Representation - Draft Modification Report

UNC 0621; 0621A; 0621B; 0621C; 0621D; 0621E; 0621F; 0621H; 0621J; 0621K*; 0621L

Amendments to Gas Transmission Charging Regime

* Amendments to Gas Transmission Charging Regime and the treatment of Gas Storage

Responses invited by: 5pm on 22 June 2018

To: enquiries@gasgovernance.co.uk

Representative:	Nahed Cherfa
Organisation:	Equinor UK Ltd
Date of Representation:	22 June 2018
Support or oppose implementation?	0621 - Oppose 0621A – Oppose 0621B - Oppose 0621C - Oppose 0621D - Oppose 0621E - Oppose 0621F - Oppose 0621H - Oppose 0621J - Qualified Support 0621K - Oppose 0621L - Oppose

Expression of Preference:	*If either 0621; 0621A; 0621B; 0621C; 0621D; 0621E; 0621F; 0621H; 0621J; 0621K or 0621L were to be implemented, which ONE modification would be your preference?* 0621J

Standard Relevant Objective:	0621 **a)** None **c)** Negative **d)** Negative **g)** Positive 0621A **a)** None **c)** Negative **d)** Negative **g)** Negative

	0621B **a)** None **c)** Negative **d)** Negative **g)** Negative 0621C **a)** None **c)** Negative **d)** Negative **g)** Positive 0621D **a)** None **c)** Negative **d)** Negative **g)** Negative 0621E **a)** None **c)** Negative **d)** Negative **g)** Positive 0621F **a)** None **c)** Negative **d)** Negative **g)** Negative 0621H **a)** None **c)** Negative **d)** Negative **g)** Positive 0621J **a)** Positive **c)** Negative **d)** Positive **g)** Positive 0621K **a)** None **c)** Negative **d)** Negative **g)** Negative 0621L **a)** None **c)** Negative **d)** Negative **g)** Negative

Charging Methodology Relevant Objective:	0621 **a)** Negative **aa)** Negative **b)** Positive **c)** Negative **e)** Negative 0621A **a)** Negative **aa)** Negative **b)** Negative **c)** Negative **e)** Negative 0621B **a)** Negative **aa)** Negative **b)** positive **c)** Negative **e)** Negative 0621C **a)** Negative **aa)** Negative **b)** Positive **c)** Negative **e)** Negative 0621D **a)** Negative **aa)** Negative **b)** Positive **c)** Negative **e)** Negative 0621E **a)** Negative **aa)** Negative **b)** Positive **c)** Negative **e)** Negative 0621F **a)** Negative **aa)** Negative **b)** Negative **c)** Negative **e)** Negative 0621H **a)** Negative **aa)** Negative **b)** Positive **c)** Negative **e)** Negative (continued overleaf)

Charging Methodology Relevant Objective (continued):	0621J **a)** Negative **aa)** Negative **b)** Positive **c)** Negative **e)** Negative 0621K **a)** Negative **aa)** Negative **b)** Negative **c)** Negative **e)** Negative 0621L **a)** Negative **aa)** Negative **b)** Negative **c)** Negative **e)** Negative

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

0621

Equinor welcome the replacement of the Long Run Marginal Cost Methodology which has led to volatile and unpredictable costs.

However, Equinor do not support the proposal to use the Capacity Weighted Distance which will result in disproportionally higher entry and exit transportation charges at Saint Fergus notably.

This will likely have a negative impact on the gas flow at Saint Fergus and might discourage upstream field development. It does not incentivise efficient flows to the UK from the security of supply perspective.

Equinor welcomes however the recognition of the status of historical long-term bookings as the proposed regime has an undue negative effect on holders of historical capacity.

Equinor would note the late publication of updated analysis and would be grateful if the industry could have further opportunity to submit their views following the next Panel meeting in July. .

This modification is opposed by Equinor.

0621A

Equinor do not support the additional discount for users of embedded storage on the basis that the minimum 50% discount does not remove the implied double charge on transportation charges to and from flexible storage assets. Arguing for greater discounted charges on the basis of security of supply or flexibility benefits of storage would create unfair competition between different sources of flexibility which should normally be remunerated through the wholesale market.

This alternate modification is opposed by Equinor

0621B

Equinor do not support Capacity Weighted Distance based charging methodologies although it notes that the impact of the CWD method on peripheral points is smoothened in this proposal.

The use of commodity charge for revenue recovery on an enduring basis does not seem compliant with the TAR network code.

There is also an undue negative impact on holders of historical bookings compared to the enduring solution in 0621.

This alternate modification is opposed by Equinor.

0621C

Although Equinor do not support this modification, the capacity-based revenue recovery charges not being applied to holders of historical bookings is a positive feature.

This alternate modification is opposed by Equinor

0621D

This alternate modification is opposed by Equinor

0621E

This alternate modification is opposed by Equinor

0621F

In addition to the Capacity Weighted Distance methodology, this alternate discriminates between different sources of summer-winter swing as that is also provided by both Norwegian supply and LNG imports.

This alternate modification is opposed by Equinor.

0621H

Although Equinor do not support this modification, the capacity-based revenue recovery charges not being applied to holders of historical bookings is a positive feature.

This alternate modification is opposed by Equinor

0621J

Equinor favour postal stamp capacity based charges over CWD based charges. It reflects an appropriate charging regime for an unconstrained network and a less predictable patterns of flows.

Postage stamp will enhance security of supply and the interests of consumers by supporting diverse and competitive sources of supply on a levelled playing field. Charges at Saint Fergus will not be considerably higher than the charges at other entry points solely based on locational signals. Moreover, upstream suppliers will not be discouraged from flowing gas to the UK market on the back of significantly higher entry charges.

Moreover, it is the charging regime that is being considered and implemented in other EU Member States. Germany for example is expected to move to full postage stamp model with revenue recovered 100% through capacity charge.

Equinor do not fully support this alternative however as historic contracts are facing additional capacity-based revenue recovery charges. furthermore, storage discounts above 50% do not seem justified.

This alternate modification has the qualified supported of Equinor.

0621K

The existing discounts for interruptible capacity are being substantially reduced and the broad statement that certain storage options benefit to the UK market are not seem justified.

This alternate modification is opposed by Equinor

0621L

Equinor believe that it is undue and unjustified that shippers that have entered a long term commercial commitment to, in part protect their economic values from a swing in the charging regime should be penalised. This is counter intuitive to the objectives of a well-functioning energy market.

This alternate modification is opposed by Equinor.

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

The implementation date is critical and should allow the user to have sufficient time to update their systems and plan for their capacity strategies. Ideally, any change should be implemented before March 2019.

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

There was no sufficient time to assess the impact on costs. However, we expect administration and system costs in preparing for the transition to the new charging regime.

Legal Text: *Are you satisfied that the legal text will deliver the intent of the Solution? Please specify which Modification if you are highlighting any issues.*

There was no sufficient time to assess the legal text for all proposals.

Modification Panel Members have requested that the following questions are addressed:
Please specify which Modification your views relate to.

1. *Do you believe there is specific issues that should be considered by Ofgem's Regulatory Impact Assessment?*

Ofgem requested that the following questions be included as part of the consultation. Panel agreed to include these:

2. *The rationale in the report for having an interim period and using the obligated capacity as the Forecasted Contracted Capacity (FCC) is to avoid significant changes to charges and have a period to understand how booking behaviour changes. How does this compare to*

having two structural changes to charges (one at the start of the interim period and another at the enduring period)?

In light of the significant changes to the transmission charges made under the main and alternative proposals, a transition period needed. The industry in general and shippers need to prepare fully, assess the risks and mitigating actions.

3. *What (if any) consequences do you see from 'interim contracts' being allocated at QSEC and AMSEC auctions in 2019 given the timings of these auctions in the UNC and possible date of Ofgem decision on UNC621? What options are there to deal with these consequences and what impact would these options have?*

The multipliers are set at 1 and do not encourage shippers to book long term capacity. Moreover the uncertainty around the future charging regime will hinder most shippers from taking any booking decision in the upcoming auctions.

4. *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?*

Equinor believe that most proposals are compliant but take the opportunity to highlight its disagreement with the interpretations of article 35 of TAR NC where some proposals seek to levy capacity-based Transmission Services Revenue Recovery Charges on existing entry capacity contracts.

5. *In what way do you consider the reference price methodologies proposed (Capacity Weighted Distance (CWD), CWD using square root of distance and Postage Stamp) to be cost reflective and meet the criteria in Article 7 of TAR?*

Cost reflectivity is difficult to define. Equinor believe that a postage stamp approach will be better suited and cost reflective. Entry points that are located further away from NBP are critical to the UK supply this is not reflected by the CDW approach.

6. *The proposals have different combinations of specific capacity discounts for storage sites and bilateral interconnection points. In what way do you consider the different combinations facilitate effective competition between gas shippers and gas suppliers?*

Equinor do not support discounts at bidirectional IPs. It is demonstrated that flexibility is also delivered by other supply sources including Norwegian gas. It will be unfair to grant additional discount without a strong argumentation that it will further enhance market features and security of supply in the UK.

Are there any errors or omissions in this Modification Report that you think should be taken into account? *Include details of any impacts/costs to your organisation that are directly related to this.*

Equinor would welcome the opportunity to further comment on the modification proposal and notably on the additional analysis that was provided late in the process.

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

Please see above