

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:	Kamla Rhodes
Organisation:	ConocoPhillips (UK) Ltd
Date of Representation:	22 June 2018
Support or oppose implementation?	<p>0621 - Comments</p> <p>0621A - Oppose</p> <p>0621B - Oppose</p> <p>0621C - Oppose</p> <p>0621D - Oppose</p> <p>0621E - Oppose</p> <p>0621F - Oppose</p> <p>0621H - Comments</p> <p>0621J - Support</p> <p>0621K - Oppose</p> <p>0621L - Oppose</p>
Expression of Preference:	<p><i>If either 0621; 0621A; 0621B; 0621C; 0621D; 0621E; 0621F; 0621H; 0621J; 0621K or 0621L were to be implemented, which <u>ONE</u> modification would be your preference?</i></p> <p>0621J</p>

Standard Relevant Objective:

0621
a) None
c) Negative
d) Negative
g) Positive

0621A
a) None
c) Negative
d) Negative
g) Positive

0621B
a) None
c) Negative
d) Negative
g) Positive

0621C
a) None
c) Negative
d) Negative
g) Positive

0621D
a) None
c) Negative
d) Negative
g) Positive

0621E
a) None
c) Negative
d) Negative
g) Positive

0621F
a) None
c) Negative
d) Negative
g) Positive

0621H
a) None
c) Negative
d) Negative
g) Positive

0621J
A None
c) Positive
d) Positive
g) Positive

0621K
a) None
c) Negative
d) Negative
g) Positive

0621L
a) None
c) Negative
d) Negative
g) Positive

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

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

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

0621

We do not support the use of a CWD model as a basis for charging as it will have a negative impact on entry and exit points that are further away and therefore will have consequences for competition, long-term investment strategies and security of supply. Production activities are based on fixed long-term investment projects in the UKCS, higher charges at entry points such as St Fergus would be inconsistent with the wider government objectives of maximising economic recovery from the UKCS (MER UK). We would recommend that any changes to the existing charging regime should work in harmony with all sectors, including the Upstream sector, to ensure security of supply.

0621A,B,C,D,E,F,H,K,L

We do not support the use of a CWD model.

0621H

We agree that historical contracts should be honoured as a commitment was made in good faith and in not honouring them would act as a disincentive to enter into similar agreements in the future.

0621J

We support the postage stamp methodology as it would allocate and recover National Grid’s costs on a uniform basis across the network in contrast to the CWD model, that also includes distance as a cost driver that penalises the peripheral and new supply entry points. The postage stamp methodology is more appropriate for a mature transmission system and would also be consistent with charging regimes that have been adopted by other nearby European Transmission Operators.

We also support the retention of an interim NTS Optional Commodity charge and that any new optional charging methodology, which is to act as a dis-incentive to the construction of dedicated pipelines that bypass the NTS, must not unfairly disadvantage UKCS production.

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

Given the materiality and unknown magnitude of possible changes we would require at least 12 months' notice prior to implementation. We need to know prior to 1st October 2018 before entering into any new contracts and agreements.

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

We would like NGG/Ofgem to provide an Impact Assessment on these two primary methodologies being proposed.

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.*

No Comments

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?*

The regulatory framework needs to be aligned between the upstream and downstream parts of the UK gas market and any assessment needs to include the impact of changes to the charging regime on the upstream industry.

Consideration needs to be given to the security of supply for our own indigenous gas production.

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)?*

To provide some stability during the transitional period, the use of obligated capacity is understandable and we are not concerned with this moving to a NGG forecast over time based on actual booking behaviour.

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?*

Shippers will require sufficient time and clarity ahead of any auctions for such capacity to ensure the costs and obligations are properly understood.

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?*

Yes, we believe it is compliant but the CWD proposals are not non-discriminatory.

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?*

The majority of NGG costs are historical and therefore sunk hence our belief that the CWD methodology is flawed and discriminatory. We see that the postage stamp model takes into account actual costs and is non-discriminatory.

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?*

No comment

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.*

No comment

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