

**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](mailto:enquiries@gasgovernance.co.uk)

<b>Representative:</b>	Terry Burke	
<b>Organisation:</b>	Equinor UK Limited	
<b>Date of Representation:</b>	7 <sup>th</sup> May 2019	
<b>Support or oppose implementation?</b> (Please note you will be asked for your reasoning further below)	0678	Oppose
	0678A	Support
	0678B	Oppose
	0678C	Comments
	0678D	Oppose
	0678E	Oppose
	0678F	Oppose
	0678G	Oppose
	0678H	Comments
	0678I	Oppose
	0678J	Comments
<b>Expression of Preference</b> (Please note you will be asked for your reasoning further below)	If <b><i>NEITHER</i></b> 0678; 0678A; 0678B; 0678C; 0678D; 0678E; 0678F; 0678G; 0678H; 0678I <b><i>OR</i></b> 0678J were to be implemented, which <b><u>ONE</u></b> Modification would be your preference?  0678A	

**Standard Relevant  
Objective:**

<b>0678</b>	
a)	Negative
b)	Negative
c)	Positive
d)	Negative
e)	None
f)	None
g)	Positive
<b>0678A</b>	
a)	Positive
b)	Positive
c)	Positive
d)	Positive
e)	None
f)	None
g)	Positive
<b>0678B</b>	
a)	Negative
b)	Negative
c)	Positive
d)	Negative
e)	None
f)	None
g)	Negative

**Standard Relevant  
Objective  
(continued):**

<b>0678C</b>	
a)	Negative
b)	Negative
c)	Positive
d)	Positive
e)	None
f)	None
g)	Negative
<b>0678D</b>	
a)	Negative
b)	Negative
c)	Positive
d)	Negative
e)	None
f)	None
g)	Negative
<b>0678E</b>	
a)	Negative
b)	Negative
c)	Positive
d)	Negative
e)	None
f)	None
g)	Negative

**Standard Relevant  
Objective  
(continued):**

**0678F**

- |    |          |
|----|----------|
| a) | Negative |
| b) | Negative |
| c) | Positive |
| d) | Negative |
| e) | None     |
| f) | None     |
| g) | Negative |

**0678G**

- |    |          |
|----|----------|
| a) | Negative |
| b) | Negative |
| c) | Positive |
| d) | Negative |
| e) | None     |
| f) | None     |
| g) | Negative |

**0678H**

- |    |          |
|----|----------|
| a) | Negative |
| b) | Negative |
| c) | Positive |
| d) | Positive |
| e) | None     |
| f) | None     |
| g) | Negative |

**Standard Relevant  
Objective  
(continued):**

<b>0678I</b>	
a)	Negative
b)	Negative
c)	Positive
d)	Negative
e)	None
f)	None
g)	Negative
<b>0678J</b>	
a)	Negative
b)	Negative
c)	Positive
d)	Positive
e)	None
f)	None
g)	Negative

<b>0678</b>	
a)	Negative
aa)	Negative
b)	None
c)	None
d)	None
e)	Positive

<b>0678A</b>	
a)	Positive
aa)	None
b)	Positive
c)	Positive
d)	None
e)	Positive

<b>0678B</b>	
a)	Negative
aa)	None
b)	Negative
c)	Negative
d)	None
e)	Negative

<b>0678C</b>	
a)	Negative
aa)	None
b)	Negative
c)	Negative
d)	None
e)	Negative

<b>0678D</b>	
a)	Negative
aa)	None
b)	Negative
c)	Negative
d)	None
e)	Negative
<b>0678E</b>	
a)	Negative
aa)	None
b)	Negative
c)	Negative
d)	None
e)	Negative
<b>0678F</b>	
a)	Negative
aa)	None
b)	Negative
c)	Negative
d)	None
e)	Negative
<b>0678G</b>	
a)	Negative
aa)	None
b)	Negative
c)	Negative
d)	None
e)	Negative



	<b>0678H</b>	
	a)	Negative
	aa)	None
	b)	Negative
	c)	Negative
	d)	None
	e)	Negative
	<b>0678I</b>	
	a)	Negative
	aa)	None
	b)	Negative
	c)	Negative
	d)	None
	e)	Negative
	<b>0678J</b>	
	a)	Negative
	aa)	None
	b)	Negative
	c)	Negative
	d)	None
	e)	Negative

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

**0678 (National Grid)**

This modification is opposed by Equinor

Equinor welcomes the replacement of Reference Price Methodology (RPM) that calculates the capacity prices using Long Run Marginal Cost (LRMC).

Equinor does not support the proposal to use the Capacity Weighted Distance (CWD). The CWD methodology may lead to St Fergus becoming less attractive to flow to based on our previous assumptions that tariffs will increase at this point. The impacts of this could result in decreased flows via Vesterled during Winter periods, thus shortening the lifetime for existing fields. Further impacts may potentially discourage development of new fields towards St Fergus and may lead to an early closure of Vesterled in the wake of the ongoing projects around Heimdal area.

Equinor does welcome the recognition of the status of Existing Contracts as the proposed regime has an unduly negative effect on holders of historical capacity. It should be noted that there was no expectation that the current commodity charges would be so high when the existing contract bookings were made, which has effectively subsidised short- term products. With Norwegian Gas being a flexible source of gas supply into GB, with major importance, we believe applying a revenue recovery charge on all previously bought capacity would have a negative impact on security of supply to the UK due to the additional cost associated with effectively increasing the historical contract price. Equinor feels this part of the Mod to be compliant with Article 35 of TAR NC.

Equinor feels the Forecasted Contracted Capacity (FCC) methodology should be placed within UNC to ensure future reviews of FCC should be carried out via workgroup assessment.

Equinor feels start date should be 1<sup>st</sup> October in a year with sufficient notice provided by Ofgem. Mid-year changes should be avoided due to negative impact this may have on new or existing contracts discussions and to ensure full alignment with the start of a gas year.

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**0678A (RWE)**

This modification is supported by Equinor

Equinor favours postal stamp (PS) capacity-based charges over CWD based charges. The application of the PS methodology is a reasonable basis for allocating revenues (and therefore costs) to Users of the system particularly where the system is unconstrained and investment signals are not required. Equinor feels PS methodology will enhance security of supply and the interests of consumers by ensuring gas delivered at points furthest away from the network such as St Fergus aren't subject to distortive charges because of distance. The implementation of a Postage Stamp ensures shippers pay the same price for the same service across entry and exit removing distortion that arises as a result of CWD creating unjustified differences in charges. Ofgem also covered this area in detail within their 621-rejection letter "distance is unlikely to generate prices that are accurately cost-reflective of the physical transportation routes". and it's a view that Equinor fully supports.

Equinor also supports the provisions that would apply to Existing Contracts under article 35 and feel this proposal is compliant with TAR NC. Equinor would go further and say that existing storage contracts along with those traded and transferred should be protected too.

Equinor feels start date should be 1<sup>st</sup> October in a year with sufficient notice provided by Ofgem. Mid-year changes should be avoided due to negative impact this may have on new or existing contracts discussions and to ensure full alignment with the start of a gas year.

Please see our comments regarding FCC under Mod 678.

### **0678B (Centrica)**

This modification is opposed by Equinor.

Equinor does not support the proposal to use the Capacity Weighted Distance (CWD) as per our comments under Mod 678

Equinor also views the proposal for Optional Capacity Charge to be broadly similar to the existing “shorthaul” product. National Grid analysis shows a significant under recovery if this mod is implemented which would have to be recovered from non-shorthaul users. Equinor does not feel the existing or new optional products are compliant with TAR NC.

Equinor supports the proposers view around existing contracts as per our comments in 678 & 678A.

Please see our comments regarding FCC under Mod 678

Equinor feels start date should be 1<sup>st</sup> October in a year with sufficient notice provided by Ofgem. Mid-year changes should be avoided due to negative impact this may have on new or existing contracts discussions and to ensure full alignment with the start of a gas year,

### **0678C (SSE)**

This modification has comments from Equinor.

Equinor comments regarding Postage Stamp are the same as Mod 678A.

Equinor supports the RRC exemption for existing storage contracts incl. traded Capacity but feels this should be extended to ALL existing contracts.

Equinor feels the minimum discount for storage under TAR NC is sufficient at 50%

Please see our comments regarding FCC under Mod 678

Equinor feels start date should be 1<sup>st</sup> October in a year with sufficient notice provided by Ofgem. Mid-year changes should be avoided due to negative impact this may have on new or existing contracts discussions and to ensure full alignment with the start of a gas year.

### **0678D (ENI)**

This modification is opposed by Equinor.

Equinor does not support the proposal to use the Capacity Weighted Distance (CWD) as per our comments under Mod 678

Equinor does not support the new Optional Capacity Charge as per our comments for 678B.

Please see our comments for treatment of existing contracts under 678C

Equinor feels start date should be 1<sup>st</sup> October in a year with sufficient notice provided by Ofgem. Mid-year changes should be avoided due to negative impact this may have on new or existing contracts discussions and to ensure full alignment with the start of a gas year.

Please see our comments regarding FCC under Mod 678

### **0678E (Gateway)**

This modification is opposed by Equinor.

Equinor does not support the proposal to use the Capacity Weighted Distance (CWD) as per our comments under Mod 678

Equinor feels the minimum discount for storage under TAR NC is sufficient at 50%

Please see our comments for treatment of existing contracts under 678C

Equinor feels start date should be 1<sup>st</sup> October in a year with sufficient notice provided by Ofgem. Mid-year changes should be avoided due to negative impact this may have on new or existing contracts discussions and to ensure full alignment with the start of a gas year.

Please see our comments regarding FCC under Mod 678

### **0678F (Storengy)**

This modification is opposed by Equinor.

Equinor does not support the proposal to use the Capacity Weighted Distance (CWD) as per our comments under Mod 678

Equinor feels the minimum discount for storage under TAR NC is sufficient at 50%

Please see our comments for treatment of existing contracts under 678C

Please see our comments regarding FCC under Mod 678

Equinor does not support the concept of a surrender process for existing contracts acquired in 2018 as it was already known those contracts would be subject to RRC and questions if the concept is non-compliant with TAR NC. Equinor feels start date should be 1<sup>st</sup> October in a year with sufficient notice provided by Ofgem. Mid-year changes should be avoided due to negative impact this may have on new or existing contracts discussions and to ensure full alignment with the start of a gas year.

### **0678G (Vitol)**

This modification is opposed by Equinor.

Equinor does not support the proposal to use the Capacity Weighted Distance (CWD) as per our comments under Mod 678

Equinor does not support the new Optional Capacity Charge as per our comments for 678B.

Please see our comments for treatment of existing contracts under 678C

Equinor feels start date should be 1<sup>st</sup> October in a year with sufficient notice provided by Ofgem. Mid-year changes should be avoided due to negative impact this may have on new or existing contracts discussions and to ensure full alignment with the start of a gas year.

Please see our comments regarding FCC under Mod 678

### **0678H (EPI)**

This modification is opposed by Equinor.

Equinor comments regarding Postage Stamp are the same as Mod 678A.

Equinor does not support the new Optional Capacity Charge as per our comments for 678B.

Please see our comments for treatment of existing contracts under 678C

Equinor feels start date should be 1<sup>st</sup> October in a year with sufficient notice provided by Ofgem. Mid-year changes should be avoided due to negative impact this may have on new or existing contracts discussions and to ensure full alignment with the start of a gas year.

Please see our comments regarding FCC under Mod 678

### **0678I (Gazprom)**

This modification is opposed by Equinor

Equinor does not support the proposal to use the Capacity Weighted Distance (CWD) as per our comments under Mod 678.

Equinor does not support the new Wheeling Charge, please see our comments on the merits of the Optional Capacity Charge for 678B. Equinor does not support discounts at bidirectional IPs which this product would appear to benefit. It is demonstrated that flexibility is also delivered by other supply sources including Norwegian gas. It will be unfair to grant additional discount without a strong argumentation that it will further enhance market features and security of supply in the UK.

Equinor does not support the proposed Ireland Security Discount and disputes the view of IBP as an isolated market in relation to article 9 of TAR NC. IBP is now a fully developed standalone traded market from 1<sup>st</sup> April 2019 and has its own indigenous production to complement physical flows from the UK and virtual flows away from IBP back to UK. The volumes traded, and the price discovery achieved since this date have meant that since 1<sup>st</sup> April has the TSO had to default to NBP pricing.

Equinor feels start date should be 1<sup>st</sup> October in a year with sufficient notice provided by Ofgem. Mid-year changes should be avoided due to negative impact this may have on new or existing contracts discussions and to ensure full alignment with the start of a gas year.

### **0678J (South Hook)**

This modification is opposed by Equinor.

Equinor comments regarding Postage Stamp are the same as Mod 678A.

Equinor does not support the new Optional Capacity Charge as per our comments for 678B.

Please see our comments for treatment of existing contracts under 678C

Equinor feels start date should be 1<sup>st</sup> October in a year with sufficient notice provided by Ofgem. Mid-year changes should be avoided due to negative impact this may have on new or existing contracts discussions and to ensure full alignment with the start of a gas year.

Please see our comments regarding FCC under Mod 678

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

Equinor feels start date should be 1<sup>st</sup> October in a year with sufficient notice provided by Ofgem. Mid-year changes should be avoided due to negative impact this may have on new or existing contracts discussions and to ensure full alignment with the start of a gas year. There is a concern among the workgroup that National Grid Mod could be implemented mid-year.

## 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.	<p>What impact, if any, do you think tariff differentials between existing and new contracts will have on users booking behaviour?</p> <p>Equinor views that for new contract bookings interruptible discounts will be the driver due to the 10% discount over firm products. We would expect bookings to reflect reality and for overbooking to no longer take place under the existing interruptible regime. It is also possible the creation of a liquid within day market for capacity may form and this should be supported by Ofgem in their response. Existing contracts have for many years paid far higher charges than short term bookings at zero cost. Again, we refer to our previous comments around compliance with article 35.</p>
2.	<p>What date should the changes proposed by the modifications become effective and why?</p> <p>Equinor supports a 1st October implementation upon completion of the full governance process. The workgroup was unanimous in its opposition to a mid-year change due to the disruption to new and existing contract negotiations. The changes should be aligned with the new gas year to ensure consistency across the UK market and Europe.</p>
3.	<p>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%</p> <p>Equinor does not support the additional discount for storage users on the basis that the minimum 50% discount does not remove the implied double charge on transportation charges to and from flexible storage assets. Arguing for greater discounted charges on the basis of security of supply or flexibility benefits of storage would create unfair competition between different sources of flexibility which should normally be remunerated through the wholesale market.</p>
4.	<p>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?</p> <p>National Grid in their analysis for 678 showed the impact of the existing shorthaul product to be £138.7m across non shorthaul users. This is a significant area of concern and one which 670R has been working on. Equinor notes the new Optional Capacity Charge and Wheeling products would reduce the impact currently experienced but it is concerned the level of under recovery will have a negative impact on the cost of new capacity bookings.</p>
5.	<p>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?</p>



	<p>Equinor feels that only 678 &amp; 678A are compliant with TAR NC although at a minimal level. The workgroup has differing views on compliance areas which is reflected in the workgroup report. Equinor welcome the focus placed by Ofgem in their 621-rejection letter on lack of compliance with TAR NC and feels the same scrutiny should apply to the 678 group of modifications. Equinor feels the mods protecting existing contracts under article 35 to be compliant with that article.</p>
<b>6.</b>	<p>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.</p> <p>Equinor supports full inclusion of FCC methodology in the UNC to ensure good governance arrangements around any future changes. Equinor wishes to point out that the FCC methodology was delivered very late to the workgroup despite clear instructions from Ofgem. This reduced the time workgroup had available to digest the information provided which is unsatisfactory. It is clear another "methodology statement" isn't desirable for a process which has such a material impact on all parties.</p>

### **Additional Comments**

A further observation from Equinor is that any future changes to charging of this magnitude should be the subject of a Significant Code Review. This would ensure that Ofgem can run the process using good governance while assuring that all deadlines are adhered to in a timely manner. The time pressures place on all participants of the workgroup and Joint Office has been significant which has led at times to parties not being represented at all meetings.