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:	Bill Reed
Organisation:	RWE Supply & Trading GmbH
Date of Representation:	May 2019
Support or oppose implementation? (Please note you will be asked for your reasoning further below)	0678 Support; 0678A Support; 0678B Support; 0678C Support; 0678D Support; 0678E Support; 0678F Support; 0678G Support; 0678H Support; 0678I Support; 0678J Support
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?* **0678A**

0678	Support
0678A	Support
0678B	Support
0678C	Support
0678D	Support
0678E	Support
0678F	Support
0678G	Support
0678H	Support
0678I	Support
0678J	Support

Standard Relevant Objective:

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

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

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

Standard Relevant Objective (continued):

0678C	
a)	None
b)	Positive
c)	Positive
d)	None
e)	None

f)	Positive
g)	None

Standard Relevant Objective (continued):

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

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

Standard Relevant Objective (continued):

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

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

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

0678I	
a)	None
b)	Positive
c)	Positive
d)	None

e)	None
f)	Positive
g)	None

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

Charging Methodology Relevant Objective:

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

Charging Methodology Relevant Objective (continued):

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

e)	None

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

Charging Methodology Relevant Objective (continued):

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

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

Charging Methodology Relevant Objective (continued):

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

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

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

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

0678I	
a)	None

aa)	Positive
b)	None
c)	None
d)	Positive
e)	None

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

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

0678

Insert Text Here

This modification will substantially implement in the UNC the requirements set out in the EU Tariff Regulation (2017/460). It will therefore ensure that GB is compliant with this Regulation. It will apply capacity-based charges to both entry and exit (subject to appropriate and justified multipliers) derived from an open and transparent methodology in a manner which will ensure that NGGT complies with its licence obligations, facilitates competition and takes account of the development of the transportation business.

0678A

Insert Text Here

This modification will substantially implement in the UNC the requirements set out in the EU Tariff Regulation (2017/460). It will therefore ensure that GB is compliant with this Regulation. It will apply capacity-based charges to both entry and exit (subject to appropriate and justified multipliers) derived from an open and transparent methodology in a manner which will ensure that NGGT complies with its licence obligations, facilitates competition and takes account of the development of the transportation business.

0678A is our preferred option. The proposed use of a postage stamp methodology (RPM) with the CWD model as is fair, proportionate and non-discriminatory approach to the recovery of the allowed revenue associated with historical sunk network costs. It is consistent with the approach adopted in the Ofgem minded to decision in the Targeted Charging Review for the electricity market. The postage stamp approach is not designed to reflect current and future expectations related to the “use” of the NTS and does not seek to influence its use (driven through market behaviour). In developing a postage stamp approach the views expressed by Ofgem in the UNC Modification 0621 decision letter are relevant:

- **“***cost-reflectivity is more relevant to forward-looking charges than revenue recovery charges*”;
- **“***the following principles are relevant for assessing revenue recovery charges: i) reducing harmful distortions, ii) fairness to end consumers and iii) proportionality and practical considerations*”
- “*In making a decision on gas network charges, we will keep these principles in mind, taking account of differences in gas and electricity charging and systems*”;
- The RPM methodology “*has the effect of combining both revenue recovery charges and forward-looking signals into a single capacity-based charge. Given low levels of anticipated new investment in gas network capacity in the near term, we anticipate this type of capacity charge would serve a predominantly revenue recovery function. We also note that in this context, the value of forward-looking signals is likely to be of lesser importance*”.
- “*Only a limited proportion of the costs of a meshed network are directly attributable to particular points, and therefore a substantial proportion of NGGT’s revenue requirement cannot be unambiguously attributed to individual entry and exit points*.”
- “*distance-based allocation of revenue recovery charges (i.e. CWD methodology and variants on CWD) would attribute a greater proportion of network costs to points on the network associated with longer average distances to other points on the network. Our current view is that there are several potential weaknesses with using distance as a factor for setting the reference price*
    - *Setting higher charges to those bringing gas onto and taking gas off the system at points which are located further away would increase incentives on those users to reduce their usage of the network, for which there are unlikely to be any short to medium term associated cost savings.*
    - *The distances used in the CWD methodologies are typically averaged across all points for the purposes of setting prices, and the actual costs of a particular entry point to a particular exit point might not be “real” (i.e. such physical flows may never occur). Shippers book entry and exit capacity independently and nominate flows without specifying specific routes and therefore it is very difficult to allocate flows to specific assets. This type of treatment of distance is therefore unlikely to generate prices that are accurately cost-reflective of the physical transportation routes actually used. Although as we consider the charges resulting from the RPMs to be largely functioning as revenue recovery charges, cost-reflectivity is less relevant in any case.*
    - *Using distance in setting transmission entry and exit charges would mean those consumers who are located in more remote locations would pay higher transmission charges for entry and exit (other things being equal). This may not be considered a fair outcome as those consumers are not driving significant additional costs from their use of a shared network that is already built and that has spare capacity availab*le.”
- “*Incentives for a party to choose a particular location to benefit from lower transmission charges are likely to be lower under all proposals compared to the status quo, but higher under the CWD options compared to the PS option, which has no locational incentives*”

0678B

Insert Text Here

This modification will substantially implement in the UNC the requirements set out in the EU Tariff Regulation (2017/460). It will therefore ensure that GB is compliant with this Regulation. It will apply capacity-based charges to both entry and exit (subject to appropriate and justified multipliers) derived from an open and transparent methodology in a manner which will ensure that NGGT complies with its licence obligations, facilitates competition and takes account of the development of the transportation business.

0678C *Insert Text Here* This modification will substantially implement in the UNC the requirements set out in the EU Tariff Regulation (2017/460). It will therefore ensure that GB is compliant with this Regulation. It will apply capacity-based charges to both entry and exit (subject to appropriate and justified multipliers) derived from an open and transparent methodology in a manner which will ensure that NGGT complies with its licence obligations, facilitates competition and takes account of the development of the transportation business.
0678D *Insert Text Here* This modification will substantially implement in the UNC the requirements set out in the EU Tariff Regulation (2017/460). It will therefore ensure that GB is compliant with this Regulation. It will apply capacity-based charges to both entry and exit (subject to appropriate and justified multipliers) derived from an open and transparent methodology in a manner which will ensure that NGGT complies with its licence obligations, facilitates competition and takes account of the development of the transportation business.
0678E *Insert Text Here* This modification will substantially implement in the UNC the requirements set out in the EU Tariff Regulation (2017/460). It will therefore ensure that GB is compliant with this Regulation. It will apply capacity-based charges to both entry and exit (subject to appropriate and justified multipliers) derived from an open and transparent methodology in a manner which will ensure that NGGT complies with its licence obligations, facilitates competition and takes account of the development of the transportation business.
0678F *Insert Text Here* This modification will substantially implement in the UNC the requirements set out in the EU Tariff Regulation (2017/460). It will therefore ensure that GB is compliant with this Regulation. It will apply capacity-based charges to both entry and exit (subject to appropriate and justified multipliers) derived from an open and transparent methodology in a manner which will ensure that NGGT complies with its licence obligations, facilitates competition and takes account of the development of the transportation business.
0678G *Insert Text Here* This modification will substantially implement in the UNC the requirements set out in the EU Tariff Regulation (2017/460). It will therefore ensure that GB is compliant with this Regulation. It will apply capacity-based charges to both entry and exit (subject to appropriate and justified multipliers) derived from an open and transparent methodology in a manner which will ensure that NGGT complies with its licence obligations, facilitates competition and takes account of the development of the transportation business.
0678H *Insert Text Here* This modification will substantially implement in the UNC the requirements set out in the EU Tariff Regulation (2017/460). It will therefore ensure that GB is compliant with this Regulation. It will apply capacity-based charges to both entry and exit (subject to appropriate and justified multipliers) derived from an open and transparent methodology in a manner which will ensure

that NGGT complies with its licence obligations, facilitates competition and takes account of the development of the transportation business.
0678I *Insert Text Here* This modification will substantially implement in the UNC the requirements set out in the EU Tariff Regulation (2017/460). It will therefore ensure that GB is compliant with this Regulation. It will apply a capacity-based charges to both entry and exit (subject to appropriate and justified multipliers) derived from an open and transparent methodology in a manner which will ensure that NGGT complies with its licence obligations, facilitates competition and takes account of the development of the transportation business.
0678J *Insert Text Here* This modification will substantially implement in the UNC the requirements set out in the EU Tariff Regulation (2017/460). It will therefore ensure that GB is compliant with this Regulation. It will apply capacity-based charges to both entry and exit (subject to appropriate and justified multipliers) derived from an open and transparent methodology in a manner which will ensure that NGGT complies with its licence obligations, facilitates competition and takes account of the development of the transportation business.

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

We believe that it is important that market participants can effectively and efficiently manage the risks associated with implementation. We are concerned about the potential effects of a mid-gas year implementation timescale as that would create significant and potentially material risks associated with the transition from commodity based arrangements to the capacity based model.

Our **strong preference** is for implementation at the start of the first gas year after and Ofgem decision. Given the timing of the potential deliberations by the National Regulatory Authority and ACER we believe that the first gas year when this modification can be practically and efficiently implemented is they gas year commencing on 1st October 2020.

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

0678

Insert Text Here

We will need to transition our systems from commodity based arrangements to those based on capacity charging. The modification will therefore impact on our internal risk management, billing and invoicing systems. The key issue for us is the potential lead time and the potential costs associated with a mid-year change. Our strong preference is for implementation at the start of a Gas Year in order to minimise the cost associated with running two different charging arrangements within a gas year.

0678A

Insert Text Here

We will need to transition our systems from commodity based arrangements to those based on capacity charging. The modification will therefore impact on our internal risk management, billing and invoicing systems. The key issue for us is the potential lead time and the potential costs associated with a mid-year change. Our strong preference is for implementation at the start of a Gas Year in order to minimise the cost associated with running two different charging arrangements within a gas year.

0678B

Insert Text Here

We will need to transition our systems from commodity based arrangements to those based on capacity charging. The modification will therefore impact on our internal risk management, billing and invoicing systems. The key issue for us is the potential lead time and the potential costs associated with a mid-year change. Our strong preference is for implementation at the start of a Gas Year in order to minimise the cost associated with running two different charging arrangements within a gas year.

0678C

Insert Text Here

We will need to transition our systems from commodity based arrangements to those based on capacity charging. The modification will therefore impact on our internal risk management, billing and invoicing systems. The key issue for us is the potential lead time and the potential costs associated with a mid-year change. Our strong preference is for implementation at the start of a Gas Year in order to minimise the cost associated with running two different charging arrangements within a gas year.

0678D

Insert Text Here

We will need to transition our systems from commodity based arrangements to those based on capacity charging. The modification will therefore impact on our internal risk management, billing and invoicing systems. The key issue for us is the potential lead time and the potential costs associated with a mid-year change. Our strong preference is for implementation at the start of a Gas Year in order to minimise the cost associated with running two different charging arrangements within a gas year.

0678E

Insert Text Here

We will need to transition our systems from commodity based arrangements to those based on capacity charging. The modification will therefore impact on our internal risk management, billing

and invoicing systems. The key issue for us is the potential lead time and the potential costs associated with a mid-year change. Our strong preference is for implementation at the start of a Gas Year in order to minimise the cost associated with running two different charging arrangements within a gas year.
0678F *Insert Text Here* We will need to transition our systems from commodity based arrangements to those based on capacity charging. The modification will therefore impact on our internal risk management, billing and invoicing systems. The key issue for us is the potential lead time and the potential costs associated with a mid-year change. Our strong preference is for implementation at the start of a Gas Year in order to minimise the cost associated with running two different charging arrangements within a gas year.
0678G *Insert Text Here* We will need to transition our systems from commodity based arrangements to those based on capacity charging. The modification will therefore impact on our internal risk management, billing and invoicing systems. The key issue for us is the potential lead time and the potential costs associated with a mid-year change. Our strong preference is for implementation at the start of a Gas Year in order to minimise the cost associated with running two different charging arrangements within a gas year.
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0678I *Insert Text Here* We will need to transition our systems from commodity based arrangements to those based on capacity charging. The modification will therefore impact on our internal risk management, billing and invoicing systems. The key issue for us is the potential lead time and the potential costs associated with a mid-year change. Our strong preference is for implementation at the start of a Gas Year in order to minimise the cost associated with running two different charging arrangements within a gas year.
0678J *Insert Text Here* We will need to transition our systems from commodity based arrangements to those based on capacity charging. The modification will therefore impact on our internal risk management, billing and invoicing systems. The key issue for us is the potential lead time and the potential costs associated with a mid-year change. Our strong preference is for implementation at the start of a Gas Year in order to minimise the cost associated with running two different charging arrangements within a gas year.

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.*

Insert Text Here

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 *Insert Text Here* None
0678A *Insert Text Here* None
0678B *Insert Text Here* None
0678C *Insert Text Here* None
0678D *Insert Text Here* None
0678E *Insert Text Here* None
0678F *Insert Text Here* None
0678G *Insert Text Here* None
0678H *Insert Text Here* None
0678I *Insert Text Here* None

0678J

Insert Text Here

None

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

0678 *Insert Text Here* None
0678A *Insert Text Here* None
0678B *Insert Text Here* None
0678C *Insert Text Here* None
0678D *Insert Text Here* None
0678E *Insert Text Here* None
0678F *Insert Text Here* None
0678G *Insert Text Here* None
0678H *Insert Text Here* None
0678I *Insert Text Here* None
0678J *Insert Text Here* None

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?
	It is difficult to determine the behavioural outcomes associated with the new charging regime. However, the move towards a capacity based liability is likely to improve the incentives to book firm capacity that more closely represents actual usage of the NTS
2.	What date should the changes proposed by the modifications become effective and why?
	*Our **strong preference** is for implementation at the start of the first gas year after and Ofgem decision. Given the timing of the potential deliberations by the National Regulatory Authority and ACER we believe that the first gas year when this modification can be practically and efficiently implemented is they gas year commencing on 1st 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%
	The storage discount proposed in UNC0678A (50%, based on UNC0670) is consistent with the allowable level of discounts under the TAR Network Code.
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?
	We do not believe that an NTS Optional Charge is justified under this modification proposal. However, there is a strong case for the introduction of an appropriate tariff regime that avoids the potential for genuine inefficient bypass of the NTS. We support work under UNC0670R that seeks to introduce appropriate cost reflective arrangements to avoid inefficient bypass.
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?
	We note the views of the proposers regarding compliance with the relevant legally binding decisions of the European Commission and/or the Agency for the Co-Operation of Energy Regulators. All of the modification proposals will substantially implement in the UNC the requirements set out in the EU Tariff Regulation (2017/460).
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.
	The FCC Methodology is an integral part of the Reference Price Methodology under the

	TAR NC. Our preference is to implement it in the UNC. However, the original National Grid 0678 proposal did not include the FCC Methodology directly in the UNC. While this is unsatisfactory, we accept that the FCC Methodology can sit out outside the UNC for the time being as part of a pragmatic and timely implementation process. The issue of FCC governance may be revisited as part of a future UNC Modification Proposal.