

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:	Gerry Hoggan																							
Organisation:	ScottishPower Energy Management Limited																							
Date of Representation:	8 May 2019																							
Support or oppose implementation? (Please note you will be asked for your reasoning further below)	<table border="1"> <tr><td>0678</td><td>Oppose</td></tr> <tr><td>0678A</td><td>Oppose</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>Qualified Support</td></tr> <tr><td>0678F</td><td>Qualified Support</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	Oppose	0678A	Oppose	0678B	Oppose	0678C	Support	0678D	Oppose	0678E	Qualified Support	0678F	Qualified Support	0678G	Oppose	0678H	Oppose	0678I	Oppose	0678J	Oppose
0678	Oppose																							
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0678B	Oppose																							
0678C	Support																							
0678D	Oppose																							
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0678F	Qualified Support																							
0678G	Oppose																							
0678H	Oppose																							
0678I	Oppose																							
0678J	Oppose																							
Expression of Preference (Please note you will be asked for your reasoning further below)	<p>If <i>EITHER</i> 0678; 0678A; 0678B; 0678C; 0678D; 0678E; 0678F; 0678G; 0678H; 0678I <i>OR</i> 0678J were to be implemented, which <u>ONE</u> Modification would be your preference?</p> <p>678C</p>																							

Standard Relevant Objective:

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

**Standard Relevant
Objective
(continued):**

0678C

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

0678D

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

0678E

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

**Standard Relevant
Objective
(continued):**

0678F

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

0678G

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

0678H

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

**Standard Relevant
Objective
(continued):**

0678I

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

0678J

- | | |
|----|----------|
| a) | Negative |
| b) | Negative |
| c) | Positive |
| 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

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

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

0678C	
a)	Positive
aa)	Positive
b)	Positive
c)	Positive
d)	Negative
e)	Positive

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

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

0678E	
a)	Positive
aa)	Positive
b)	Positive
c)	Positive
d)	Negative
e)	Positive

0678F	
a)	Positive
aa)	Positive
b)	Positive
c)	Positive
d)	Negative
e)	Positive

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

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

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

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)

0678 (Oppose)

The FCC Methodology is fundamental to the processes to determine prices. Regrettably it was not produced until late in the development of the workgroup report, such that there has been little opportunity to analyse or test its robustness and a number of observations and queries that were raised appear not to have been adequately addressed. Additionally we are of the view that having the FCC sit outside of the UNC does not provide for optimal governance (see below).

Furthermore we do not consider that the level of discount for storage is adequate or has been fully justified. Rather it appears to be simply the application of the minimum 50% required by TAR without further analysis or justification. It does not adequately represent the additional benefits that storage facilities provide in respect of security of supply, system management etc.

We recognise the arguments around contractual sanctity and the reasonable expectations of parties to long term contracts. However, simply to exempt such parties from all future revenue recovery charges would go beyond maintaining the current status quo. Rather it would place them in a more advantageous position than presently where commodity based revenue recovery charges are payable in terms of such contracts. Overall this would create a differential and preference in favour of such parties that could lead to significant distortions.

0678A (Oppose)

As above for MOD0678.

0678B (Oppose)

As above for MOD0678.

0678C (Support)

We consider this proposal more accurately reflects the full value of storage, including contribution to security of supply and system flexibility, by providing for an 80% discount from otherwise applicable capacity charges. The justification for the application of that level of discount is evidenced in the report produced by Waters Wye Associates on behalf of the Gas Storage Operators Group and is available via the following link - [NTS Charging Review: setting a tariff discount for storage](#)

Additionally the proposal exempts storage capacity holdings from the application of a Revenue Recovery Charge, which is consistent with the requirement to avoid double charging and the conclusions stated by Ofgem in its Gas Transmission Charging Review.

The proposal also applies a Revenue Recovery Charge on all other capacity products, including Existing Contracts. This approach ensures that parties to such contracts are not placed in a more advantageous position and further distortions are not created (see 678 above).

0678D (Oppose)

As above for MOD0678.

0678E (Qualified Support)

Qualified Support

0678F (Qualified Support) Qualified Support
0678G (Oppose) As above for MOD0678.
0678H (Oppose) As above for MOD0678.
0678I (Oppose) As above for MOD0678.
0678J (Oppose) As above for MOD0678.

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 in order to be compliant then an implementation date coinciding with the Gas Year would be required. Allowing for the structural nature of the changes involved and the potential scale of changes in charges payable, it will be critical that parties are given as much advance notice as reasonably possible. As a minimum the existing notice periods as per National Grid's Licence in respect of both indicative and final charges should be applied. Parties need to be given the opportunity to take due account of the amended charges within their commercial strategies and arrangements.

For those reasons, and allowing for the remaining governance and legal processes that have yet to be completed, including a full Regulatory Impact Assessment, we believe that 1st October 2020 is the earliest achievable implementation date.

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

0678 and Alternatives

Whilst we recognise that the impacts will most likely be significant and distributional we are not yet in a position to make an informed, detailed assessment at this stage, allowing for the status of the analysis carried out to date and the wide range of Alternatives under consideration.

However, we would highlight that each of the proposals will result in higher costs for storage and for that reason we believe that particular consideration should be given to the potential impacts on storage viability.

Moreover, a full assessment of the likely IT development costs for Xoserve's central systems would be an essential component of the overall costs to industry and at this stage we are not aware whether any such assessment has been undertaken.

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.*

We are reasonably comfortable that the respective legal texts should deliver the intent of each solution, although we have not had these legally reviewed allowing for time and resource constraints.

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.

As stated above we do not believe that the default level of discount for storage (50%) within MOD0678 has been justified beyond being a reiteration of the level stated within the regulation and does not take account of the additional benefits that storage provides. Additionally we consider that the analysis submitted in support of a greater storage discount has not been adequately referenced in the report or appropriate consideration given to those conclusions.

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.	<p>What impact, if any, do you think tariff differentials between existing and new contracts will have on users booking behaviour?</p> <p>The protection offered to existing contract holders clearly creates an ongoing commercial advantage, and that to a greater or lesser extent dependent on whether those parties are then subject to a supplementary revenue recovery charge. When allied to the removal of the differential between the pricing for short and long term capacity bookings, this will most likely lead to a drive towards shorter term bookings as parties look to mitigate that overall differential and minimise costs.</p> <p>This in turn may lead to greater NBP trading and the expansion of the secondary trading market, which is currently fairly limited, although that too will be dependent on whether that long term capacity retains its protected status once traded – some modifications preserve that protection while some others do not.</p>
2.	<p>What date should the changes proposed by the modifications become effective and why?</p> <p>As above we believe that 1st October 2020 is the earliest achievable implementation date.</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>We believe that the justification for the application of an 80% level of discount is evidenced in the report produced by Waters Wye Associates on behalf of the Gas Storage Operators Group and is available via the following link - <i>NTS Charging Review: setting a tariff discount for storage</i>.</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>If cost reflectivity is to be considered a central element of the charging arrangements then it is notable that if the CWD methodology is implemented then in some instances that produces perversely high exit charges in relation to exit points located close to entry points. The development of an appropriate capacity based optional charge may assist in mitigating those impacts, although we have no particular view or preference as regards the various structural designs for such a charge within the current proposals. However we agree with the Ofgem view that this issue should be considered holistically as part of the wider charging arrangements and so it may be appropriate to allow the currently established Workgroup (MOD0670R Review of the charging methodology to avoid inefficient bypass of the NTS) to continue to look at the issue and develop appropriate proposals, if any.</p>

<p>5.</p>	<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>We have not carried out a full compliance review of each of the proposals but we note that each of the proposers has included a detailed compliance assessment and considers that its proposal is compliant. Ultimately such assessments are based upon an interpretation of the relevant regulatory requirements, either in the form of the regulation or applicable legally binding decisions, with any final definitive view being the prerogative of the relevant judicial body. Having said that we note that each proposal appears to have attempted to take due account of the compliance views expressed by Ofgem in their decision letter on MOD0621.</p>
<p>6.</p>	<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>We appreciate the value of certainty and stability in the charging arrangements and some may argue that that would be bolstered by keeping the FCC Methodology outside of the UNC and so limiting the possibility of it being subject to change by market participants. However that methodology remains a fundamental cornerstone of the price setting mechanism and so it is important that it should be subject to the same open, transparent and robust change processes. The UNC processes are well established and understood. Should there be concerns around the possibility of volatility being introduced from numerous changes being proposed then those arrangements could be suitably adapted to restrict such matters while still preserving the essential protections provided by an open governance regime.</p>