

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:	Iwan Hughes																						
Organisation:	VPI Immingham LLP																						
Date of Representation:	07/05/2019																						
Support or oppose implementation? (Please note you will be asked for your reasoning further below)	<table border="1"> <tr><td>0678</td><td>Support/Oppose/Qualified Support/Comments* delete as appropriate</td></tr> <tr><td>0678A</td><td>Support/Oppose/Qualified Support/Comments* delete as appropriate</td></tr> <tr><td>0678B</td><td>Support/Oppose/Qualified Support/Comments* delete as appropriate</td></tr> <tr><td>0678C</td><td>Support/Oppose/Qualified Support/Comments* delete as appropriate</td></tr> <tr><td>0678D</td><td>Support/Oppose/Qualified Support/Comments* delete as appropriate</td></tr> <tr><td>0678E</td><td>Support/Oppose/Qualified Support/Comments* delete as appropriate</td></tr> <tr><td>0678F</td><td>Support/Oppose/Qualified Support/Comments* delete as appropriate</td></tr> <tr><td>0678G</td><td>Support/Oppose/Qualified Support/Comments* delete as appropriate</td></tr> <tr><td>0678H</td><td>Support/Oppose/Qualified Support/Comments* delete as appropriate</td></tr> <tr><td>0678I</td><td>Support/Oppose/Qualified Support/Comments* delete as appropriate</td></tr> <tr><td>0678J</td><td>Support/Oppose/Qualified Support/Comments* delete as appropriate</td></tr> </table>	0678	Support/ Oppose/ Qualified Support/ Comments* delete as appropriate	0678A	Support/ Oppose/ Qualified Support/ Comments* delete as appropriate	0678B	Support/ Oppose/ Qualified Support/ Comments* delete as appropriate	0678C	Support/ Oppose/ Qualified Support/ Comments* delete as appropriate	0678D	Support/ Oppose/ Qualified Support/ Comments* delete as appropriate	0678E	Support/ Oppose/ Qualified Support/ Comments* delete as appropriate	0678F	Support/ Oppose/ Qualified Support/ Comments* delete as appropriate	0678G	Support/ Oppose/ Qualified Support/ Comments* delete as appropriate	0678H	Support/ Oppose/ Qualified Support/ Comments* delete as appropriate	0678I	Support/ Oppose/ Qualified Support/ Comments* delete as appropriate	0678J	Support/ Oppose/ Qualified Support/ Comments* delete as appropriate
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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 <i>ONE</i> Modification would be your preference?</p> <p>0678/0678A/0678B/0678C/0678D/0678E/0678F/0678G/0678H/0678I/0678J * delete</p> <p>VPI Immingham LLP is part of Vitol Group. A detailed submission around 678G has already been submitted and discussed by the panel.</p> <p>In general, VPI supports alternatives that include an NTS Optional Charge and continues to be concerned around the non-cost reflectivity of standard charges in CWD and Postage Stamp for users close to entry points.</p>																						

Standard Relevant Objective:

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Standard Relevant
Objective
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**Charging
Methodology
Relevant Objective:**

**Charging
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Relevant Objective
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e)	Positive /Negative/None * delete as appropriate

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

0678

VPI opposes this modification, as it does not include an NTS Optional Charge. We would like to highlight however that 678 and 678G are identical apart from (1) inclusion of an NTS Optional Charge (2) exclusion of existing contracts for capacity storage connection points

0678A

VPI opposes this modification, as it does not include an NTS Optional Charge.

0678B

VPI recognises the inclusion of an NTS Optional Charge, based on a System Utilisation Factor, however notes the development of its own NTS Optional Charge, based on capacity charge using FCC, as an alternative.

The proposer of 678B has also attempted to overcome some of shortcomings of CWD “in particular the production of some relatively high exit capacity prices for sites located close to some entry points... The inclusion of Optional Capacity charge arrangements provide a means of correcting such anomalies and provides a more intuitively correct outcome when considering the cost-reflectivity of the charges”.

0678C

VPI opposes this modification, as it does not include an NTS Optional Charge.

0678D

VPI offers qualified support for this modification as it includes an NTS Optional Charge, based on capacity charge using FCC. The exclusion of all existing contracts should be decided based on independent legal opinion.

0678E

VPI opposes this modification, as it does not include an NTS Optional Charge.

0678F

VPI opposes this modification, as it does not include an NTS Optional Charge.

0678G

VPI Immingham LLP (VPI) would like to express its appreciation to National Grid and UNC 678 panel group members for their work since January 2019.

VPI supports the retention of an optional charge to prevent inefficient by-pass of the NTS. National Grid note an alternative to the existing optional commodity charge is being developed via 670R. However, it remains VPI's strong preference that an enduring framework is found within 678.

VPI has therefore opposed 678 and all alternatives that do not include an alternative to the existing optional commodity charge. VPI has also worked with other industry participants to develop a capacity-based alternative, which is featured in alternatives 678D, 678G, 678H and 678J. This work was supported by National Grid.

VPI believes that 678G produces stable and predictable gas transportation charging and is compliant with the EU Tariff Code (Regulation 2017/460). An independent legal opinion has also been provided from Squire Patton Boggs, and has been supplied as an Appendix. 678G also takes into account the decision to reject 621 and its alternatives citing areas of non-compliance.

VPI request Ofgem complete a thorough Regulatory Impact Assessment before reaching a decision around 678.

0678H

VPI offers qualified support for this modification as it includes an NTS Optional Charge, based on capacity charge using FCC. VPI however does not support the implementation of a postage stamp methodology as consider it non-cost reflective.

0678I

VPI however does not support the implementation of a postage stamp methodology as consider it non-cost reflective. VPI does not support an Ireland Security Discount.

0678J

VPI offers qualified support for this modification as it includes an NTS Optional Charge, based on capacity charge using FCC. VPI however does not support the implementation of a postage stamp methodology.

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

VPI supports implemented in October 2020, or a 1st October date thereafter.

Although, from a EU TAR NC compliance perspective, VPI appreciates that Ofgem may wish to implement a new charging regime as soon after the 31st May 2019, we believe the impact that this would have on existing trading positions would be detrimental to both the market and consumers. VPI commence commercial negotiations with suppliers once NG has published indicative charges for the October gas year in April. There is also an assumed commodity based gas transport cost built into our hedged positions in the market.

Other factors that need to be considered are:

- The timing and implications of other related modifications, specifically 670R.
- The timing of RIIO-T2
- The duration of a regulatory impact assessment so that gas transport users and consumers can make preparations for a change in charges.

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

0678B

VPI believes that the distribution of charges on consumers will be fairer and more proportionate than the current regime.

0678D

VPI believes that the distribution of charges on consumers will be fairer and more proportionate than the current regime.

0678G

The implementation of a cost-based Optional Capacity Charge will secure utilisation of the NTS, through disincentivising the construction of bypass pipelines which in turn will reduce the overall unit cost of using the NTS for all customers.

0678H

VPI believes that the distribution of charges on consumers will be fairer and more proportionate than the current regime.

0678J

VPI believes that the distribution of charges on consumers will be fairer and more proportionate than the current regime.

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.*

678G

VPI is satisfied with the legal text provided for this modification

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

VPI believes that transmission charges should be cost reflective. Although we note that Ofgem favour capacity based charges, we continue to have concerns that the CWD and Postage Stamp methodologies are not wholly cost reflective. In particular, despite the proposed CWD methodology using cost drivers of capacity and distance, it creates disproportionately high exit charges for customers located close to entry points. The exclusion of an NTS Optional Charge is therefore a concern, as the default regime does not adequately reflect the cost of transporting gas over a short distance.

Further this, although VPI supports compliance with EU TAR NC – and believes 678G (based on 678) is compliant – we support Ofgem applying a pragmatic approach to its decision-making in the best interest of existing and future consumers.

0678A

VPI believes that transmission charges should be cost reflective. We continue to have concerns that the current CWD and Postage Stamp methodologies are not wholly cost reflective. Specifically, as postage stamp applies the same price at all exit points, it is not cost reflective and penalises customers strategically located close to entry points.

0678B

VPI would like to note that the proposer has attempted to address the issue of non-cost reflectivity for users close to entry points. If an Optional Charge is not taken forward in 678, 678B should therefore also be further considered in 670R.

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>VPI supports implemented in October 2020, or a 1st October date thereafter.</p> <p>Although, from a EU TAR NC compliance perspective, VPI appreciates that Ofgem may wish to implement a new charging regime as soon after the 31st May 2018, we believe the impact that this would have on existing trading positions would be detrimental to both the market and consumers. VPI start commercial negotiations with suppliers once NG has published indicative charges for the October gas year in April. There is also an assumed commodity based gas transport cost built into our hedged positions in the market.</p> <p>Other factors that need to be considered are:</p> <ul style="list-style-type: none"> - The timing and implications of other related modifications, specifically 670R. - The timing of RIIO-T2 - The duration of a regulatory impact assessment so that gas transport users and consumers can make preparations for a change in charges.
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>VPI supports a storage discount of 50% to be compliant with EU TAR NC. Ofgem should consider whether a ~2% increase in capacity charges for other consumers in its regulatory impact assessment.</p> <p>VPI would like clarity around Ofgem's Dec-18 estimates in response to 621 that "over 75% of transmission connected power stations would face a decrease compared to the status quo."</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>VPI believe the NTS Optional Charge is an important component of the Gas Transmission Charging Regime and successfully discourages large users close to entry points from building private pipelines. VPI believes that optional charges also acknowledge historic investment decisions by large users, and address disproportionate allocation of costs for users close to entry points, in the CWD and postage-stamp methodologies.</p> <p>The impact of large Optional Charge users leaving the NTS charging regime is obviously higher gas transportation charges per GB consumer. We therefore believe the principles of "shorthaul" remain relevant and in the best interest of GB consumers. It is also a self-fulfilling cycle whereby increasing gas transportation charges will capture the "marginal shorthaul user".</p> <p>For note, we do not support a specific Optional Charge distance cap but do recognise the challenges which have resulted from the existing commodity based regime.</p>

	<p>Since Ofgem's 621 letter in December 2018, VPI has commenced work with other power stations in the Humber area to develop proposals for jointly utilised private gas transport infrastructure. VPI is also in discussions with a third party around securing future gas supplies from an existing private pipeline a short distance from Immingham CHP.</p> <p>Please see attached independent legal opinion around 678G NTS Optional Charge compliance with TAR NC. This is also relevant for 678D, 678H and 678J.</p> <p>Given that National Grid's 678 proposal only recognises the Optional Charge as part of other work streams, VPI strongly believe that all "short haul" modifications should conclude ahead of any 678-implementation date.</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>VPI believes that 678G is compliant with European legally binding decisions and has attached independent legal opinion around inclusion of a capacity based NTS Optional Charge.</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>VPI has not proposed that the FCC methodology should be included in the UNC. We however support Ofgem reviewing Governance arrangements and note 0678B which recommends normal industry notice periods should apply (e.g. 150 day's notice of indicative charges).</p>