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:	Graham Jack
Organisation:	Centrica
Date of Representation:	7th 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 Oppose 0678E Oppose 0678F Oppose 0678G Oppose 0678H Oppose 0678I Oppose 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?* 0678B

Standard Relevant Objective:	

0678	
a)	Negative
b)	None
c)	Negative
d)	Negative
e)	None
f)	None
g)	Positive

0678A	
a)	Negative
b)	None
c)	Negative
d)	Negative
e)	None
f)	None
g)	Positive

0678B	
a)	Positive
b)	None
c)	Positive
d)	Positive
e)	None
f)	None
g)	Positive

Standard Relevant Objective (continued):

0678C	
a)	Negative
b)	None
c)	Negative
d)	Negative
e)	None
f)	None
g)	Negative

0678D	
a)	Negative
b)	None
c)	Negative
d)	Negative
e)	None
f)	None
g)	Positive

0678E	
a)	Negative
b)	None
c)	Negative
d)	Negative
e)	None
f)	None
g)	Negative

Standard Relevant Objective (continued):

0678F	
a)	Negative
b)	None
c)	Negative
d)	Negative
e)	None
f)	None
g)	Negative

0678G	
a)	Negative
b)	None
c)	Negative
d)	Negative
e)	None
f)	None
g)	Negative

0678H	
a)	Negative
b)	None
c)	Negative
d)	Negative
e)	None
f)	None
g)	Negative

Standard Relevant Objective (continued):

0678I	
a)	Negative
b)	None
c)	Negative
d)	Negative
e)	None
f)	None
g)	Positive

0678J	
a)	Negative
b)	None
c)	Negative
d)	Negative
e)	None
f)	None
g)	Positive

Charging Methodology Relevant Objective:

0678	
a)	Negative
aa)	Negative
b)	Negative
c)	Negative
d)	None
e)	Positive

Charging Methodology Relevant Objective (continued):

0678A	
a)	Negative
aa)	Negative
b)	Negative
c)	Negative
d)	None
e)	Positive

0678B	
a)	Positive
aa)	Positive
b)	Positive
c)	Positive
d)	None
e)	Positive

0678C	
a)	Negative
aa)	Negative
b)	Negative
c)	Negative
d)	None
e)	Negative

0678D	
a)	Negative
aa)	Negative
b)	Negative
c)	Negative
d)	None
e)	Positive

Charging Methodology Relevant Objective (continued):

0678E	
a)	Negative
aa)	Negative
b)	Negative
c)	Negative
d)	None
e)	Negative

0678F	
a)	Negative
aa)	Negative
b)	Negative
c)	Negative
d)	None
e)	Negative

0678G	
a)	Negative
aa)	Negative
b)	Negative
c)	Negative
d)	None
e)	Negative

0678H	
a)	Negative
aa)	Negative
b)	Negative
c)	Negative
d)	None
e)	Negative

Charging Methodology Relevant Objective (continued):

0678I	
a)	Negative
aa)	Negative
b)	Negative
c)	Negative
d)	None
e)	Positive

0678J	
a)	Negative
aa)	Negative
b)	Negative
c)	Negative
d)	None
e)	Positive

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

In this table Centrica provides a short summary of the reasons for its support or opposition to the various Modifications. Centrica has identified 4 key areas of change that differentiate the Modifications and have a significant impact on the Standard and Charging Methodology Relevant Objectives. These are:

Choice of Reference Price Methodology (RPM): major impact on Standard Relevant Objective a) and Charging Methodology Relevant Objectives a) and b). A Capacity Weighted Distance Approach is conducive to enhancing these objectives and is superior to the current LRMC-based approach in that it provides for more stable and predictable charges. However, a Postage Stamp approach will negatively impact these objectives by encouraging sub-optimal use of the NTS and by blithely ignoring the fact that significant on-going, distance-related expenditure is planned to support and maintain the NTS in future (the proposition that NTS costs are "sunk" is plainly wrong and misleading); therefore it is both logical and appropriate to ensure the charging methodology retains a significant element of cost-reflectivity.

The Form of Optional Capacity Charge (OCC): significant impact on Standard Relevant Objectives a), c) and d) and on Charging Methodology Relevant Objectives a), aa), b) and c). Any draconian change to the current benefits offered by optional charge arrangements will have a highly negative impact on the cost-reflectivity of the RPM, on the finances of large NTS customers, on the efficient and diverse supply of gas to the GB market and the economically efficient flow of gas across Interconnection Points (most notably to Ireland and the Isle of Man). On the other hand, the retention of a suitable form of Optional Capacity Charge will avoid these major pitfalls and enable National Grid to better meet the aforementioned relevant objectives.

Application of the Transmission Services Revenue Recovery Charges (TSRRCs): highly significant for Standard Relevant Objectives d) and g) and Charging Methodology Relevant Objectives aa), c) and e). It is necessary that TSRRCs are applied in a way that properly comply with the EU Tariff network code (Article 35) and do not result in unjustified or undue discrimination. Therefore, TSRRCs should **not** be applied to **all** Existing Contracts, especially to ensure that they are protected from any form of floating capacity charge; failure to do this will result in non-compliance with the EU Tariff network code.

Governance of the Forecast Contracted Capacity (FCC) Methodology: relevant to Standard Relevant Objective c). The FCC Methodology is a critical component of the RPM and it is therefore essential that robust and transparent governance arrangements are attached to it. For this reason, the FCC Methodology should be included in the UNC.

0678

Oppose:

Modification 0678 deliberately chooses to not offer an Optional Capacity Charge and will therefore have the major negative impacts described above. By pursuing a separate review of optional charges via Review Group 0670R, the Proposer fails to offer a holistic charging methodology and ignores previous Ofgem opinion (provided when rejecting the UNC Modification 0636 proposals) that optional charges should be considered as part of the overall package of change. Additionally, it is proposed to keep the FCC Methodology outside of the UNC – this will lead to disjointed, and hence inefficient and not particularly transparent, governance arrangements for the overall charging methodology.

0678A

Oppose:

Modification 0678A is opposed for the same reasons as cited for Modification 0678. Additionally, the promotion of a Postage Stamp RPM does not accord with the efficient future operation of the NTS, ignores the clear fact that NTS costs are not simply "sunk" and therefore offers a sub-optimal, wholly non-cost-reflective solution.

0678B

Support:

Modification 0678B was developed by Centrica to provide a solution that best serves to address the 4 key areas of change described above and hence, overall, to provide the best means of furthering the Standard and Charging Methodology Relevant Objectives.

0678C

Oppose:

Modification 0678C proposes a Postage Stamp Reference Price Methodology, does not provide an Optional Charge solution and does not protect all Existing Contracts from the Transmission Services Revenue Recovery Charges. The arguments for objecting to a Postage Stamp methodology have been made against Modification 0678A whilst Centrica's objection to the exclusion of an Optional Charge solution is summarised for both Modifications 0678 and 0678A. Modification 0678C discriminates against non-storage site Existing Contracts in its treatment of TSRRCs and therefore does not provide compliance with EU Tariff network code Article 35 since it will result in some Existing Contracts effectively attracting floating capacity charges. Furthermore, the non-application of TSRRCs only to storage sites discriminates against Existing Contracts purchased in support of storage projects at Easington and Bacton because the solution does not cater for them (please refer to the Modification 0662 that has been raised by National Grid to potentially provide for a non-discriminatory solution).

This Modification also proposes that the Transmission Services Revenue Recovery Charges do not apply to **any** NTS capacity purchased at storage facilities, whether via Existing Contracts or new contracts. This form of protection is not explicitly provided for under the EU Tariff network code nor is it explicitly excluded.

0678D

Oppose:

Modification 0678D is not supported by Centrica because (a) the Optional Charge solution is incomplete, not wholly transparent and does not provide adequate or proportionate protection for current users of the Optional Commodity Charge and (b) the Forecast Contracted Capacity methodology would not form part of the UNC. The Optional Charge solution is difficult to fully comprehend and relies heavily on inputs from National Grid that are not explicitly set out in the methodology per se. Users' ability to assess whether to utilise the Optional Charge will be

compromised by the relative complexity of the proposed solution and this is not consistent with providing an effective and efficient charging methodology. Analysis conducted by National Grid indicates that a great majority of customers currently using the Optional Commodity Charge will not benefit from the new charge and the likely negative impact of this will serve to act against the furthering of the relevant objectives identified above.
0678E **Oppose:** Modification 0678E T does not provide a new Optional Charge and in the application of the Transmission Services Revenue Recovery charges to Existing Contracts it discriminates in favour of storage sites whilst also protecting new capacity contracts at storage sites. Centrica believes that the Forecast Contracted Capacity methodology should become part of the UNC but this Modification does not propose this. Therefore, in its treatment of these important features and for reasons already described above, Modification 0678E will negatively impact a number of the relevant objectives and, in particular, the treatment of TSRRC charges will not provide full compliance with Article 35 of the EU Tariff network code.
0678F **Oppose:** The same conclusion drawn for Modification 0678E applies to 0678F and Centrica cannot therefore support this Modification.
0678G **Oppose:** Centrica does not support this Modification as is discriminates in favour of storage sites in the non-application of the Transmission Services Revenue Recovery charges to Existing Contracts. Therefore, full compliance with Article 35 of the EU Tariff network code will not be achieved as non-storage site Existing Contracts will be subject to floating capacity charges. Also, the Optional Charge solution is incomplete and not wholly transparent so that the same negative outcomes described for Modification 0678D apply here Centrica believes that the Forecast Contracted Capacity methodology should become part of the UNC but this Modification does not propose this and therefore falls short in providing a robust and complete set of governance arrangements.
0678H **Oppose:** The comments for Modification 0678G also apply to this Modification. Also, Modification 0678H proposes a Postage Stamp Reference Price Methodology that Centrica does not support as it will have a negative impact on the efficient operation of the NTS and is based on the false

assumption that all NTS costs are "sunk".
0678I **Oppose:** Centrica notes that the Forecast Contracted Capacity methodology would not be incorporated in the UNC should this Modification be implemented and will therefore give rise to disjointed and inefficient governance arrangements for the charging methodology as a whole. The "Wheeling Charge" is essentially an Optional Capacity Charge but with an explicit 0km distance cap. The form of the Optional Charge is derived from the existing Optional Commodity Charge but is not a complete methodology and therefore not transparent. For these reasons, and those already stated with reference to the Optional Charge solutions under Modifications 0678D/G/H, Centrica does not support his Modification. This Modification is unique in that it proposes an Ireland Security Discount that means a 95% reduction on NTS exit capacity charges at Moffat. The Moffat exit point is relatively remote from NTS entry points and this could give rise to high transmission cost issues for the deliveries of gas to Ireland and the Isle of Man. Centrica therefore acknowledges the issue as one deserving some consideration but also notes that its own solution for a new Optional Capacity Charge under Modification 0678B should continue to offer some price optionality for gas flows via the Moffat IP. This 0678B solution has the advantage that it does not discriminate between IPs and non-IPs.
0678J **Oppose:** Centrica opposes this Modification because: it advocates a Postage Stamp Reference Price Methodology and will therefore result in sub-optimal operation of the NTS; the Optional Charge solution is incomplete and therefore not wholly transparent so that the same objections made for Modifications 0678D/G/H/I apply here; and the Forecast Contracted Capacity methodology is proposed to sit outside of the UNC, therefore not providing the charging methodology with full and robust industry governance.

Centrica therefore supports only Modification 0678B that it has developed over the course of the past few months.

Centrica does not support Modification 0678 or any of the other alternative Modifications since, although all of them contain common features that we agree with, all of them contain at least one feature that significantly undermines the furthering of the relevant objectives.

Further Comments on Key Areas of Change Affecting the Relevant Objectives and Influencing Centrica's Opinion

Before summarising Centrica's views on how the Modifications will impact the Standard and Charging Methodology Relevant Objectives, it is worth commenting and focusing on the 4 key changes that differentiate the Modifications and which have a significant bearing on them.

Choice of Reference Price Methodology (RPM)

Centrica supports Capacity Weighted Distance (CWD) for the RPM.

A CWD-based RPM is a substantial improvement over the current LRMC-based approach since the latter is no longer suitable for a network that is undergoing limited expansion and because it can very readily lead to highly volatile and unpredictable NTS capacity charges. A Postage Stamp-based RPM would also be preferable to the current methodology for the same reasons.

A CWD approach is to be preferred to one based on Postage Stamp (PS) because:

- It is more cost-reflective in that it provides some locational pricing signals whereas the PS approach completely removes locational pricing.

- It better reflects the complexity and usage (e.g. capacity bookings and gas flows) of the NTS and is therefore more mindful of Article 7(b) of the EU Tariff network code.

- It is much more conducive to the efficient operation of the NTS.

- It recognises that National Grid's allowed Transmission Services Revenue does not represent sunk costs and that current and future capital costs will to a large extent have pipeline distance as a determinant of the costs (for example the estimated costs referred to in National Grid's RIIO-T2 playback document for mains replacement and maintenance).

The following extract from the playback document highlights the most significant factors driving future Transmission Services costs:

"Indicative cost ranges

We are providing an early indication of total expenditure (totex) in the RIIO-2 period. The indicative range for our average annual totex during RIIO-2 is between £0.56bn and £0.72bn a year. This compares with an estimated annual average of £0.40bn during RIIO-1.

The biggest factors driving the increase and the range are:

1. ***Gas on and off the system: To avoid disruption we must maintain our assets to ensure they are operational and reliable. We have an ageing asset base. This means increased work will be needed to maintain the same level of service that customers have seen in RIIO-1. The range is driven by potential differences in how much activity we need to undertake.***

2. ***Communities and environment: The trend is for increased spending to reduce the level of harmful emissions from our compressors that move gas around the system. We are also obliged to meet emissions compliance deadlines. The range is driven by different possible compliance strategies and timing of work during RIIO-2 and out to 2030.***

3. ***External threats: We need to do more work to combat the increasing level and sophistication of external threats. Cyber security is particularly important."***

To suggest, therefore, that NTS costs are sunk (the main argument made in support of a PS-based RPM) is completely wrong. The first 2 factors in the above extract will obviously be significantly informed by gas transmission pipeline distances A CWD approach is therefore more consistent in complying with Article 7(b) of the EU tariff network code than a PS-based methodology.

- It recognises National Grid's licence obligation to set cost reflective charges (CWD may not be ideal with regards to this but it is far superior to PS). Standard Licence Condition 4A of the Gas Transporters Licence states that

"In paragraphs 1 and 3 "the relevant methodology objectives" means, subject to paragraph 6, the following objectives -

(a) that compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its transportation business;

(b) that, so far as is consistent with sub-paragraph (a), the charging methodology properly takes account of developments in the transportation business;"

- The locational pricing it provides will result in more efficient future planning decisions (e.g. where to locate new, or replace existing, NTS compressors).

Centrica therefore concludes that the PS-based RPM being proposed under Modifications 0678A/C/H/J will have a negative impact on Standard Relevant Objective a) and Charging Methodology Relevant Objectives a) and b)

Form of OCC

Centrica supports the continued provision of Optional Charges as this will maintain benefits for major NTS customers and for the GB gas market in general. Centrica supports the new methodology described in its 0678B Modification. Centrica does not support the OCC methodologies described in alternative Modifications.

Regarding Centrica's Modification 0678B solution:

- It forms part of the RPM and is entirely consistent with the CWD approach to allocating and, consequently, recovering NTS costs.

- The methodology is completely transparent and based on a deterministic approach.

- Analysis performed by National Grid shows that all current NTS offtakes utilising the current Optional Commodity Charge can be expected to retain some on-going benefit although the level of benefit is likely to be significantly less than under current arrangements. This is significant because shippers and customers have made historical decisions to utilise optional charges and it is appropriate to not undermine their financial positions in a manner that could result in an unexpected major price shock.

- A form of user commitment is provided via the application of a System Utilisation Factor that adjusts Optional Capacity Charges to pay for the benefits that the wider system brings.

Regarding Alternative Modifications with other OCC Solutions:

- They have been based on an updated version of the current Optional Charge Formula but with charges being translated from commodity to capacity based on the MNEPOR of the exit point. This method is not wholly transparent as it relies on inputs by National Grid to inform the underlying charging function. Such inputs from National Grid were in evidence very late in the Modification development process to help establish the Optional Capacity Charge functions described in the relevant Modifications. This lack of transparency does not make for a complete or robust methodology and it is questionable whether this is therefore consistent with Article 7(a) of the EU Tariff network code that requires charges to be readily reproduced.

- Analysis carried out by National Grid indicates that most of the current NTS customers utilising the optional charge will be economically disadvantaged by the proposed approach and therefore will not opt for it. The cost of this to the affected consumers is likely to be considerable but this has not yet been assessed. Also, it is not clear how gas flows across Interconnection Points (IPs) will be affected, especially the Moffat IP that serves Ireland and the Isle of Man.

The following extract from Ofgem's decision letter (dated 31 July 2018) in which it rejected optional charge Modifications 0636/A/B/C/D underlines the importance of not prohibiting customers from access to optional charges for which arrangements have been in place for over 20 years:

"We are concerned that the modification proposals do not duly take account of the benefits of the OCC. Customers of the NTS derive benefits from the OCC as it provides an additional source of revenue which would not be available should certain network users decide to construct alternative pipelines. We understand the concerns of those respondents to the FMR who are concerned that a one-off update after 20 years may undermine previous decisions not to by-pass the NTS, which were made against the current OCC."

- The Wheeling Charge promoted in Modification 0678I is also based on this variant of the Optional Capacity Charge function and is essentially an Optional Capacity Charge methodology with an explicit 0km distance cap. In its decision letter rejecting the 0621 Modifications, Ofgem noted that any distance cap should be justified. The cap proposed in Modification 0678I has not been justified.

Regarding Alternative Modifications with no OCC solution:

- No clear rationale has been provided for the removal of an Optional Charge and it appears that this has been done purely to help expedite the Modifications. Removal of Optional Charges will have a significant economic impact on all consumers that rely on the current Optional Commodity Charge and no consideration has been given to this.

- These Modifications refer to the Modification 0670R Review Group as providing a platform for the development of potential future Optional Charge solutions. This is inappropriate since the new transmission charging methodology should be considered in its entirety and not patched together in a piecemeal way. The following extract from Ofgem's decision letter (dated 31 July 2018) in which it rejected optional charge Modifications 0636/A/B/C/D supports this view:

"Given the wider scale reform currently under consideration, we think that the OCC should not be looked at in isolation, but should be considered holistically in the context of the wider charging landscape.. This would allow the simultaneous examination of the OCC with the Standard Commodity Charges. A piecemeal approach at this time could create

unnecessary uncertainty and undermine long-term planning and effective competition. This would not be compatible with our statutory duties and regulatory principles…"

- The benefits of including an Optional Charge as part of the whole charging package include providing the market with certainty on the range of products available at the earliest opportunity and in adding positively to the overall cost-reflectivity of the package of charges (helping to reduce the impact of having high exit capacity charges where sites are located close to NTS entry points).

Centrica therefore concludes that Modification 0678B will have a positive impact on Standard Relevant Objectives a), c) and d) and on Charging Methodology Relevant Objectives a), aa), b) and c).All other 0678 Modifications will have a negative impact on these relevant objectives.

Application of the TSRRC to Existing Contracts

Centrica supports the non-application of TSRRCs to all Existing Contracts.

Interpretation of Article 35 of the EU Tariff network code caused much discussion during the assessment of the Modifications at workgroup. Centrica and Eni were first to argue the case for not applying TSRRCs to any Existing Contracts, despite the earlier Modifications from National Grid and RWE arguing that only Existing Contracts at Storage Sites should be so protected. However, National Grid were subsequently persuaded to adopt the same stance as Centrica and Eni and some Proposers of other alternative Modifications also chose the same solution:

- All Modifications propose capacity-based TSRRCs (or capacity top-up charges). When the Existing Contracts were entered into with National Grid there was no expectation that they would be subject to increased fixed costs and it is therefore entirely consistent with Article 35 that TSRRCs should not be levied on them.

- The legal advice provided by Eni during workgroup's assessment of the Modifications unequivocally supports the view expressed in the above paragraph.

- The levying of TSRRCs on Existing Contracts would, in effect, result in floating capacity charges being applied to them. This would not be not be compliant with Article 35 of the EU Tariff network code.

- The legal advice provided by SSE during workgroup's assessment of the Modifications could be construed as lending support to the floating charge view expressed in the above paragraph.

- Whether TSRRCs are positive or negative has no bearing on the principles discussed in the above 2 paragraphs.

- Some Modifications seek to limit the non-application of TSRRCs to storage sites. There is nothing in the EU Tariff network code that suggests that storage sites should be provided with such special treatment, the only special provisions for storage sites being provided by way of a mandatory minimum 50% discount on capacity charges.

- Furthermore, the solutions limiting protection from the TSRRCs to storage sites fail to protect Existing Contracts that were purchased in support of storage facilities accessing the NTS via "combined ASEPs", e.g. Rough at Easington and now abandoned projects seeking to access the NTS at Bacton. The issue is set out in Modification 0662. It is Centrica's view that solutions that fail to cater for such Existing Contracts are incomplete and therefore unduly discriminatory.

Centrica therefore concludes that Modifications 0678C/E/F/G/H will negatively impact Standard Relevant Objectives d) and g) and Charging Methodology Relevant Objectives aa), c) and e).

Governance for the FCC

Centrica supports the inclusion of the FCC as part of the UNC.

The FCC is a fundamental and very important component of the RPM and should accordingly form part of the UNC:

- The new charging methodology will become part of the UNC and the FCC, being a major component, should also be included in the UNC. This will promote transparency and provide clear governance rules for any future changes via the UNC modification process.

- By including the FCC in the UNC, any User can promote and progress a change via a UNC modification.

- Those Modifications that propose the FCC should not form part of the UNC do not promote fair and appropriate governance, rely on National Grid to raise change proposals and also lean on Ofgem to decisive whether changes should be implemented.

- Any future attempt to bring the FCC into the UNC may prove difficult and it is notable that aspirations to bring the Capacity Methodology Statements into the UNC have been disappointed for many years.

Centrica therefore concludes that only Modifications 0678B and 0678C provide the required outcome and that this will have a positive effect on Standard Relevant Objective c)..

Summary of Centrica's views on each of the Key Changes Affecting the Relevant Objectives

	Choice of RPM	Optional Charge	Application of TSRRCs	Governance of FCC
0678 (National Grid)	Support	Oppose	Support	Oppose
0678A (RWE)	Oppose	Oppose	Support	Oppose
0678B (Centrica)	Support	Support	Support	Support
0678C (SSE)	Oppose	Oppose	Oppose	Support
0678D (Eni)	Support	Oppose	Support	Oppose
0678E (Gateway LNG)	Support	Oppose	Oppose	Oppose
0678F (Storengy UK)	Support	Oppose	Oppose	Oppose
0678G (Vitol)	Support	Oppose	Oppose	Oppose
0678H (EP UK)	Oppose	Oppose	Oppose	Oppose
0678I (Gazprom)	Support	Oppose	Support	Oppose
0678J (South Hook Gas)	Oppose	Oppose	Support	Oppose

Standard Relevant Objectives - Summary

Objective a) - Efficient and economic operation of the pipe-line system

This relevant objective can be better facilitated by having more stable and predictable charges and a move from the current, highly unstable, LRMC-based charging methodology will help to achieve this. To have efficient operation of the system it is essential that prices encourage the system to be used (i) in a logical and cost-effective manner and (ii) to the full extent possible.

A Postage Stamp RPM will not promote efficient use of the system as the system user is indifferent, from a charging perspective, to where gas enters the network or where it leaves it. This could encourage cost inefficient situations where, for example, gas is entered in the south of England for "transportation" to the north east of Scotland. Such scenarios could result in the inefficient placement of gas compressors or need for additional, more flexible compression that will result in higher capital costs.

Therefore, Modifications 0678A/C/H/J will have a negative impact on this relevant objective.

A Capacity Weighted Distance RPM provides a level of locational signal that should help promote a more efficient use of the gas transmission network than the one-size-fits-all Postage Stamp model. However, a Capacity Weighted Distance model on its own will not be ideal and is likely to result in instances of inefficient bypass of the NTS where sites located reasonably close to entry points incur high exit charges (something that is counter-intuitive). The inclusion of an Optional Charge solution would therefore greatly benefit the economic operation of the system by helping National Grid optimise its use over a higher level of gas flows.

Therefore, Modifications 0678/A/C/E/F are deficient in furthering this relevant objective.

The Optional Charge solutions proposed by Modifications 0678D/G/H/J are essentially the same and have been derived from the current Optional Commodity Charge solution but with an added "user commitment". Analysis by National Grid has indicated that such solutions may only be economically viable for entry-exit distances of up to 30km. This would result in the majority of current Optional Charge arrangements becoming non-viable and it is not clear what the consequences would be on the affected consumers – whether they bear the economic cost or whether they close the sites with the consequent loss of revenue to National Grid. Such an outcome could be just as bad as not having an Optional Charge arrangement coupled with a Capacity Weighted Distance RPM as patterns of gas flows could be inefficiently affected. It is worth noting that Optional Charge arrangements have a bearing on where, and when, gas is delivered to the NTS and a limited Optional Charge product could result in supplies being delivered sub-optimally to the system. For example, it could result in St. Fergus being a much less viable entry point and gas might therefore be sourced via other entry point, thus pushing up costs for delivering gas to Scotland via England or Wales.

The same can be said of Modification 0678I that promotes a "wheeling charge". This charge is essentially the same as that for the above-mentioned Modifications except it employs a 0km distance cap.

Therefore, Modifications 0678D/G/H//IJ are likely to have a negative impact on this relevant objective.

Modification 0678B sets out reasons for why it will have a positive impact on this relevant objective. The combination of a Capacity Weighted Distance Methodology with an unrestrictive Optional Capacity Charge will encourage efficient use and gas flows on the system that should help National Grid keep the cost of meeting the gas needs of all consumers to a manageable level.

Objective b) - Coordinated, efficient and economic operation of

(i) the combined pipe-line system, and/ or

(ii) the pipe-line system of one or more other relevant gas transporters

Centrica considers that none of the Modifications impact on this relevant objective.

Objective c) - Efficient discharge of the licensee's obligations

Modification 0678B provides a holistic and wholly transparent solution for a new charging methodology. All the other Alternative Modifications do not provide this in respect of the Optional Charge, either leaving this for further industry discussion via the UNC 0670R review group or submitting a solution based on the current Optional Charge approach that does not contain all of the information required to help stakeholders reproduce charges. For the latter, last minute changes, reliant on input from National Grid, were made to the solutions before the Draft Modification Report was completed, demonstrating a lack of transparency and inability of Proposers themselves to offer up complete solutions.

Only Modifications 0678B and 0678C will include the FCC Methodology in the UNC, providing a complete and robust governance regime for the entire charging methodology. The FCC Methodology is a critical part of the RPM and it is essential that it is included in the UNC to allow any code party to raise proposals for change and to provide transparency. Fragmenting the governance surrounding the charging methodology, as most of the 0678 Modifications are proposing, will therefore negatively impact this relevant objective.

Centrica therefore concludes that only Modification 0678B achieves the aim of enabling National Grid to fully meet this relevant objective.

Objective d) - Securing of effective competition:

(i) between relevant shippers;

(ii) between relevant suppliers; and/or

(iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers

All Modifications will remove the large discounts currently applying to short-term (daily and within-day) capacity products and will help to promote a more level playing field for Users. This will help greatly to facilitate fairer competition.

However, with the exception of Modification 0678B, all Modifications will introduce significant distortions compared with current charging arrangements that will have a negative impact on competition. These distortions will be caused by:

(a) The removal, or significantly limited application, of the Optional Charge. The impact of this on large NTS-connected consumers has not been properly assessed. Also, distortions on competition at Interconnection Points can be expected to result, especially at Moffat which is a relatively remote Interconnection Point. Centrica notes that Ofgem, as part of its assessment of the 0636/A/B/C/D Modifications, conducted a call for evidence to explore the potential impact on current users of the Optional Commodity Charge, strongly suggesting that making major changes to the applicability of Optional Charges is not something that should be taken lightly. All Modifications, except, 0678B, give rise to these concerns. Modification 0678B will, based on independent analysis performed by National Grid, continue to offer the benefits of Optional Charges to all current users of the Optional Commodity Charge.

(b) Targeted avoidance of the Transmission Services Revenue Recovery Charges. Some Modifications propose to protect only storage sites from these charges and in some cases the protection extends beyond protecting Existing Contracts to protecting new capacity contracts at storage sites. Centrica does not consider such targeting to offer due discrimination and notes that storage sites will in any case obtain capacity price discounts as mandated by the EU Tariff network code.

Objective e) - Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards… are satisfied as respects the availability of gas to their domestic customers

Centrica considers that none of the Modifications impact on this relevant objective.

Objective f) - Promotion of efficiency in the implementation and administration of the Code

Centrica considers that none of the Modifications impact on this relevant objective.

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

All Modifications clearly improve on the current charging methodology with respect to compliance with the EU Tariff network code and will have positive impacts. The detailed compliance statements submitted for each Modification are helpful in providing an overview of how each of the EU Tariff network code articles have been approached in Proposers' solutions.

However, Centrica is of the opinion that a number of the Alternative Modifications will not fully or properly implement Article 35 that seeks to protect Existing Contracts from floating capacity charges. The issue concerns how the capacity-based Transmission Services Revenue Recovery charges will be applied. Some Modifications protect all Existing Contracts from these capacity top-up charges whereas the remainder provide protection only for storage sites. The application of capacity-based Transmission Services Revenue Recovery charges simply means that the charges applying to Existing Contracts will float and this is not the intention behind Article 35. Also, those Modifications seeking to protect only storage sites clearly discriminate against Existing Contracts that were purchased at "combined ASEPs" in support of storage sites because such capacity will not be afforded the protection (Modification 0662 was raised by National Grid to address this situation and is currently in abeyance).

For the reasons described in the above paragraph, Centrica considers that Modifications 0678C/E/F/G/H will have an overall negative impact on this relevant objective.

Charging Methodology Relevant Objectives - Summary

Objective a) - Save in so far as paragraphs (aa) or (d) apply, that compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its transportation business

Please refer to (i) the paragraphs describing Centrica's views on the choice of RPM and the form of Optional Charge in the Key Areas of Change section above and (ii) the comments provided under Standard Relevant objective a).

In summary, Centrica's view is that a CWD RPM coupled with an appropriate Optional Charge arrangement will provide for an acceptable level of cost-reflectivity. Therefore, of the Modifications under consideration, only Modification 0678B will deliver this.

Objective aa) - That, in so far as prices in respect of transportation arrangements are established by auction, either:

(i) no reserve price is applied, or

(ii) that reserve price is set at a level -

(I) best calculated to promote efficiency and avoid undue preference in the supply of transportation services; and

(II) best calculated to promote competition between gas suppliers and between gas shippers

Please refer to the comments provided under Standard Relevant Objective d) as they also apply to this Charging Relevant Objective.

Objective b) - That, so far as is consistent with sub-paragraph (a), the charging methodology properly takes account of developments in the transportation business

Only Modification 0678B provides a balanced solution that will provide an acceptable mix of cost-reflective charges via the combination of a CWD RPM and an appropriate, integrated and transparent form of Optional Charge. Please refer to the paragraphs describing Centrica's views on the choice of RPM and the form of Optional Charge in the Key Areas of Change section above.

Objective c) - That, so far as is consistent with sub-paragraphs (a) and (b), compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers

Please refer to the comments provided under Standard Relevant Objective d) as they also apply to this Charging Relevant Objective.

Objective d) - That the charging methodology reflects any Alternative arrangements put in place in accordance with a determination made by the Secretary of State under paragraph 2A(a) of Standard Special Condition A27 (Disposal of Assets)

Centrica considers that none of the Modifications impact on this relevant objective.

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

Please refer to the comments made for Standard Relevant Objective g? as they apply to this Charging Relevant Objective.

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

Consistent with the Recommendation set out in its Modification 0678B and the reasons provided therein, Centrica believes that a manageable and least disruptive solution would be one where charges from a new methodology first take effect from a 1 October date, coupled with the usual, standard industry notice periods. This effectively means a target date of 1 October 2020 for charges to first take effect. Ideally, Ofgem will direct implementation of new charging arrangements by no later than Q1 2020 to provide industry time to adjust and for any transitional arrangements (such as those relating to Optional Charges) to be accomplished in good time.

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

Given the urgent nature of the Modifications, the number of alternative solutions up for consideration, and the speed of Modification assessment at workgroup, it has not been possible to fully assess the cost implications that might arise should any of these Modifications be implemented.

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.*

Overall, the legal text appears to deliver the solutions set out in the Modifications.

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.*

The Modification Report was produced under urgent and therefore very tight timescales. The large number of Alternative Modifications, some being raised towards the very end of the workgroup assessment process, has been exceptionally challenging for both the Joint Office and Proposers of Modifications. Some useful analysis has been undertaken but time limitations have prevented this from being as deep or extensive as would be ideal. However, we would welcome this being progressed via a Regulatory Impact Assessment that Ofgem ought to carry out following delivery of the Final Modification Report.

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

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?** Centrica's view is that the overall increase in capacity charges, the removal of highly discounted prices for short-term products, and the floating nature of charges will encourage users to profile their capacity bookings and generally avoid long-term capacity commitments except that DN users can be expected to continue to book exit capacity on a long-term basis as they do not incur the costs but pass them on to their shipper users. The differential between existing and new (entry capacity) contracts will likely have little or no impact on booking behaviours. Users with Existing Contracts will have a more limited opportunity to profile capacity purchases as the contracts cannot be unwound or modified.
2.	**What date should the changes proposed by the modifications become effective and why?** Centrica has set out its views in the Recommendation section of Modification 0678B: anything other than a 1 October date for charges first becoming effective will cut across current commercial arrangements and disrupt future contracts that may currently be under negotiation. Commercial contracts are generally based on Gas Years. It is essential that sufficient notice of charges is provided to help market participants plan and prepare their commercial positions and negotiate contracts. Taken together, the above views mean that Centrica recommends that charges first take

	effect on 1 October 2020.
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%** Centrica has proposed a 50% discount in Modification 0678B. The higher rate proposed in some of the Alternative Modifications was not assessed by workgroup and may have merit. However, insufficient time has been provided to form a view on this.
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?** Centrica has set out the advantages of its Optional Charge solution in Modification 0678B and this has also been covered by the Draft Modification Report and other sections of this response. The 0678B solution is likely to be less "generous" to current customers benefiting from the Optional Commodity Charge but it should still help them to avoid significant financial impacts compared with other 0678 Modifications where either no Optional Charge is proposed or a significantly limiting product is offered. A TAR NC compliance commentary has been provided in Appendix 1 of Modification 0678B. Workgroup did not determine that the proposed solution was non-compliant with TAR NC. Workgroup did consider, however, that the Optional Charge provides for an overall better solution when incorporated within the CWD RPM.
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?** Centrica has provided commentary above on compliance with Standard Relevant Objectives g) and Charging Relevant Objective e), concluding that some of the Modifications fail to correctly implement Article 35 of TAR NC. It will inevitably fall to Ofgem to form its own view on legal compliance.
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.** No. Centrica is proposing, via Modification 0678B, that the FCC methodology becomes part of the UNC so that effective and transparent governance procedures can be applied.