

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:	Jon Flitney and Andrew McDermott
Organisation:	British Ceramic Confederation
Date of Representation:	22 nd June 2018
Support or oppose implementation?	<p>0621 - Oppose <i>* delete as appropriate</i></p> <p>0621A - Oppose <i>* delete as appropriate</i></p> <p>0621B - Oppose <i>* delete as appropriate</i></p> <p>0621C - Oppose <i>* delete as appropriate</i></p> <p>0621D - Oppose <i>* delete as appropriate</i></p> <p>0621E - Oppose <i>* delete as appropriate</i></p> <p>0621F - Oppose <i>* delete as appropriate</i></p> <p>0621H - Oppose <i>* delete as appropriate</i></p> <p>0621J - Oppose <i>* delete as appropriate</i></p> <p>0621K - Oppose <i>* delete as appropriate</i></p> <p>0621L - Oppose <i>* delete as appropriate</i></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>No preference expressed. <i>* delete as appropriate</i></p>

Standard Relevant Objective:

- 0621
 - a) Positive/Negative/None * *delete as appropriate*
 - c) Positive/Negative/None * *delete as appropriate*
 - d) Positive/Negative/None * *delete as appropriate*
 - g) Positive/Negative/None * *delete as appropriate*

- 0621A
 - a) Positive/Negative/None * *delete as appropriate*
 - c) Positive/Negative/None * *delete as appropriate*
 - d) Positive/Negative/None * *delete as appropriate*
 - g) Positive/Negative/None * *delete as appropriate*

- 0621B
 - a) Positive/Negative/None * *delete as appropriate*
 - c) Positive/Negative/None * *delete as appropriate*
 - d) Positive/Negative/None * *delete as appropriate*
 - g) Positive/Negative/None * *delete as appropriate*

- 0621C
 - a) Positive/Negative/None * *delete as appropriate*
 - c) Positive/Negative/None * *delete as appropriate*
 - d) Positive/Negative/None * *delete as appropriate*
 - g) Positive/Negative/None * *delete as appropriate*

- 0621D
 - a) Positive/Negative/None * *delete as appropriate*
 - c) Positive/Negative/None * *delete as appropriate*
 - d) Positive/Negative/None * *delete as appropriate*
 - g) Positive/Negative/None * *delete as appropriate*

- 0621E
 - a) Positive/Negative/None * *delete as appropriate*
 - c) Positive/Negative/None * *delete as appropriate*
 - d) Positive/Negative/None * *delete as appropriate*
 - g) Positive/Negative/None * *delete as appropriate*

- 0621F
 - a) Positive/Negative/None * *delete as appropriate*
 - c) Positive/Negative/None * *delete as appropriate*
 - d) Positive/Negative/None * *delete as appropriate*
 - g) Positive/Negative/None * *delete as appropriate*

- 0621H
 - a) Positive/Negative/None * *delete as appropriate*
 - c) Positive/Negative/None * *delete as appropriate*
 - d) Positive/Negative/None * *delete as appropriate*
 - g) Positive/Negative/None * *delete as appropriate*

- 0621J
 - a) Positive/Negative/None * *delete as appropriate*
 - c) Positive/Negative/None * *delete as appropriate*
 - d) Positive/Negative/None * *delete as appropriate*
 - g) Positive/Negative/None * *delete as appropriate*

- 0621K
 - a) Positive/Negative/None * *delete as appropriate*
 - c) Positive/Negative/None * *delete as appropriate*
 - d) Positive/Negative/None * *delete as appropriate*
 - g) Positive/Negative/None * *delete as appropriate*

- 0621L
 - a) Positive/Negative/None * *delete as appropriate*
 - c) Positive/Negative/None * *delete as appropriate*
 - d) Positive/Negative/None * *delete as appropriate*
 - g) Positive/Negative/None * *delete as appropriate*

**Charging Methodology
Relevant Objective:**

0621

- a) Positive/Negative/None * *delete as appropriate*
- aa) Positive/Negative/None * *delete as appropriate*
- b) Positive/Negative/None * *delete as appropriate*
- c) Positive/Negative/None * *delete as appropriate*
- e) Positive/Negative/None * *delete as appropriate*

0621A

- a) Positive/Negative/None * *delete as appropriate*
- aa) Positive/Negative/None * *delete as appropriate*
- b) Positive/Negative/None * *delete as appropriate*
- c) Positive/Negative/None * *delete as appropriate*
- e) Positive/Negative/None * *delete as appropriate*

0621B

- a) Positive/Negative/None * *delete as appropriate*
- aa) Positive/Negative/None * *delete as appropriate*
- b) Positive/Negative/None * *delete as appropriate*
- c) Positive/Negative/None * *delete as appropriate*
- e) Positive/Negative/None * *delete as appropriate*

0621C

- a) Positive/Negative/None * *delete as appropriate*
- aa) Positive/Negative/None * *delete as appropriate*
- b) Positive/Negative/None * *delete as appropriate*
- c) Positive/Negative/None * *delete as appropriate*
- e) Positive/Negative/None * *delete as appropriate*

0621D

- a) Positive/Negative/None * *delete as appropriate*
- aa) Positive/Negative/None * *delete as appropriate*
- b) Positive/Negative/None * *delete as appropriate*
- c) Positive/Negative/None * *delete as appropriate*
- e) Positive/Negative/None * *delete as appropriate*

0621E

- a) Positive/Negative/None * *delete as appropriate*
- aa) Positive/Negative/None * *delete as appropriate*
- b) Positive/Negative/None * *delete as appropriate*
- c) Positive/Negative/None * *delete as appropriate*
- e) Positive/Negative/None * *delete as appropriate*

0621F

- a) Positive/Negative/None * *delete as appropriate*
- aa) Positive/Negative/None * *delete as appropriate*
- b) Positive/Negative/None * *delete as appropriate*
- c) Positive/Negative/None * *delete as appropriate*
- e) Positive/Negative/None * *delete as appropriate*

0621H

- a) Positive/Negative/None * *delete as appropriate*
- aa) Positive/Negative/None * *delete as appropriate*
- b) Positive/Negative/None * *delete as appropriate*
- c) Positive/Negative/None * *delete as appropriate*
- e) Positive/Negative/None * *delete as appropriate*

(continued overleaf)

<p>Charging Methodology Relevant Objective (continued):</p>	<p>0621J a) Positive/Negative/None * <i>delete as appropriate</i> aa) Positive/Negative/None * <i>delete as appropriate</i> b) Positive/Negative/None * <i>delete as appropriate</i> c) Positive/Negative/None * <i>delete as appropriate</i> e) Positive/Negative/None * <i>delete as appropriate</i></p> <p>0621K a) Positive/Negative/None * <i>delete as appropriate</i> aa) Positive/Negative/None * <i>delete as appropriate</i> b) Positive/Negative/None * <i>delete as appropriate</i> c) Positive/Negative/None * <i>delete as appropriate</i> e) Positive/Negative/None * <i>delete as appropriate</i></p> <p>0621L a) Positive/Negative/None * <i>delete as appropriate</i> aa) Positive/Negative/None * <i>delete as appropriate</i> b) Positive/Negative/None * <i>delete as appropriate</i> c) Positive/Negative/None * <i>delete as appropriate</i> e) Positive/Negative/None * <i>delete as appropriate</i></p>
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The British Ceramic Confederation (BCC) is the trade association for the UK ceramic manufacturing industry. The industry is energy-intensive, but not energy-inefficient, with energy costs making up to 30-35% of total production costs¹. Many of our members' production processes are based on high temperature and continuous production processes with around 85% of energy consumption in the sector provided by gas.

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

We oppose the modification and 10 amendments, but on the basis of a lack of an adequate economic and market assessment of the potential impacts, particularly on industrial consumers.

This concern at a lack of assessment is also reflected in section 9 of the report from the workgroup (Workgroup Conclusions): *“Many Workgroup participants viewed that the work undertaken was reasonable given the Direction but were concerned that the timescales allowed for consideration of the impacts were not sufficient to complete a robust assessment.”*

It is unclear why the proposals on cost allocation are working to a rushed timescale, given the RII0-2 process could provide an opportunity to review it alongside the TO and SO allowed revenue. This would minimise disruption and reduce implementation costs for the whole market.

We think a proper economic and market impact assessment should be conducted before any decision is taken. Our members compete on an international basis, we are therefore concerned the proposals could further damage the competitiveness of UK industrial energy (electricity and gas) prices.

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Insert Text Here

¹ Composition and drivers of energy prices and costs: case studies in selected energy-intensive industries. https://ec.europa.eu/growth/content/composition-and-drivers-energy-prices-and-costs-case-studies-selected-energy-intensive-0_en

0621A

Insert Text Here

0621B

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0621C

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0621D

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0621E

Insert Text Here

0621F

Insert Text Here

0621H

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0621K

Insert Text Here

0621L

Insert Text Here

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

We note the draft modification report describes, in section 4.14, some potential impacts on price including: geographic distribution of prices, prices of points (specifically Exit points that are close to Entry points), higher storage costs limiting cycling of gas (increased price volatility and market balancing costs) and higher electricity prices due to an increase in NTS Exit capacity costs.

As our members predominately operate continuous production processes (high temperature kilns) we are concerned about both costs, or an increase in market volatility, and security of supply. With the events of winter 2017/18 in mind, we would be concerned about the impact on the ability of UK storage sites to cycle gas through the winter and potential consequences on the UK's security of supply.

The quantity of alternative modifications suggests a wide variety of opinion in the workgroup and as a result significant resources would have been required to follow and attend the modification meetings. This leads us to conclude the modification requires either a more detailed assessment or a minimum compliant proposal is implemented by October 2019, which permits additional time to consider any further changes.

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

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Insert Text Here

0621A

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0621B

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As highlighted in the implementation section there seems to be little consideration of the impact on the market to consumers, with no clear explanation of the benefits or disadvantages of the alternative proposals, or a comparison with the existing tariff structure. This is especially the case for users who have not been able to dedicate substantial resource to following and contributing to the modification. There is nothing to compare and contrast the effect of the proposals on aspects such as market liquidity, market prices, price volatility and resilience in case of supply and demand shocks.

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.*

Insert Text Here

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 agree that a thorough assessment of the wide-ranging aspects is required as listed by the work group in section 10 (page 81) of the report. This should include considering the likely impact on: gas market (absolute and volatility of price), electricity market (absolute and volatility of price), security of supply, network investment required to maintain compliance with the N-1 test and the final result on industrial consumers.

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)?*
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?*
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?*
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?*
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?*

Insert Text Here

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.*

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0621A

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Insert Text Here

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0621H

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0621J

Insert Text Here

0621K

Insert Text Here

0621L

Insert Text Here

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

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0621A

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0621C

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