

**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>	Henk Kreuze																							
<b>Organisation:</b>	Vermilion Energy Ireland Limited																							
<b>Date of Representation:</b>	8 May 2019																							
<b>Support or oppose implementation?</b> (Please note you will be asked for your reasoning further below)	<table border="1"> <tr><td>0678</td><td>Support</td></tr> <tr><td>0678A</td><td>Support</td></tr> <tr><td>0678B</td><td>Oppose</td></tr> <tr><td>0678C</td><td>Support</td></tr> <tr><td>0678D</td><td>Oppose</td></tr> <tr><td>0678E</td><td>Support</td></tr> <tr><td>0678F</td><td>Comments</td></tr> <tr><td>0678G</td><td>Oppose</td></tr> <tr><td>0678H</td><td>Oppose</td></tr> <tr><td>0678I</td><td>Oppose</td></tr> <tr><td>0678J</td><td>Oppose</td></tr> </table>		0678	Support	0678A	Support	0678B	Oppose	0678C	Support	0678D	Oppose	0678E	Support	0678F	Comments	0678G	Oppose	0678H	Oppose	0678I	Oppose	0678J	Oppose
0678	Support																							
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0678H	Oppose																							
0678I	Oppose																							
0678J	Oppose																							
<b>Expression of Preference</b> (Please note you will be asked for your reasoning further below)	<p>If <b><i>EITHER</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?</p> <p>0678</p>																							

**Standard Relevant Objective:**

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

**Standard Relevant  
Objective  
(continued):**

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

**0678G**

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

**0678H**

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

**Standard Relevant Objective (continued):**

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

**Charging Methodology Relevant Objective:**

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

**Charging  
Methodology  
Relevant Objective  
(continued):**

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

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

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

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

**Charging  
Methodology  
Relevant Objective  
(continued):**

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

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

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

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



**Charging  
Methodology  
Relevant Objective  
(continued):**

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

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

**0678**

Support: Considered compliant with the substantive requirements of the EU Tariff Code as requested by the Authority in its decision letter on Modification 0621.

Revenue recovery charge – we note this has been included in all proposals but with slightly different rules on exemptions. Such a charge is not a requirement of the EU Tariff Code but appreciate views that it may provide a useful safeguard in the event forecast revenues are significantly different from target revenues. We would expect that it would be used rarely and with Authority approval. So, we do not regard this as a pressing issue now as timely substantive compliance is the current target.

Preference: 0678 is our preferred option. Both CWD and Postage would be compliant but marginally prefer CWD as this incorporates a distance element. Furthermore, we support the storage discount of 50% at the minimum level in the EU Tariff Code as this more closely reflects the principle of “the same service for the same tariff”.

To be compliant the new charging methodology needs to be effective from 1 October 2019. We note that this proposal allows for a mid-year implementation. This should be used to minimise non-compliance if implementation by 1 October 2019 proves to be impossible.

**0678A**

Support: Considered compliant with the substantive requirements of the EU Tariff Code as requested by the Authority in its decision letter on Modification 0621.

Revenue recovery charge – we note this has been included in all proposals but with slightly different rules on exemptions. Such a charge is not a requirement of the EU Tariff Code but appreciate views that it may provide a useful safeguard in the event forecast revenues are significantly different from target revenues. We would expect that it would be used rarely and with Authority approval. So, we do not regard this as a pressing issue now as timely substantive compliance is the current target.

Preference: Both CWD and Postage would be compliant but marginally prefer CWD as this incorporates a distance element and for this reason prefer CWD options 0678 or 0678E over 0678A. However, we support the storage discount of 50% at the minimum level in the EU Tariff Code as this more closely reflects the principle of “the same service for the same tariff”. We would prefer 0678A over 0678C.

To be compliant the new charging methodology needs to be effective from 1 October 2019. We note that this proposal allows for a mid-year implementation. This should be used to minimise non-compliance if implementation by 1 October 2019 proves to be impossible.

**0678B**

Opposition The proposed NTS Optional Charge is not compliant with the EU Tariff Code (EU

2017/460)

We attach some specific analysis relating to this proposed NTS Optional Charge in Appendix 1

### **0678C**

Support: Considered compliant with the substantive requirements of the EU Tariff Code as requested by the Authority in its decision letter on Modification 0621.

Revenue recovery charge – we note this has been included in all proposals but with slightly different rules on exemptions. Such a charge is not a requirement of the EU Tariff Code but appreciate views that it may provide a useful safeguard in the event forecast revenues are significantly different from target revenues. We would expect that it would be used rarely and with Authority approval. So, we do not regard this as a pressing issue now as timely substantive compliance is the current target.

Preference: Both CWD and Postage would be compliant but marginally prefer CWD as this incorporates a distance element and for this reason prefer CWD options 0678 or 0678E to 0678C.

There are three additional reasons why this proposal is not our preferred choice:

- (a) Implementation by 1 October 2019 is necessary for compliance. This proposal specifically precludes implementation mid-year and so would not facilitate compliance as soon as possible in the event 1 October 2019 proves to be impossible, and
- (b) The FCC methodology is contained within the UNC in this Proposal and this is considered an inefficient approach. National Grid may need to revise the FCC methodology as Users respond to the new charging methodology to meet its Licence obligations.
- (c) This alternative proposes an 80% discount for storage. Although there is limited impact (1-2%) on other charges as a result of this discount (as opposed to the mandatory 50% in the EU Tariff Code) we would support a storage discount of 50% as this more closely reflects the principle of “the same service for the same tariff”.

### **0678D**

Oppose: The proposed NTS Optional Charge is not compliant with the EU Tariff Code (EU 2017/460)

We attach some specific analysis relating to this proposed NTS Optional Charge in Appendix 1

### **0678E**

Support: Considered compliant with the substantive requirements of the EU Tariff Code as requested by the Authority in its decision letter on Modification 0621.

Revenue recovery charge – we note this has been included in all proposals but with slightly different rules on exemptions. Such a charge is not a requirement of the EU Tariff Code but appreciate views that it may provide a useful safeguard in the event forecast revenues are significantly different from target revenues. We would expect that it would be used rarely and with Authority approval. So, we do not regard this as a pressing issue now as timely substantive compliance is the current target.

Preference: Both CWD and Postage would be compliant but marginally prefer CWD as this

incorporates a distance element.

This proposal differs only slightly from the original 0678 proposal. Although there is limited impact (1-2%) on other charges as a result of this discount (as opposed to the mandatory 50% in the EU Tariff Code) we would support a storage discount of 50% as this more closely reflects the principle of “the same service for the same tariff”. Hence 0678 is preferred rather than 0678E.

To be compliant the new charging methodology needs to be effective from 1 October 2019. We note that this proposal allows for a mid-year implementation. This should be used to minimise non-compliance if implementation by 1 October 2019 proves to be impossible.

#### **0678F**

The proposal is similar to Modification 0678E but differs in respect of a potential capacity surrender. Capacity surrenders are neither a necessary nor an integral element of the EU Tariff Code and may be better addressed as a separate element.

#### **0678G**

Oppose: The proposed NTS Optional Charge is not compliant with the EU Tariff Code (EU 2017/460)

We attach some specific analysis relating to this proposed NTS Optional Charge in Appendix 1

#### **0678H**

Oppose: The proposed NTS Optional Charge is not compliant with the EU Tariff Code (EU 2017/460)

We attach some specific analysis relating to this proposed NTS Optional Charge in Appendix 1

#### **0678I**

Oppose: The proposed Ireland Security discount is not compliant with the EU Tariff Code (EU 2017/460). Furthermore it has never been a topic for discussion at the NCTAR implementation discussions (NTLG) in Ireland.

The proposed Wheeling charge is not adequately defined as a conditional product and is therefore not compliant with the EU Tariff Code (EU 2017/460). It is unclear how this service differs from the standard transportation service offered at other entry/exit points.

#### **0678J**

Oppose: The proposed NTS Optional Charge is not compliant with the EU Tariff Code (EU 2017/460)

We attach some specific analysis relating to this proposed NTS Optional Charge in Appendix 1

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

Ideally as much notice as possible should be provided. Nevertheless, given the requirement to be compliant with the EU Tariff Code we accept the likelihood of short notice periods.

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

**0678**

*Insert Text Here*

**0678A**

*Insert Text Here*

**0678B**

*Insert Text Here*

**0678C**

*Insert Text Here*

**0678D**

*Insert Text Here*

**0678E**

*Insert Text Here*

**0678F**

*Insert Text Here*

**0678G**

**0678H**

**0678I**

**0678J**

**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*

**0678A**

*Insert Text Here*

**0678B**

*Insert Text Here*

**0678C**

*Insert Text Here*

**0678D**

*Insert Text Here*

**0678E**

*Insert Text Here*

**0678F**

*Insert Text Here*

**0678G**

*Insert Text Here*

**0678H**

*Insert Text Here*

**0678I**

*Insert Text Here*

**0678J**

*Insert Text Here*

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

**0678**

*Insert Text Here*

**0678A**

*Insert Text Here*

**0678B**

No specific information was provided by the Proposer of the effects of the proposed NTS Optional Charge within Part II of the Draft Modification Report, although we note there was a sensitivity model provided.

We therefore attach some specific analysis relating to this proposed NTS Optional Charge in Appendix 1. In summary:

The Optional Charge under Modification 0678B can be characterised by a point-to-point tariff that is linearly dependent on the straight-line distance. It does not take into account the real threat of the risk of a bypass as it does not take into account the capacity of the exit point. Furthermore, it is so generous that effectively all 64 directly connected industrial and power exits as well as IPs can choose at least one entry that would result in a lower tariff than the standard tariffs. Compared to the current system, we consider this OC under Modification 0678B even more generous to those who could opt for this service (directly connected industry, directly connected power and IPs) so that the cross-subsidisation by those who are denied this service, mainly the connections in the GDNs, is further increased.

**0678C**

*Insert Text Here*

**0678D**

Appendix 3 in Part II of the Draft Modification Report as provided by the Proposer does not in our opinion provide a complete enough picture of the effects of the proposed NTS Optional Charge. We note that only the under-recovery of transmission services revenue is considered which the proposer claims is potentially over-stated and not the under-recovery of the non-transmission services revenue.

We therefore attach some specific analysis relating to this proposed NTS Optional Charge in Appendix 1. In summary:

We believe that NG's analysis that showed only routes up to 30 km to be attractive does

not provide a complete enough picture. Our analysis shows that up to 16 routes above 30 km are attractive under OC tariffs as well: 9 of them are above 100 km of which 3 routes are even above 200 km. We believe that our analysis shows that this alternative Modification offers an OC tariff that is potentially much more widely attractive than the NG analysis suggests. This increases the risk that the tariff could apply in situations where there is no likelihood of building an alternative pipeline.

**0678E**

*Insert Text Here*

**0678F**

*Insert Text Here*

**0678G**

Appendix 3 in Part II of the Draft Modification Report as provided by the Proposer does not in our opinion provide a complete enough picture of the effects of the proposed NTS Optional Charge. We note that only the under-recovery of transmission services revenue is considered which the proposer claims is potentially over-stated and not the under-recovery of the non-transmission services revenue.

We therefore attach some specific analysis relating to this proposed NTS Optional Charge in Appendix 1. In summary:

We believe that NG's analysis that showed only routes up to 30 km to be attractive does not provide a complete enough picture. Our analysis shows that up to 16 routes above 30 km are attractive under OC tariffs as well: 9 of them are above 100 km of which 3 routes are even above 200 km. We believe that our analysis shows that this alternative Modification offers an OC tariff that is potentially much more widely attractive than the NG analysis suggests. This increases the risk that the tariff could apply in situations where there is no likelihood of building an alternative pipeline.

**0678H**

Appendix 3 in Part II of the Draft Modification Report as provided by the Proposer does not in our opinion provide a complete enough picture of the effects of the proposed NTS Optional Charge. We note that only the under-recovery of transmission services revenue is considered which the proposer claims is potentially over-stated and not the under-recovery of the non-transmission services revenue.

We therefore attach some specific analysis relating to this proposed NTS Optional Charge in

**Appendix 1. In summary:**

We believe that NG's analysis that showed only routes up to 30 km to be attractive does not provide a complete enough picture. Our analysis shows that up to 23 routes above 30 km are attractive under OC tariffs as well: 13 of them are above 100 km of which 5 routes are even above 200 km. We believe that our analysis shows that this alternative Modification offers an OC tariff that is potentially much more widely attractive than the NG analysis suggests. This increases the risk that the tariff could apply in situations where there is no likelihood of building an alternative pipeline.

**0678I**

**0678J**

Appendix 3 in Part II of the Draft Modification Report as provided by the Proposer does not in our opinion provide a complete enough picture of the effects of the proposed NTS Optional Charge. We note that only the under-recovery of transmission services revenue is considered which the proposer claims is potentially over-stated and not the under-recovery of the non-transmission services revenue.

We therefore attach some specific analysis relating to this proposed NTS Optional Charge in Appendix 1. In summary:

We believe that NG's analysis that showed only routes up to 30 km to be attractive does not provide a complete enough picture. Our analysis shows that up to 23 routes above 30 km are attractive under OC tariffs as well: 13 of them are above 100 km of which 5 routes are even above 200 km. We believe that our analysis shows that this alternative Modification offers an OC tariff that is potentially much more widely attractive than the NG analysis suggests. This increases the risk that the tariff could apply in situations where there is no likelihood of building an alternative pipeline.

## 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>Users requiring new capacity at entry will presumably buy from those with spare capacity within their existing contracts where this is cheaper than buying at the new published tariffs. Indeed this is the assumption made in the derivation of the FCC in the proposed methodologies.</p> <p>Short-term capacity will be booked more closely to need, since zero priced capacity will no longer be available, but this is not directly related to existing and new contracts differentials.</p>
2.	<p>What date should the changes proposed by the modifications become effective and why?</p> <p>The new tariffs should be applicable from 1 October 2019 for compliance with the EU Tariff Code. However, should implementation by 1 October 2019 prove to be impossible and there is a delay to the introduction of new capacity tariffs the commodity elements should nevertheless be addressed in a timely manner. In particular the removal of non-compliant elements, such as the current Optional Commodity charge, should be undertaken by 1 October 2019, noting that there are different publication requirements to capacity and commodity charge elements within the EU Tariff Code. Stakeholders have already had notice that this charge would not be guaranteed through the consultations on Modification 0621 and 0636.</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>Either 50% or 80% can be justified under the EU Tariff Code. There is limited impact (1-2%) on other charges as a result of the higher discount. However, 50% is more consistent with the principle of “the same service for the same price”.</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>Any NTS Optional Charge should be justified in relation to its compliance with the EU Tariff Code. Key principles underlying the EU Tariff Code are “the same price for the same service” and no undue discriminatory access to any special services. None of the currently proposed NTS Optional Charge methodologies meets these criteria.</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>Proposals 0678B, 0678D, 0678G, 0678H, 0678I and 0678J are not compliant because of the NTS Optional charge, Wheeling Charge and “Security of Supply” discount.</p> <p>Proposal 0678F may well be compliant although “surrender of capacity” is not specifically</p>

	<p>considered in the EU Tariff Code and might be better addressed as a separate issue. In other respects this Modification is the same as 0678E</p> <p>The remaining proposals 0678, 0678A, 0678C and 0678E can be considered compliant with the substantive requirements of the EU Tariff Code as requested by the Authority in its decision letter on Modification 0621. It is entirely possible and consistent that future additional change may be necessary and desirable to refine specific elements.</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>Yes, this is a proportionate and practical solution to the charge setting process, It may be necessary to revisit the FCC Methodology as the behaviour of Users adapts to the new transmission tariff methodology. The long process of a UNC Modification is not sufficiently responsive to the need to recover revenues in a timely manner and may be subject to delay by Users with vested interests in the status quo. The responsibility for a compliant methodology including the FCC methodology should remain with National Grid and be subject to Authority over-sight as proposed.</p>