In relation to the timing of such publication, Article 32 (a) says that the deadline for the publication of the information set out in Articles 29 shall be no later than thirty days before the annual yearly capacity auction.

Additionally, we would expect Ofgem as the NRA to comply with its obligations under Articles 26, 27 and 28 of the NC TAR, which, in the context of timelines, means the following:

- Article 26 and 27 consultations

In the [Implementation Document for TAR NC \(2nd Edition\)](#), ENTSOG has estimated the time needed for completing the final consultation process, and has also made assumptions regarding intermediate consultations. The sum of the duration of all activities required to undertake at least a

final consultation under Article 27 is equal to at least 17 months where one TSO is active in an entry-exit system. ENTSO-G clarifies that the length of the final consultation process depends not only on the deadlines explicitly set out in the TAR NC but also on the time estimates of the related activities to be fulfilled before/after. It is our view that, even if estimated timings were shortened to the deadlines mandated by TAR NC, the process would still take at least 4-5 months to complete. Therefore, we would expect the NRA to allow sufficient lead time ahead of the effective date for new tariffs, in order to comply with good regulatory principles, EU Gas Directive, TAR NC requirements and other applicable legislation.

- Article 28(1) AND (3)

At the same time as the final consultation under Article 26(1), the NRA must consult with the NRAs of directly connected MSs, and with relevant stakeholders on the aspects outlined Article 28. The TAR NC calls for two consultations to occur at the same time, with the same start and duration. This requirement adds another critical activity to the implementation timelines and raises the need for a sensible and comprehensive process.

We have reviewed legal advice obtained from its QC by SSE (published 8 April 2019 on the UNC 0678 main page) and agree with the position presented on TAR and CAM compliance, in line with the above.

ESB also expects Ofgem to conduct a Regulatory Impact Assessment due to the significance of the changes, per Ofgem's Impact Assessment Guidance document.

In addition to CAM and TAR compliance grounds, as much notice as possible is required for commercial reasons. Contracts for the Gas Year starting 2019 have already been concluded and may require revision if a change of the tariff regime became effective (this includes any change stemming from Mod 0686 also). Industry custom and practice is to contract for the period from 1 October and therefore we would wish for as much notice as possible, but at least four months in the case of this significant RPM change, prior to 1 October in any year. If any shorter lead times are realistically under consideration, we suggest that Ofgem issue a confidential request for information to seek greater understanding of the costs and risks involved, as it did in 2018 for UNC 0636.

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

0678

ESB would need to review impacts on internal systems, commercial arrangements and operations once a decision were taken.

Generically for the power sector, taking evidence from NG's Data Explorer web pages and without quantifying any costs ESB would face, the change in discount for Off-peak capacity will increase costs significantly. Whilst 0678 analysis acknowledges at a high level that generation exit point capacity booking behaviour will be impacted by the change in the Off-peak capacity discount, as well as the shift to 100% capacity-based charging, it does not show the whole picture: for example, it does not incorporate changing load factors for gas-fired power stations, redistribution of cost onto low load factor users, financial impacts on the wider power system and resulting capacity mix.

Further understanding and analysis of full impacts on the gas NBP price and exit tariffs for generator exit points will be required. This impact will then have to be reflected in an estimated increase in power price, and any additional costs will be incorporated into Capacity Market and ancillary services bids and passed through to electricity end-users.

ESB has operations in Northern Ireland and the Republic of Ireland. The wholesale price of gas on the island of Ireland is heavily influenced by the GB wholesale gas price (NBP) and the cost of transportation of gas. From the National Grid models, the increase in gas prices based on the increase in the Moffat Exit tariff alone may be significant and this will be passed through to end-users of both gas and electricity. We also anticipate impact on the GB wholesale NBP price itself, which could further increase gas and power prices on the island of Ireland.

0678A Same as 0678 above
0678B Same as 0678 above
0678C Same as 0678 above
0678D Same as 0678 above
0678E Same as 0678 above
0678F Same as 0678 above
0678G Same as 0678 above
0678H Same as 0678 above
0678I ESB would need to review impacts on internal systems, commercial arrangements and operations. Generically for the power sector, taking evidence from NG's Data Explorer web pages and without quantifying any costs ESB would face, the change in discount for Off-peak capacity will increase costs significantly.

We anticipate that 0678I would provide a degree of mitigation to cost changes and therefore improved certainty for our operations in Ireland. The cost and uncertainty impacts on Irish consumers of gas and electricity should be reduced through implementation of this Alternative.

0678J

Same as 0678 above

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.

Due to the large number of 0678 Alternatives and the varying aspects of each modification, we have not had a chance to review the full legal text in full.

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

In line with our comments on 0678 above (at “Reasons for support/opposition”), in particular the concerns around the FCC calculation not being fully reproducible and transparent, we also note the following sections of the report:

[Part 1 of the Workgroup report](#) notes that “Workgroup Participants thanked National Grid for the model it had created for 0678. This 0678 sensitivity tool allows Users to reproduce prices using the data given”. (p.56).

While the recording of the statement is factually correct, the wording of the statement may not be representative of the full discussion. Therefore, we would clarify the above, specifically in light of our comments on the transparency of the FCC model noted in the section above.

Specifically, while the above quote from the report highlights that “0678 sensitivity tool allows Users to reproduce prices using the data given”, the section further elaborates that “Some Workgroup Participants wished to note that the data required for Modifications including an Optional Charge (apart from 0678B) is not publicly available”.

This, in our view, implies that tariff forecasts can only be reproduced with the data set provided by National Grid (and not verified externally). However, the exact data used for the sensitivity tool is not available. Therefore, it would be difficult for a user to replicate the model for any Alternative and derive the forecast tariffs in the same capacity as the original model.

To support this view, we note ACER comments in response to Netherlands NRA’s proposals, which summarises the proposed calculation greatly facilitates transparency on the tariff structure because, alongside other reason, the information required for replicating the reference prices is publicly available in full.

The report further registers that “Workgroup wished to note that National Grid Optional Charge analysis cannot readily be checked by external parties because of the nature of some of the data. This limits Users’ ability to accurately reproduce the charges and their likely future evolution”. (p.105).

Whilst the report quotes National Grid’s intention to carry out formal assurance activities, assessments and audits (as required) in preparation for using these tools or applications for the generation of actual charges and “provide a level of transparency to enable reference and reserve prices to be replicated”, the formal process explaining how these audits and assurances will be performed is not explicitly described in the modification proposal itself.

The following comments on Consumer Impact in response to analysis by DNs were provided to Joint Office on 10 April, but could not be included in the workgroup report due to time constraints in finalising the document:

- DNs currently do not charge the commodity charge to end users, this is charged by the Shipper. The NTS capacity charge is charged by DNs and recovered by them from Shippers. Therefore some of the DN analysis (e.g. SGN) is comparing current charges for only capacity with future charges for capacity (which will combine the current capacity and commodity elements). When observing the increases between current and future the reader needs to have in mind that

<ul style="list-style-type: none"> ○ the basis of comparison may not be the same for all DNs ○ the impact on end users may not be reflected, as end users pay commodity charge to Shippers currently <ul style="list-style-type: none"> ▪ A key impact observed by DNs will be the redistribution of charging burden from high load factor to low load factor end users as we move to 100% capacity charging on the NTS. This is very important to note and has not featured in the NG analysis, which assumes 100% load factor. Low load factor end users include households and peaking power stations. ▪ There is a 2 year lag on pass through of the capacity charges to end users by DNs. Shippers however will be able to cease passing through commodity charges immediately. There is potential this could result in a see saw effect for end users, with charges decreasing immediately with the removal of commodity charge, then increasing two years later to above the current level (in some cases) with the single capacity charge recovering all NG's revenues. We do not have transparency of this from the DN analysis as DNs cannot and should not predict Shipper behaviour for pass through. ▪ There is a large variation across the country from CWD. SGN raises that it will be counter-intuitive to Scottish users, where gas will have travelled least distance from Norway and much of UKCS, that they should have higher increases. Inequity may be perceived by these users. Also for East of England, which contains the Bacton terminal. PS does not remove variance v current, as the impacts of PS v current vary by region due to the current system.
<p>0678A</p> <p>Same as 0678 above</p>
<p>0678B</p> <p>Same as 0678 above</p>
<p>0678C</p> <p>Same as 0678 above</p>
<p>0678D</p> <p>Same as 0678 above</p>
<p>0678E</p> <p>Same as 0678 above</p>
<p>0678F</p> <p>Same as 0678 above</p>
<p>0678G</p> <p>Same as 0678 above</p>
<p>0678H</p>

Same as 0678 above

0678I

A number of arguments and statements are recorded in the WG report in relation to 0678I , specifically with regards to Ireland Security Discount. While these statements are recorded correctly, the report itself does not provide an expanded view of how those arguments were addressed or discussed. Therefore, we would like to add clarification to a number of statements as referenced below:

p.42: Not all workgroup Participants agreed that this is compliant with Article 9 of TAR NC specifically on the point of ‘infrastructure ending isolation’ as given in Article 9(2).

While some workgroup members may have raised concerns about interpretation of Article 9 and its applicability to this specific modification, the report also notes that “Workgroup Participants are not qualified to provide any legal opinion on the merits of legal compliance in relation to TAR NC“ and “Workgroup also agreed that Compliance can only be assessed to the best of the ability of the Workgroup”(p.49 of Part 1 of the 0678 WG report).

p.43: Some Workgroup Participants noted that there are no plans for equivalent discounts on the Irish side relating to infrastructure ending isolation. This could suggest that the Gas Networks Ireland (GNI) and the Commission for Regulation of Utilities (CRU) do not consider Moffat Interconnector to be ‘infrastructure ending isolation’ relating to Article 9.

The interconnection point at Moffat is currently physically uni-directional with gas flowing from GB to Ireland. So there is no explicit equivalent of such discount that Ireland could have applied. Nevertheless, when implementing their respective tariff regime, implications on the Moffat tariff and by extension on Irish consumers was one of the key consideration when assessing the most appropriate RPM. When the Irish NRA developed the current approach to tariff setting in Ireland in 2015, Article 9, including the subclause providing for discounts for points connected to infrastructure constructed for the purpose of ending isolation of a gas system, was not in existence. The draft of TAR used in guiding the creation of the new RPM was not final at that time,² although the NRA sought to implement a system which would eventually be compliant with the final Regulation.

0678J

Same as 0678 above

² https://www.entsog.eu/sites/default/files/entsog-migration/publications/Tariffs/2015/TAR0500_150731_TAR-NC%20for%20Re-Submission_ACER.pdf

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

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0678I

We agree that Ireland Security Discount is consistent with Article 9 and it is recognised that Ireland is an isolated market served by supplies from GB.

Regulation (EU) 2017/1938

Regulation 2017/1938 establishes two important security of supply standards: the Infrastructure Standard and the Supply Standard. These standards are used to assess how a country's gas network would be affected by the loss of its largest piece of gas infrastructure, and to evaluate if it has sufficient capacity to meet the demand of protected customers

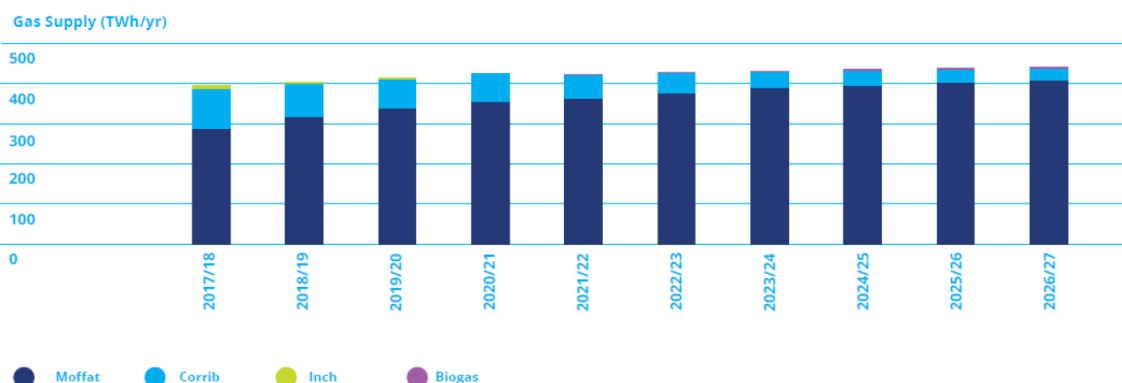
Article 5, the Infrastructure Standard: "Ensure that the necessary measures are taken so that in the event of a disruption of the single largest gas infrastructure, the technical capacity of the remaining infrastructure, is able to satisfy total gas demand during a day of exceptionally high gas demand."

Article 6, the Supply Standard: "Ensure the gas supply to the protected customers for a period of 30 days in the case of disruption of the single largest gas infrastructure under average winter conditions."

Today Ireland's largest piece of gas infrastructure is the Moffat interconnector system in Scotland. As highlighted in the WG report, the dependency of Ireland is reflected in the N-1 standard. This test shows that Ireland does not currently meet the infrastructure standard outlined in EU regulation 2017/1938. It shows that if, on a 1-in-50 winter peak day, Moffat interconnector system in Scotland failed, Ireland would not have sufficient gas supply to meet 100% of demand as required by the standard. Currently about 37% of demand can be met under such circumstances.

The calculation of the security standard to 2040 shows that in both the median and high gas demand scenarios, Ireland faces a significant shortfall for 2025, 2030 and 2040, with the percentage of gas served ranging from 37% to 57%.

Figure 5-2: 1-in-50 Year Peak Day Gas Supply Forecast – Median Scenario



Source: [GNI Ten year Network Development Plan 2018](#)

Cross-border solidarity

Regulation (EU) 2017/1938 also introduced a solidarity principle, which aims to develop a stronger collective response to energy supply risks in the future. It states that "in the event of a severe gas crisis, neighbouring member states will help out to ensure gas supply to households and essential social services".

The security of supply regulation allows countries to meet the requirements on a regional basis. Therefore, [Eirgrid and GNI Long-term resilience study 2018](#) highlights that Ireland currently meets the requirements when assessed alongside the UK. It further notes that as Corrib production declines, gas imports from Britain will once again represent by far the dominant source of supply. The report concludes that thus Ireland could potentially have a high level of dependence on a single import route.

In addition it should be noted that since the closure of the Inch gas storage facility offshore the coast of Cork, there is no physical gas storage located on the island of Ireland. The Irish gas system is therefore reliant on pipeline gas and effectively storage in GB for the provision of flexibility. This is unlikely to change in the medium term.

Project of Common Interest (PCI) 5.2

[GNI Ten year Network Development Plan 2018](#) also notes that the “Moffat Entry Point connection to the GB National Transmission System (NTS) facilitates Ireland’s participation in an integrated European energy market and its capacity is expected to increase following the completion of the twinning of South West Scotland Onshore system. This will implement the Project of Common Interest (PCI) 5.2 Twinning of Southwest Scotland onshore System between Cluden and Brighthouse Bay in the UK. The completion of this project will also remove security of supply concerns, thus increasing the operational pressures by around 20% and gas capacity by around 10% in the network.” The twinning project was completed in late 2018 and is now operational.

Impact on Northern Ireland and Isle of Man

GNI Ten year Network Development Plan 2018 also notes that the Moffat Entry Point supplies gas to ROI, NI and IOM. Firstly, this implies that changing tariffs at Moffat will have direct impact on costs and market development in other jurisdictions, including Northern Ireland. While Northern Ireland is a devolved administration and has a separate NRA, it is part of the UK and any economic impacts on consumers in Northern Ireland should be given appropriate consideration. More importantly, we believe it is the obligation of Ofgem to give due consideration to cross-border issues as prescribed by Article 42 of the EU Gas Directive, which says:

‘2.Regulatory authorities shall cooperate at least at a regional level to:

- (a) foster the creation of operational arrangements in order to enable an optimal management of the network, promote joint gas exchanges and the allocation of cross-border capacity, and to enable an adequate level of interconnection capacity, including through new interconnections, within the region and between regions to allow for development of effective competition and improvement of security of supply without discriminating between supply undertakings in different Member States;*

We also note the [representation paper submitted by Manx Utilities of IoM](#) submitted on 5 March 2019 which recognises the Moffat IP as Infrastructure ending isolation. The paper also highlights that the IoM electricity sector relies heavily on natural gas as the primary generating fuel for more than 80% of the electricity that is produced on the island. It further notes that over 20,000 domestic customers (out of a total of 36,000 households) across the island rely on natural gas for their heating needs, including many vulnerable customers, together with industrial and commercial users across a wide range of our economic sectors. Overall, the representation concludes that implementation of modification 0678 could have both economic and wider social implications for the Isle of Man as a whole.

Overall we note that the Moffat exit point is significantly different to all other exit points from the NTS:

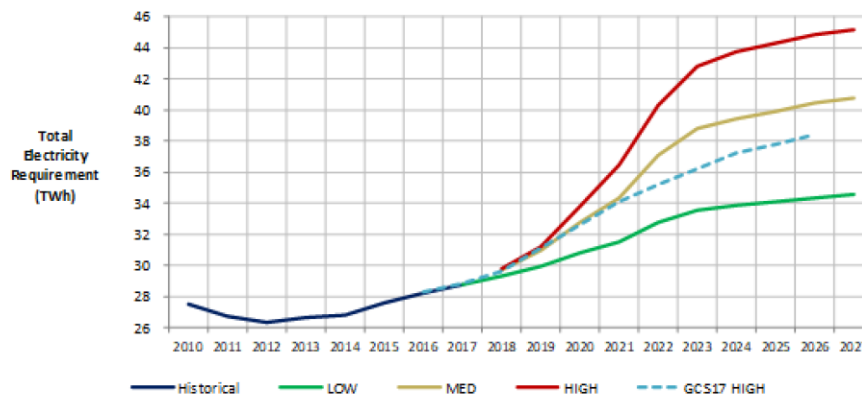
- It is the route of main supply of gas to three other jurisdictions (ROI, NI, IoM).
- Changing rules at Moffat has direct impact on costs and market development in other jurisdictions, unlike any other Exit point.
- Intergovernmental treaties are in place to address capacity allocation and security of supply.

Impact on the Power Sector in Ireland and Northern Ireland

The majority of gas demand in Ireland can be attributed to power generation consumption, which averaged 57% of annual Ireland gas demand in 2015 and 2016. The generation portfolio in Ireland is

still heavily reliant on fossil fuels. In 2017, 64.8% of electricity generation came from fossil fuels, of which 52.2% was natural gas.

CRU Electricity Security of Supply Report 2018 highlights that electricity demand in Ireland could grow by up to 57% in the next 10 years. EirGrid qualify demand assessments by utilising a high, median and low demand scenario. As per the graph below, total electricity requirements are expected to increase in all scenarios.



Source: Historic Demand & Low, Median & High Demand forecasts. Data Source: GCS 2018 – 2027 (referenced in CRU Electricity Security of Supply Report 2018)

The report notes that in the medium to long term the majority of gas is expected to be supplied through a single entry point onto the island of Ireland, meaning that from an electricity security of supply perspective it is essential that emergency provisions are put in place. While it is difficult to quantify the exact impact of 0678 and its alternatives on the power price, the scale of gas-fired generation in the country provides an indication of the potential knock-on effects. On a 2017 basis we have estimated overall impact for the power sector from 0678 in the tens of millions of GBP, which is forecast to increase significantly on several grounds: increased power and therefore gas demand, strong potential that FCC assessment is too high, increased reliance on Moffat in future. Furthermore, due to the scale of changes, such as DS3 System Services and I-SEM, the impact on Northern Ireland, while difficult to quantify, should also be acknowledged.

For all the reasons stated above, we believe that Ireland Security Discount proposed in 0678I would ensure Ireland is not exposed to a security of supply risk due to the isolation of its gas market and would thus better deliver the principles and objectives of the Integrated Energy market and ensure compliance with relevant EU legislation.

Overall impact on Irish Gas wholesale price

In addition to the increase in gas transportation charge as a result of the application 0678 or its alternatives at Moffat, it is important to highlight that Ireland may be exposed to a double effect on its wholesale gas price as a result of the changes. This is due to a high correlation of the Irish gas price with GB NBP. As noted by CRU Harmonised Transmission Methodology document³ “Generally, Irish wholesale gas prices are set by the GB price of gas plus the cost of transporting gas from GB to Ireland via the interconnectors, as GB gas is the marginal source of gas supply to Ireland. The National Balancing Point, commonly referred to as the NBP, is the virtual trading location for GB natural gas. Therefore, the cost of gas at the NBP plus the cost of transportation to Ireland strongly influences the price at the Irish Balancing Point (IBP), i.e. the cost of wholesale gas in Ireland.”

It is safe to assume that changes in the Gas Transmission charging in GB will have an impact on wholesale gas price at NBP. Hence, the impact of changes on Ireland will be expressed in the NBP price increase in addition to the increased cost of transportation via Moffat. This can be supported by

³ <https://www.cru.ie/wp-content/uploads/2018/12/CRU18247-CRU-consultation-paper-on-TAR-NC.pdf>

reference to Section 5.2.2.3 of CRU report which states that “[Moffat is the marginal source of gas to Ireland] Therefore, the cost of gas at the NBP plus the cost of transportation to Ireland, which includes the cost of the Moffat entry tariff, strongly influences the price at the Irish Balancing Point (IBP), i.e. the cost of wholesale gas in Ireland.” GNI explicitly uses the NBP price and cost of transport from NBP to IBP in its calculations for the price of balancing gas.⁴

0678J

Insert Text Here

⁴ GNI Code of Operations, Part E, 1.6.

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. It would appear that if it is economic for capacity purchasers to buy on the secondary market as opposed to the primary market then they will choose to do so. This would be the case if the price agreed for the trade plus the Revenue Recovery Charge (levied after secondary trades) were less than the price of new capacity. At some Entry points, a large amount of historical capacity is held by Shippers for several years. There may be no willing buyer at these points. Instead, capacity may be needed at points where less capacity is held under existing contracts or not available for sale. The differential may result in new entrant Shippers selecting specific Entry points, where secondary capacity is available, or electing not to purchase Entry capacity to GB and therefore potentially impact decisions on GB market entry. Meanwhile the marginal price of Entry will be the tariff for new capacity; this will impact the NBP price, resulting in a benefit to those who hold existing Entry capacity. It is difficult to quantify or predict the impacts of the differentiated tariff setting mechanisms at Entry. It is clear, however, that the intention of TAR is to avoid this type of distortion. Given that long-term historical capacity remains in place for the next decade, these impacts will be seen for the next decade and may be significant in incentivising activity and investment.
2. We believe that, in light of the requirements of NC TAR and other relevant EU and domestic legislation, the most achievable and appropriate effective date for the new charging regime is 1st October 2020. This implementation date will also provide adequate time for users to address this major change and adjust their systems to the new regime. Ofgem should also give consideration to the potential for interaction with the RIIO GT2 price control, specifically the possibility of K factors

spanning the current and future periods. This would indicate October 2021 as the effective date for the new regime.

In our view, given the scale and potential industry impacts of the upcoming change, the preferred modification proposal should allow sufficient implementation timelines for the industry to accommodate the revised NTS capacity arrangements and tariffs as much as possible contractually and commercially.

Not only would a shorter implementation and notice period timeline signal a significant step away from the current adopted process, considering the scale of the change, it would also have an immediate material impact on all transmission users.

More importantly, as highlighted in our response to the Implementation lead time preferences, we would expect Ofgem and National Grid, in its role as the TSO, to require at least 5-6 months in order to meet their obligations in respect of consulting and publication of tariffs and notices under NC TAR.

3. In our view, the appropriate level for a storage discount would be 50%. As noted previously, the proposed 80% storage discount is driven by reasons beyond those outlined in the TAR NC. Whilst TAR NC does not prohibit a higher discount for storage, the rules around minimum discounts aim at “avoiding double charging” and “acknowledge the general contribution of storage facilities to system flexibility and security of supply”. Therefore, introducing an 80% discount for storage may constitute providing economic support for storage in the GB gas system via using tariffication in the guise of this EU mechanism. We do not believe this is the right instrument to provide subsidies for storage at a national level, therefore, any discount of over 50% for storage is difficult to justify.

In addition, 80% creates an additional increase in tariffs for other system users. As highlighted by the WG report, based on the outputs from the draft UNC 0678 model published on 9 February 2019, an 80% discount would result in Revenue Input Adjustments of £31.3m at Entry and £27.3m at Exit, 1.8% of total Allowed Revenue being recovered from Non-Storage Users. While this may not be considered as material impact in percentage terms, it may still be considered as cross-subsidy since non-storage users would be paying a higher tariff compared to storage users irrespective of whether they use storage facilities or benefit from wider impacts that storage may have on the system. Specifically, we do not agree that non-storage Users are net beneficiaries of the 80% discount due to the security of supply benefits that storage may deliver as a result of better economic conditions, as stated by the Storengy analysis paper. Firstly, not all system users use storage facilities or benefit from access to such facilities.

Secondly, while we acknowledge that storage may deliver wider flexibility and security benefits, these are generally difficult to quantify and predict. The argument that facilitating storage on the system will deliver wider benefits is perceived and hypothesised since it is based on a possible contribution to the security and flexibility of the system that storage may or may not deliver. In reality, the actual contribution will depend on the extent network users ‘use’ capacities of available storage; i.e. the storage is not centrally controlled by the TSO for the benefits of all system users

More importantly, there is no guarantee that providing an 80% discount will improve economic conditions for storage operation in GB. A Storengy presentation for the National Grid Gas Operational Forum (January 2019) indicates that business rates for storage facilities are the key issue undermining commercial profitability of storage operators. Storengy further highlights in their response to BEIS Select Committee findings that “Gas storage operators in GB face an absurd and punitive level of business rates that has no equivalent anywhere in Europe. No other business in GB has to bear a similar tax burden equal to or greater than all their other operating costs”.

Their representation further notes the “Missing money problem resulting from inadequate balancing regulation”. While the uncertainty with the outcomes of the Gas Charging Review is also mentioned alongside other commercial considerations for the industry, it certainly does not come across as the main determinant of commercial viability of storage projects.

Therefore, in line with our arguments above, there is no evidence that applying an 80% discount would deliver significant benefits to the economic conditions of the storage operation market, hence the potential impact on the overall NTS system is difficult to quantify. A tariff distortion may be introduced without the intended resolution of the storage issue. If preservation of gas storage

facilities is a policy aim, this should be achieved via routes other than transmission tariffs to ensure that the desired outcome is achieved and the costs are efficiently recovered from end-users.

We would also highlight that singling out support for storage may lead to discrepancy and discrimination in the treatment of critical infrastructure assets. If the charging review were to take wider system impacts into account, a more holistic review of the contribution of various types of assets to security of the whole energy system would be essential; this will be welcome in Ofgem's RIA. A vital part of that comprehensive analysis would include interaction between gas and power. At the moment, there is a lack of analysis showing how significant changes in the off-peak discount will be for generation exit points. Yet, it can be argued that gas-fired power plants play an equally important role in security of supply. Therefore, it is questionable whether other parts of infrastructure, that also run on a commercial basis, should be receiving additional support via the new charging arrangements. We note that Ofgem has referenced parallels to the ongoing electricity charging reforms during this process: the two electricity SCRs and related work streams are seeking to remove distortions from charging.

In conclusion, we note that arguments presented as part of the review of 0678 and its alternatives does not provide rational justification for a storage discount to be set at the level beyond 50%.

4. We agree that inclusion of a form of optional charge as part of the solution would present a more holistic and enduring approach to the change in gas transmission charging. While the genuine probability of NTS bypass is difficult to calculate with a high degree of accuracy, the risk, whether real or perceived, is ever increasing in light of an overall forecasted decrease of NTS system use. Therefore, an efficient and non-discriminatory optional charge could help minimise the risk of inefficient bypass of the NTS.

In relation to different OCC solutions proposed by 0678 alternatives, we support 0678B OCC methodology. It is underpinned by a system utilisation factor which constitutes a form of User Commitment. Furthermore, its transparent and efficient methodology will improve cost-reflectivity for some points, therefore, will better facilitate efficient operation of the market. The aim to avoid inefficient bypass of the entire NTS is notable. The proposer provided full explanation, analysis and a sensitivity tool to allow parties to conduct their own review, even if discussion within workgroup was limited.

We believe that OCR proposals in 0678D, 0678G, 0678H and 0678J are more difficult to implement due to their proposal to use cost-based qualification criteria. The need for detailed discussion and approval of the underlying cost base would add a level of complexity and make the assessment of the benefits and avoided risks of such solution more difficult.

Furthermore, we note that OCR proposals in 0678D, 0678G, 0678H and 0678J outline the same methodology as the one proposed in UNC 0670R (Review of the charging methodology to avoid the inefficient bypass of the NTS). We note the methodology proposed by 0670R has been discussed but remains insufficiently developed and there a conclusion is yet to be reached. As a result, we believe the proposed methodology would benefit from continued development and analysis as part of the 0670R process. We do not believe, it would be an efficient and reliable approach to include this OCR methodology as part of the preferred 0678/alternatives solution since there is yet no sufficient and complete analysis on the impacts of the proposed methodology.

5. High-level principles expressed in all of the proposals seem to be in line with relevant legally binding decisions of the European Commission and/or the Agency for the Co-Operation of Energy Regulators to the best of our knowledge. However, the exact interpretation of rules and EU legislation requires competent legal opinion which we are not qualified to provide.

Workgroup has completed a review of potential compliance and non-compliance with relevant EU legislation to an extent possible and within the remit of their terms of reference. Full compliance review should be performed by qualified and specialised legal practitioners.

While we acknowledge each proposer's legal and compliance analysis and agree that the principles outlined in 0678 and its alternatives are generally compliant with TAR NC requirements, we note that

there are additional dependencies with regards to elements of the proposals that may make them non-compliant with certain parts of TAR NC.

Specifically, where in relation to the Implementation and Effective Date a proposal recommends 'a date directed by Ofgem' or a date which would depend on or be linked to Ofgem's decision date, the risk of non-compliance with relevant legally binding decisions of the European Commission and/or the Agency for the Co-Operation of Energy Regulators arise (TAR NC Art. 6 (3), 29, 31 and 32; CAM Art. 11 as referred to above under "Implementation"). Therefore, where Ofgem's decision, identified as a dependency in most of the modifications, is issued late, the implementation process and notice periods may shift and become non-compliant with TAR NC and CAM NC requirements.

We also have concerns over compliance of the FCC as with TAR NC Article 7, which requires replicability of tariffs. As an integral part of the RPM, the FCC itself should be transparent. Following discussion in workgroup, it became clear that the forecast used is not available publicly and its derivation is unclear. We have also not been able to replicate the historical flow data published within the FCC from that published by NG at its Data Explorer web pages. The methodology itself, selecting a maximum value from several based on a single set of data, also means that forecasting tariffs with any certainty is very difficult and suggests that tariffs may in fact vary widely between years.

6. We believe that a review of the FCC methodology where material defects are identified should always be carried out. Where a change is required as a result of such a review, the decision to implement the change within the FCC methodology should be made based on a thorough consultative process. We do not fully support providing Ofgem with the ability to direct that the change is not made as per its powers under Standard Special Condition A11(18) of National Grid's Licence. We believe there is merit in Ofgem providing direction with regards to the FCC methodology, however, it should only be triggered by an evidence-based assessment and comprehensive analysis. A direction issued on the basis of unilateral representation does not represent the best regulatory practice and may delay critical material changes that may be necessary.