

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:	Pavanjit Dhesi	
Organisation:	Interconnector UK Ltd	
Date of Representation:	08 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	Support
	0678E	Oppose
	0678F	Oppose
	0678G	Oppose
	0678H	Oppose
	0678I	Qualified Support
	0678J	Oppose
Expression of Preference (Please note you will be asked for your reasoning further below)	0678D or 0678B	

**Standard Relevant
Objective:**

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

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

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

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

Standard Relevant

**Objective
(continued):**

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

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

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

**Standard Relevant
Objective**

(continued):

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

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

**Charging
Methodology
Relevant Objective:**

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

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

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

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

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

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

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

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

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

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

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

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

Charging
Methodology
Relevant Objective
(continued):

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

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

0678

IUK recognises National Grid has sought to address Ofgem's main compliance concerns with UNC proposal 0621. This UNC 0678 proposal would therefore address the urgent need to comply with Commission Regulation (EU) 2017/460 (the TAR code).

The proposal does not, however, provide a new solution for avoiding inefficient bypass of the NTS. The current "short haul" charge would come to an abrupt end from implementation of this modification. Whilst it is recognised the optional commodity charge needs reform, it is important to recognise its benefits. Short haul ensures a contribution to the costs of the NTS from flows which could otherwise circumvent the network. It also contributes to GB liquidity by encouraging gas into the GB market and thus contributes to the competitiveness of the overall wholesale market. Short haul has also been a key contributor to flows across the interconnectors and therefore facilitates cross border trade. Furthermore, it has an environmental benefit by avoiding additional pipelines being laid around the country.

Despite addressing compliance with the TAR code and addressing skewed booking incentives (with equal product multipliers), without a proposal for the optional commodity charge, this modification would be a regressive step. It does not further the efficient and economic operation of the NTS.

0678A

We do not believe a postage stamp methodology is a cost reflective approach. A Capacity Weighted Distance (CWD) approach furthers the cost reflective objective.

0678B

IUK supports this proposal as it proposes a solution for the NTS optional charge in addition to the other changes in UNC mod 0678 addressing TAR code compliance. Short haul ensures a contribution to the costs of the NTS from flows which could otherwise circumvent the network. It also contributes to GB liquidity by encouraging gas into the GB market and thus contributes to the competitiveness of the overall wholesale market. It has been a key contributor to flows across the interconnectors and therefore facilitates cross border trade. Furthermore, it has an environmental benefit by avoiding additional pipelines being laid around the country. We believe the NTS optional charge solution ensures the benefits can continue whilst also ensuring compliance with the TAR code (via making the charge a capacity charge).

0678C

We do not believe a postage stamp methodology is a cost reflective approach.

We also do not believe a 80% discount for storage is merited nor is excluding these storage points from revenue recovery charges (other than existing contracts). IUK noted concerns in the UNC 0621 process about the distortion to competition via preferential treatment for storage compared to other flexibility sources providing GB similar benefits. Any discount above the minimum outlined in the TAR code will further be detrimental to competition and cause undue discrimination. In particular, it will distort competition with shippers seeking to access the vast quantity of continental storage and move gas seasonally via the interconnectors at the Bacton interconnection points (IPs) because these point receive no discount in the proposal.

Given the low levels of storage capacity in GB compared to significant levels closely available in connected continental markets, IUK continues to believe GB consumers interests would be furthered by setting an equal capacity discount for domestic storage and the Bacton IPs at 50%. This will enable effective competition for storage in the GB market.

0678D

IUK supports this proposal as it proposes a solution for the NTS optional charge in addition to the other changes in UNC mod 0678 addressing TAR compliance. We outlined earlier that there are many benefits from having an NTS optional charge. We believe the NTS optional charge solution ensures the benefits of short haul can continue whilst also ensuring compliance with the TAR code (via making the charge a capacity charge).

0678E

We also do not believe a 80% discount for storage is merited nor is excluding these storage points from revenue recovery charges (other than existing contracts). IUK noted concerns in the UNC 0621 process about the distortion to competition via preferential treatment for storage compared to other flexibility sources which provide GB similar benefits. Any discount above the minimum outlined in the TAR code will further be detrimental to competition and cause undue discrimination. In particular, it will distort competition with shippers seeking to use the vast quantity of continental storage and move gas seasonally via the interconnectors at the Bacton interconnection points because these point receive no discount in the proposal.

As noted above, given the low levels of storage capacity in GB compared to significant levels closely available in connected continental markets, IUK continues to believe GB consumers interests would be furthered by setting an equal capacity discount for domestic storage and the Bacton IPs at 50%. This will enable effective competition for storage in the GB market.

0678F

Same comments as given above for 0678E.

0678G

Whilst we support the inclusion of an optional NTS proposal for the benefits already outlined above, we believe it is appropriate for all existing contracts to be excluded from the revenue recovery charge adjustment to comply with Article 35 of the TAR code, not just capacity at storage points.

0678H

We do not believe a postage stamp methodology is a cost reflective charging approach.

Whilst we support the inclusion of an optional NTS proposal for the benefits already outlined above, we believe it is appropriate for all existing contracts to be excluded from the revenue recovery charge adjustment to comply with Article 35 of the TAR code, not just capacity at storage points.

0678I

IUK has qualified support for this proposal. We support the wheeling service proposal as it is an effective solution for a future NTS optional charge. We outlined earlier that there are many benefits from having an NTS optional charge which a wheeling service can ensure continues whilst also ensuring TAR code compliance.

Whilst we understand the logic for the Moffat capacity discount proposal, we believe it is important to ensure charges at the Bacton interconnection points do not increase as a consequence (e.g to pass the TAR cost allocation test). We also believe that a discount should also be considered for the Bacton IPs. This would ensure a consistent approach to both IPs and recognise the benefit to security of supply and trade the Bacton IPs also provides to GB and neighbouring countries.

0678J

Whilst we support the inclusion of an optional NTS proposal for the benefits already outlined above we do not believe a postage stamp methodology is a cost reflective charging approach.

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

Noting some of the TAR code publication obligations in May 2019 are unlikely to be achieved, a prompt decision is needed to establish the new regime and provide NTS users stable and predictable prices.

We would support implementation with a 3 month notice period before the new gas year commences. However, recognising this is challenging, IUK would support implementation on a date consistent with ensuring charging certainty for shippers seeking to purchase quarterly capacity for this coming gas year. This is to ensure a shipper can be confident of a consistent pricing approach for the whole duration of the product. It is important for security of supply that shippers are not discouraged from purchasing quarterly capacity this winter. Therefore, with adequate notice we would support an effective date of either 1st October, 1st January, 1st April or 1st July.

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

We look forward to seeing Ofgem's impact assessment.

As a general point, uncertainty about National Grid's charges has a potentially detrimental impact on IUK's ability to sell longer term capacity products (given IUK is an adjacent TSO who bundles capacity with National Grid). A prompt decision is therefore needed.

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.*

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?
2.	<p>What date should the changes proposed by the modifications become effective and why?</p> <p>Uncertainty about National Grid's charges has a potentially detrimental impact on IUK's ability to sell longer term capacity products (given IUK is an adjacent TSO who bundles capacity with National Grid). A prompt Ofgem decision is needed to establish the new regime and provide NTS users stable and predictable prices.</p> <p>We would support implementation with a 3 month notice period before the new gas year commences. However, recognising this is challenging, IUK would support implementation on a date consistent with ensuring charging certainty for shippers seeking to purchase quarterly capacity for this coming gas year. This is to ensure a shipper can be confident of a consistent pricing approach for the whole duration of the product. It is important for security of supply that shippers are not discouraged from purchasing quarterly capacity this winter. Therefore, with adequate notice we would support an effective date of either 1st October, 1st January, 1st April or 1st July.</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>It should be the minimum 50% to avoid undue discrimination. We also do not believe a 80% discount for storage is merited. IUK has already noted concerns in the UNC 0621 process about the distortion to competition preferential treatment for storage creates. Any discount above the minimum outlined in the TAR code will further be detrimental to competition with users of other flexibility providers. In particular shippers seeking to use the vast quantity of continental storage and move gas seasonally via the interconnectors at the Bacton interconnection points (who receive no discount under the current proposals).</p> <p>Given the low levels of storage capacity in GB compared to significant levels closely available in connected continental markets, IUK continues to believe GB consumers interests would be furthered by setting an equal capacity discount for domestic storage and the Bacton IPs at 50%. This will enable effective competition for storage in the GB market.</p>
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?

	<p>IUK supports an enduring solution for the NTS optional charge. “Short haul” ensures a contribution to the costs of the NTS from flows which could otherwise circumvent the network. It also contributes to GB liquidity by encouraging gas into the GB market and thus contributes to the competitiveness of the overall wholesale market. It has also been a key contributor to flows across the interconnectors and therefore facilitates cross border trade. Furthermore, it has a considerable environmental benefit by avoiding additional pipelines being laid around the country. We believe therefore that either modification proposals 0678B or 0678D provide a sound solution. They both ensure the benefits can continue whilst also ensuring compliance with the TAR code (via making the charge a capacity charge).</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>It is fair to say all the proposals further compliance with relevant binding decisions of the EC and ACER as they are all seeking to address TAR code obligations.</p>
6.	<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>Given it is one of the key components in the determination of the capacity charge, we sympathise with users wishing to see the methodology as part of the UNC. It allows modification proposals to be discussed in the appropriate working group forums and then be consulted on before going to Ofgem for a determination. This appears to be best governance framework for this important element in determining charges.</p>