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:	Paul Youngman
Organisation:	Drax
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	Qualified Support
0678D	Qualified Support
0678E	Oppose
0678F	Oppose
0678G	Oppose
0678H	Qualified Support
0678I	Oppose
0678J	Oppose

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?* **0678B**

Standard Relevant Objective:

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

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

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

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

Standard Relevant Objective (continued):

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

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

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

Standard Relevant Objective (continued):

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

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

Charging Methodology Relevant Objective:

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

Charging Methodology Relevant Objective (continued):

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

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

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

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

Charging Methodology Relevant Objective (continued):

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

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

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

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

Charging Methodology Relevant Objective (continued):

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

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

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

We offer the following general comments on the 0678 modification and alternatives together with bullet points for each specific proposal.

The choice of methodology is the same as under modification 621 either a postage stamp or Capacity Weighted Distance model (CWD). In our response to 621 we highlighted that neither model is cost reflective, they are both cost recovery processes. We also pointed out in 0621 that there were counterintuitive results from the CWD model where exit points located close to entry points attracted a ***higher*** charge then exit points in the centre of the country. We therefore agree that it is desirable to have an optional capacity charge to ensure that the arrangements can be as cost reflective as possible. Of the available modifications, 621B is the most fully developed and has the advantage of robust governance arrangements for the forecasted contracted capacity methodology.

0678

Oppose

- No appropriate governance of FCC
- No appropriate justification of FCC Methodology used and why it is in the interests of consumers
- No appropriate determination of Cost reflectivity
- No optional capacity charge included

0678A

Oppose

- No appropriate governance of FCC
- No appropriate justification of FCC Methodology used and why it is in the interests of consumers
- Not cost reflective

0678B

Support

- Appropriate governance of FCC
- Justification of FCC Methodology used and why it is in the interests of consumers for this (in conjunction with the OCC)
- In conjunction with the OCC methodology there is a holistic and appropriate application of cost reflectivity that is compliant with recital 3 and article 4 of TAR
- More fully developed optional capacity charge included within the proposal

0678C

Qualified Support

- Appropriate governance of FCC
- Not cost reflective
- No optional capacity charge

0678D

Qualified Support

- No appropriate governance of FCC
- More cost reflective then 0678 as there is consideration of the optional capacity charge

0678E

Oppose

- No appropriate governance of FCC
- Not sufficiently robust justification of FCC Methodology and difference in charging arrangements used from 678/678A

0678F

Oppose

- No appropriate governance of FCC
- Not sufficiently robust justification of FCC Methodology and difference in charging arrangements used from 678/678A

0678G

Oppose

- No appropriate governance of FCC
- Not sufficiently robust justification of FCC Methodology and difference in charging arrangements used from 678/678A

0678H

Qualified Support

- No appropriate governance of FCC
- More cost reflective then 0678A as there is inclusion of an optional capacity charge

0678I

Oppose

- No appropriate governance of FCC
- Not sufficiently robust justification of FCC Methodology and difference in charging arrangements used from 678/678A

0678J

Oppose

- No appropriate governance of FCC
- Not sufficiently robust justification of FCC Methodology and difference in charging arrangements used from 678/678A

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

Implementation of this significant change should not be before 1st October 2020.This modification is substantial and there should be sufficient time made available to ensure prices can be robustly calculated and communicated to participants in line with National Grid's licence and code obligations. To make the change part way through a gas year would be a sub-optimal solution. We think it is necessary to have a robust forecasted contracted capacity methodology, calculation and governance processes in place prior to implementation, and sufficient foresight of the charging outcomes to enable parties to optimise their capacity bookings. This will not be possible if implementation is before 1st October 2020 and could lead to inefficient outcomes for the industry and consumers.

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

We offer the following general comments on the 0678 modification and alternatives.

As a holder of Exit capacity there will be a net increase in charges whichever variant of mod678 is approved by Ofgem. If the approved modification includes an optional capacity charge this may be an option to minimise the potential increase. We will also seek to optimise the levels of capacity we maintain for our current and future Gas generation assets based on the cost of securing capacity and the associated risk of daily flows exceeding the capacity secured. We would expect others to do the same. The probable outcome being that benefits arising from changing the methodology in terms of stability and predictability may be eroded. We also note that there has been limited analysis on the distributional impact on charges and the interactions with how distribution networks recover charges from end consumers. The impact at a distribution level is therefore unclear especially for large end consumers. There has also been no analysis on the allocation of costs over time in light of potential capacity optimisation by shippers.

We think it likely that without an appropriate optional capacity charge a number of exit points could decide to disconnect from the NTS completely. We note that the estimated pay-back period is relatively short for sites near entry points that face a large increase in charges under both the CWD and Postage Stamp models. Given the time constraints of the modification workgroup no analysis was undertaken to look at the potential impact on the whole system of by-passing the NTS.

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

No comment on the legal text.

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.*

We offer the following general comments on the 0678 modification and alternatives.

We recognise that a great deal of effort has been expended to meet the timescales of the urgent modification process. This has led to the following gaps in analysis and consideration by the workgroup

- Forecasted Contracted Capacity – Due to late delivery of the FCC there has been limited opportunity to consider the FCC developed by National Grid or consider any revision or alternative methodology. It is clear from the current formation of the FCC that there are different rules for different stakeholders. The reason for this distinction has not been articulated fully or justified. Given the lack of time for adequate scrutiny of the proposed FCC or capacity for the workgroup to request data from National Grid and develop alternatives, we strongly recommend that the FCC is subject to UNC governance and change processes as under 678B and 678C.

  There are still a number of sites that should either be included or removed from the FCC calculation / model. We also note that National Grid have been clear that the model is for indicative purposes only and may not be used in future to calculate transmission charges. Given that the results of charges must be reproducible under TARNC we would like to know what will be used to calculate charges and the development timeline for this model to be updated and released. We recommend that the model should also be included within industry governance process.

- There has been a limited assessment of the impact on different customers connected to distribution networks. One potential issue is the lag in the charging arrangements and what basis costs are reflected through under Mod 678. It is therefore difficult to clearly assess and state that changes to the charging regime will actually be reflected in lower charges to consumers or determine an accurate counterfactual. We recommend that Ofgem consider this issue in its impact analysis.

- We believe there is a case for the retention of a form of optional capacity charge. As highlighted above there was insufficient time to assess the redistribution of charges to other users if exit points in close proximity to entry points permanently disconnect from the NTS.

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

Support for modification 678B

In our view Modification 678B provides the best overall outcome from the process. It maintains an optional capacity charge that is available to all relevant parties and mitigates some of the impact of the CWD methodology – with the optional charge the CWD methodology can be considered cost reflective and therefore compliant with recital 3 and article 4 of the TAR NC. Additionally, Modification 678B places the governance of the FCC within the UNC enabling robust industry governance of changes. The FCC methodology was delivered very late in the development process and has had insufficient scrutiny. It is important that going forward there is a robust industry process to determine this vital component of the charging framework. Once implemented any FCC outside of code governance would be reliant on National Grid progressing change.

Analysis and Ofgem impact assessment

We would welcome an Ofgem impact assessment. Given the time constraints there has not been available analysis or consideration of the impact of these proposed changes to the charging arrangements. Where there has been analysis from National Grid it has been provided generally late in the process without sufficient time to enable critical review. Items that have not been considered in any analysis are the impact on new NTS connections including gas generation and interactions with the electricity market.

Previous analysis from Baringa under mod 621 suggested that there would be a reduction in costs for 75% of NTS Gas Generation sites. However, figures from the model provided by National Grid, (which they have stressed is illustrative only), result in increased actual costs under all scenarios for large industrial sites and power stations connected to the NTS. We recommend that the analysis provided in the 621 report needs to be re-tested in Ofgem's impact assessment for 678. It is highly likely that these increases in charges may be reflected in increased costs for electricity consumers and for products produced in the UK. We do not believe this outcome is in the future interest of UK consumers.

There has been some high-level analysis on the benefits of an optional capacity charge and the interactions with other users however this was provided late in the process without adequate time for parties to critically review the analysis. There has not been a corresponding analysis of the impact of exit points permanently disconnecting from the system. We think it likely that without an appropriate optional capacity charge a number of exit points could decide to disconnect from the NTS completely. We note that the estimated pay-back period is relatively short for sites near entry points that face a disproportionate increase in charges under both the CWD and Postage Stamp models. We would recommend that both National Grid's model and the FCC methodology fall under UNC governance and that further analysis is undertaken in Ofgem's impact assessment.

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?
	The presentation at the penultimate workgroup meeting of analysis conducted by Baringa as to the materiality of differences between existing fixed long term entry capacity contracts and new entry contracts has not been addressed in any of the proposals either postage stamp or CWD. It can be expected that shippers will seek to optimise flows and holdings to minimise costs within the bounds of their existing contractual arrangements. This is likely to impact flows onto the system and is likely to be distortive of competition compared to the current charging arrangements. We also consider that this will lead to revision of current capacity bookings which will impact on the distribution of charges. If an option is chosen by the authority without an Optional Capacity Charge this is likely to compound the effect.
2.	What date should the changes proposed by the modifications become effective and why?
	We would recommend that a 1st October date is chosen to align with the gas year. October 2019 appears extremely tight given notification timescales. Additionally, there may be implications for credit arrangements and other process / system impacts that have not been assessed within the scope of the modification. On this basis we would not recommend implementation before 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%
	No comment
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?
	The NTS and LDZ optional charges have been a feature of charging arrangements for over 20 years. They were introduced based on the economic benefit to consumers and the energy system as a whole. Where an exit point is situated close to an entry point, it may be more economic for that user to build a dedicated line that bypasses the NTS. If the NTS has available exit capacity, then such an outcome (building the by-pass pipeline) would be uneconomic for the industry as a whole (and end consumers). If sites bypass the NTS this increases average charges to remaining users and consumers.

	It is our view that the principles supporting an optional charge remain valid and are not automatically non-compliant with the TAR Network code. Of the optional charging alternatives presented as part of this modification Mod 678B is the most fully developed and holistic proposal. It is based on capacity charges and is integrated with the rest of the charging arrangements. As it is based on CWD it can be argued to be more cost reflective than the Postage Stamp methodology and has the benefit of mitigating the perverse outcomes of the CWD model of relatively higher exit capacity charges the closer an exit point is to an entry point.
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 agree that the arrangements are considered by the proposers to be compliant with the TAR NC and the decisions of the EC and ACER. We have commented in the workgroup that there is potential non-compliance issue Article 8.1 that directs that the parameters for the CWD model shall exclude entry and exit points that cannot be combined in a flow scenario. We are not convinced that the assumption that gas can and does flow from any entry point to all exit points in the network is a robust model on which to base the allocation of charges. The intention of Article 8.1 could be that charges should be derived based on the combination of flows that enable gas to reach the consumer, not on the capacity that has been historically purchased at entry and exit points. In constructing the model and relevant FCC TAR NC requires that there needs to be appropriate justification for parameters and approach adopted. We are not clear that sufficient justification has been articulated within all the modifications to satisfy the obligations of TAR NC.
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.
	We support the aspects of proposal 678B and 678C that introduce the FCC into the UNC and thereby ensure an appropriate level of governance of the FCC. The FCC was delivered late in the process and has not been fully justified or scrutinised. There was insufficient time available for alternative FCC's to be developed or proposed. National Grid also hold all the relevant data that could be used to construct an alternative methodology. National Grids proposal and alternatives that do not have FCC as part of the UNC have insufficient governance. The determination of FCC is highly relevant for all stakeholders. It is clear from the current formation of the FCC that there are different rules for different stakeholders. The reason for this has not been articulated fully or justified. As highlighted above there has not been adequate scrutiny of the proposed FCC or capacity for the workgroup to develop alternates. Once implemented any FCC outside of code governance would be reliant on National Grid progressing change.