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:	Melissa McKerrow
Organisation:	InterGen
Date of Representation:	8th May 2019
Support or oppose implementation? (Please note you will be asked for your reasoning further below)	0678 – Comments 0678A – Oppose 0678B – Comments 0678C – Oppose 0678D – Comments 0678E – Comments 0678F – Comments 0678G – Comments 0678H – Oppose 0678I – Comments 0678J – Comments
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?* 0678G InterGen's preference is that neither the original proposal nor any of the alternatives is implemented. However, we consider UNC0678G as the most meaningful solution to ensuring compliance with TAR. InterGen strongly oppose the removal of the original proposed transitional period. Gas fired generators will have already hedged into 2020 and will not have taken account of these proposed changes within dispatch costs therefore without a transitional arrangement in place this may cause unintended consequences in the market. It is therefore essential that any proposed amendment included adequate provision of transitional arrangements. The suspension of the Capacity Market has put significant pressure on generators in GB. The introduction of higher fixed costs in relation to gas charging will further compound this issue and may in some cases be a tipping point for early closures of older gas plant. Ofgem should consider the whole system costs including the ongoing TCR as well as CM suspension when evaluating an appropriate transitional period for the introduction of any new charging arrangements.
Standard Relevant Objective:	InterGen will not be commenting individually on the Standard Relevant Objectives – please refer to the summary response.
Charging Methodology Relevant Objective:	InterGen will not be commenting individually on the Charging Methodology Objectives – please refer to the summary response below.

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

InterGen has summarised its position on 0678 and all alternatives here and will not comment on individual modifications

InterGen believes that both the CWD and Postage Stamp reference price methodologies are less cost reflective than the status quo and that reallocating cost recovery from commodity to capacity will be distortive.

InterGen, as an independent generator, has been increasingly frustrated at the lack of time allowed for us to fully assess all the alternatives under this proposal, given the time in which they have been developed (at speed) and the size of our organisation. The current methodology has been in place for many years and whilst we understand the need to be complaint with TAR, such hastily proposed changes will have significant impact on the industry, large generators in particular, without proper time to asses all of the intended (and indeed unintended) consequences. We urge Ofgem to prioritise the development of a fair, cost reflective and effective GB charging methodology over one that ensures TAR compliance but is not fit for purpose in light of cost reflectivity and competition.

We understand that the Baringa report identifies that there are multiple influences on the wholesale price and hence customer welfare. However, this report was only made available less than two days before the Workgroup report was finalised, although Ofgem had requested in its letter for the information to be provided to Workgroup in time to be considered through the full duration of the extended timeline. This analysis therefore received insufficient review and discussion.

It is not self-evident to InterGen that either the CWD methodology or the Postage Stamp methodology establish charges that are cost reflective. The CWD methodology uses the cost drivers of capacity and distance but creates high exit charges at points close to entry points which does not reflect the cost of transporting gas over a short distance. This conclusion is supported by the Frontier Economics report produced for Energy UK in June 2018 that noted that CWD charging aims to allocate *historical costs* locationally and is therefore not a forward looking marginal cost based methodology (this report went on the conclude that the CWD model also appears to be worse than the status quo in terms of 'effective competition'). Nor is the PS methodology cost reflective as it applies the same price at all points. So cost reflectivity cannot really be used to determine whether CWD or PS is most appropriate.

We are very concerned that Ofgem have not undertaken a Regulatory Impact Assessment to asses fully the impacts on consumers, and other market and regulatory interactions and would urge that Ofgem take proper time to fully assess the impacts on generators and consumers before approving any of the modifications proposed. We note that all of the proposals under 0678 are likely to increase costs for electricity consumers. Currently gas plants in GB are able to procure short-term interruptible exit capacity or can benefit from short haul arrangements, minimising capacity payments for gas transportation. Under the 0678 proposals, such discounts are removed, which will result in an increase in electricity prices through either the wholesale price or the Capacity Market price, or both.

It is also important to consider the locational pricing element. This should be assessed in conjunction with other locational signals such as TNUoS, which are also being revised under the ongoing TCR, if the whole system cost is not assessed there is a significant risk of creating unintended market distortions. Ofgem need to be confident that the price signals in relation to location are appropriate.

Furthermore, as per our initial comments, the suspension of the CM puts significant pressure on UK generation and introduction, particularly without a transitional arrangement, of increased fixed charges will inevitably lead to instability in the market, with generators bearing high costs. The transitional arrangement should in reality align with the CM introduction and be brought in to allow the amended gas charging regime to be included within participants bidding strategy for T-4 Auctions.

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

InterGen believes that modifications should become affective by 1st October 2020 at the very earliest. 1st October 2019 does not seem at all achievable given the notification timescales. The changes proposed under UNC 0678 and its alternatives will substantially alter the costs of running gas plant, which will have sold volumes seasons and years ahead based on the current methodology. Moreover, the Capacity Market procures capacity 4 years ahead (InterGen's three gas plant all have capacity contracts for 2018 up to and including 2022, and its new OCGT at Spalding has secured a 15 year Capacity Agreement starting in 2021, the economics of which, as a price maker, were based on the 'status quo' gas charging regime).

In order to preserve the economics of these CM awards, and the significant investment made on the back of them, the changes to the methodology should be delayed as far as practicable, with adequate transitional arrangements in place.

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

The impact of implementing the proposals under 0678 or any of its alternatives without lead time to take into account wholesale market sales season or year ahead, or capacity market lead times of 4 years, will have a significant, detrimental impact on InterGen's existing assets and the OCGT currently under development, due to commence commercial operations summer 2019.

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.*

InterGen has no comments on the legal text at this time

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.*

No additional comments.

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

No additional analysis at this time.

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.	What date should the changes proposed by the modifications become effective and why?
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%
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?
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?
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.