

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:	Penny Jackson
Organisation:	npower
Date of Representation:	21/06/2018
Support or oppose implementation?	<p>0621 - Qualified Support</p> <p>0621A - Qualified Support</p> <p>0621B – Oppose</p> <p>0621C – Oppose</p> <p>0621D - Qualified Support</p> <p>0621E – Comments</p> <p>0621F – Comments</p> <p>0621H – Comments</p> <p>0621J – Support</p> <p>0621K - Comments</p> <p>0621L – Comments</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) Positive
d) Negative
g) Positive

- 0621A
a) Positive
c) Positive
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) Positive
d) Positive
g) Positive

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

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

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

- 0621J
a) None
c) Positive
d) Positive
g) Positive

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

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

Charging Methodology Relevant Objective:	0621 a) Negative aa) Negative b) None c) Negative e) Positive
	0621A a) Negative aa) Negative b) None c) Negative e) Positive
	0621B a) Negative aa) Negative b) None c) Negative e) Negative
	0621C a) Negative aa) Negative b) None c) Negative e) Negative
	0621D a) Negative aa) Negative b) None c) Negative e) Positive
	0621E a) Negative aa) Negative b) None c) Negative e) Positive
	0621F a) Negative aa) Negative b) None c) Negative e) Positive
	0621H a) Negative aa) Negative b) None c) Negative e) Positive
	(continued overleaf)

Charging Methodology Relevant Objective (continued):	0621J a) Negative aa) Positive b) Positive c) Positive e) Positive
	0621K a) Negative aa) Negative b) None c) Negative e) Positive
	0621L a) Negative aa) Negative b) None c) Negative e)

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

0621

Qualified support:

Our preference is Mod 0621J, but if it can be shown that the CWD methodology is fair and better fulfils the objectives then this will be acceptable. We also feel that 0621A has made a good argument for an 86% discount for storage and although National Grids mod does not contain this we appreciate that it allows for further mods to be raised to update the discounts.

0621A

Qualified support:

0621A has made a good argument for an 86% discount for storage. We believe that storage facilities do provide a significant contribution to security of supply, both physical and price security and that the 86% discount is reflective of this.

0621B

Oppose:

We do not believe that this is compliant with the EU Tariff Code (Regulation 2017/460), as it still relies on commodity charges for Transmission costs and that there is no strong argument for exceptional commodity charging. (Article 4 paragraph 3). We do not believe that the FCC calculation will be fair being set at obligated levels and will distort the cost allocation.

0621C

Oppose:

We do not believe that there is sufficient detail or analysis to show that the proposed new approach for the NTS Optional Charge will result in the efficient use of the gas network. We would welcome the NTSCMF forum to

investigate further how inefficient bypass of the NTS can be avoided after the National Grid mod & alternates A,E,F,H,J,K & L proposed interim solution ends.

0621D

Qualified support:

We appreciate that the Capacity Weighted Distance (distance subject to square root) RPM methodology dampens some of the extremities of the price, we do not believe that this is better than the Postage Stamp methodology. We do agree that the NTS Optional charge is flawed and does “*impose significant detriment on other directly connected NTS customers and also those on downstream DNO and IGT networks*”¹, the data regarding current OCC charges is not available to make an informed opinion. We would welcome Ofgem’s view in light of any impact assessment carried out. We agree that there should be a requirement for NTS to provide quarterly forecasts of Maximum Allowed Revenue.

0621E

Comments:

We do not know what impact delaying the transition for exit will be. We have general concerns how historical contracts are treated and the impact to all users of the NTS.

0621F

Comments:

We appreciate the impact storage facilities have in providing security of supply. We do not believe that there has been sufficient detail to show that this will improve security of supply without distorting competition.

0621H

Oppose:

We agree with how National Grids mod treats Revenue Recovery charges.

0621J

Support:

npower believe that this is the best solution. The main arguments against the current Long Run Marginal Cost (LRMC) methodology is due to issues of volatility and unpredictability. Postage stamp is best placed to address these issues. There has been no argument for CWD to show that it is cost reflective – the analysis shows that it creates a range of prices but nothing to support that these prices are the right prices. For gas consumers utilising the distribution networks there is no link between entry and exit, they benefit from the NTS working as a whole, this alongside the fact that the network is not expanding means that we believe that the Postage stamp methodology is right for the reference prices. Currently Entry revenue is collected by more than 75% commodity charges, postage stamp will have a similar distribution of charges if capacity is booked similar to flows.

0621K

Comments:

We appreciate the impact storage facilities have in providing security of supply. The alternate came in relatively late and with not enough analysis to enable us to have confidence that further discounts were warranted.

0621L

Comments:

¹ From detail provided in the UNC 0621D:Amendments to Gas Transmission Charging Regime:

We have concerns about how this will impact increased need for Revenue Recovery.

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

No comment

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

No comment

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 comment

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?*

We would welcome Ofgem's Regulatory Impact Assessment to look at the following:

- i. Treatment of SO revenue from sales of off-peak and interruptible capacity.
- ii. To assess whether CWD is actually cost reflective
- iii. To assess the legalities of Historical contracts and how negative impacts to all users of the NTS network should be addressed.

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)?*

npower are comfortable with the interim stage.

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?*

npower are not best placed to answer this question.

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?*

npower are not best placed to answer this question.

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?*

npower would like to make the following observations.

- i. We do not think that CWD is cost reflective.
- ii. We have concerns that the FCC will need to be forecasted accurately at each entry and exit point or it will distort prices that should be created and any resulting under/over recovery will not be applied fairly. For Postage stamp as long as the total FCC is close then prices should be easily reproduced and any under / over recovery will be applied in a consistent approach to how the prices were originally created.
- iii. For CWD the prices especially at exit points in Scotland do not take into account that the gas will have come from St Fergus. There is definite discrimination.
- iv. There is still unwanted volatility in CWD that can be seen in the move from the different calculations of FCC for transition and enduring in the models. For example in the CWD models for 621 Aberdeen DNO exit reference price is more than 150% than the average reference price in the Interim period compared to 106% in enduring.

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?*

We believe that the discounts applied to storage will mean that the storage facilities will continue to be seen as attractive and that will dampen any price fluctuations during periods of high demand therefore benefitting consumers.

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

No comment