

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:	Iwan Hughes
Organisation:	VPI Immingham LLP
Date of Representation:	190618
Support or oppose implementation?	<p>0621 - Support/Oppose/Qualified Support/Comments * delete as appropriate</p> <p>0621A - Support/Oppose/Qualified Support/Comments * delete as appropriate</p> <p>0621B - Support/Oppose/Qualified Support/Comments * delete as appropriate</p> <p>0621C - Support/Oppose/Qualified Support/Comments * delete as appropriate</p> <p>0621D - Support/Oppose/Qualified Support/Comments * delete as appropriate</p> <p>0621E - Support/Oppose/Qualified Support/Comments * delete as appropriate</p> <p>0621F - Support/Oppose/Qualified Support/Comments * delete as appropriate</p> <p>0621H - Support/Oppose/Qualified Support/Comments * delete as appropriate</p> <p>0621J - Support/Oppose/Qualified Support/Comments * delete as appropriate</p> <p>0621K - Support/Oppose/Qualified Support/Comments * delete as appropriate</p> <p>0621L - Support/Oppose/Qualified Support/Comments * delete as appropriate</p>
Expression of Preference:	<p>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?</p> <p>0621/0621A/0621B/0621C/0621D/0621E/0621F/0621H/0621J/0621K /0621L * delete as appropriate</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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Reason for support/opposition and preference: Please summarise (in one paragraph) the key reason(s)

0621

Standard Relevant Objectives (SRO):

(a) Efficient and economic operation of the pipe-line system

- 1.1 VPI Immingham LLP (VPI) believes that Ofgem should provide clarity around ongoing interactions between modifications 0621, 0636 and 0653 – the impacts of which should be fully considered. Given the complexity around comparing modifications and suggested alternatives, VPI supports an alternative route from the 1st October 2019 which restricts the scope of changes to compliance with EU TAR NC. This approach would allow time for incremental evidence led changes accompanied by thorough analysis to be implemented over a longer period. Interactions with the electricity market and the next capacity auction should also be considered as this will impact exit prices of gas capacity market units. VPI would also like to highlight the high level of engagement undertaken by Ofgem via the Charging Futures Forum since 2017. VPI believes a similar process should have been adopted for 0621.
- 1.2 VPI believes the current Optional Commodity Charge (OCC) is an important component of the Gas Transmission Charging Regime and successfully discourages large users close to entry points from building private pipelines.
- 1.3 VPI believes that the calculation of OCC tariff for genuine shorthaul users should be independent of cost recovery mechanisms for new gas transmission investment.
- 1.4 VPI notes that although 0621 proposes that in the transition period the existing NTS Optional Charge should have a distance cap of 60km and be subject to an annual RPI adjustment, no solution is proposed on an enduring basis. It is therefore negative for SRO (a).

1.5 VPI believes that further analysis is required to determine how the potential implementation of a CWD charging methodology impacts the wider market as well as genuine shorthaul users. By this, we do not consider a CWD approach to be cost reflective as it produces counter-intuitive outcomes such as high exit charges for large sites located close to entry points. VPI agree with the working group who state that the same perversities exist for postage stamp methodologies. VPI is concerned that future short haul tariffs - on a transitional and enduring basis - will fail to adequately reflect the historic decision around avoided costs by through not bypassing the NTS. Furthermore, VPI believes capacity based fixed charges will lead to unintended consequence such as discriminating against large, flexible generators who may consequently pay much higher charges without the ability to factor accurately into daily dispatch. The changing energy landscape and impact on annual load factors for gas generation will likely lead to sub-optimal outcomes for consumers via higher power prices as generators manage the risk of higher charges over several years. More analysis is therefore required to understand the adequacy of shorthaul solutions based on a discount to capacity. VPI notes that 0621B appears less distortionary as it does not move to 100% capacity based charges for parties still eligible under EU TAR NC after 1st October 2019.

(b) N/A

(c) Efficient discharge of licensee's obligation

1.6 VPI acknowledges views from several industry participants that the removal of existing contract volume and revenue before calculating reference prices leads to a greater distortion between the prices paid by existing contract holders and those making new capacity purchases. VPI recommends Ofgem look at this closely during their forthcoming impact assessment.

(d) Securing effective competition

1.7 As 1.5

(e) N/A

(f) N/A

(g) Compliant with Regulation and any relevant legally binding decisions of the European Commission

1.8 As 1.1

Charging Methodology Relevant Objectives:

(a) As 1.5

(b) All proposals seek to address developments in gas transportation such as the need to comply with EU Regulations from the 1st October 2019.

(c) As 1.5

(d) N/A

(e) As 1.1

0621A

Standard Relevant Objectives (SRO):

(a) Efficient and economic operation of the pipe-line system

1.9 As 1.1

1.10 As 1.2

1.11 As 1.3

1.12 VPI note that although 0621A proposes that in the transition period the existing NTS Optional Charge should have a distance cap of 60km and be subject to an annual RPI adjustment, no solution is proposed on an enduring basis. It is therefore negative for SRO (a).

1.13 As 1.5

(b) N/A

(c) Efficient discharge of licensee's obligation

1.14 VPI acknowledges views from several industry participants that the removal of existing contract volume and revenue before calculating reference prices leads to a greater distortion between the prices paid by existing contract holders and those making new capacity purchases. VPI recommends Ofgem look at this closely during their forthcoming impact assessment.

(d) Securing effective competition

1.15 As 1.5

(e) N/A

(f) N/A

(g) Compliant with Regulation and any relevant legally binding decisions of the European Commission

1.16 As 1.1

Charging Methodology Relevant Objectives:

(a) As 1.5

(b) All proposals seek to address developments in gas transportation such as the need to comply with EU Regulations from the 1st October 2019.

(c) As 1.5

(d) (d) N/A

(e) As 1.1

0621B

Standard Relevant Objectives (SRO):

(a) Efficient and economic operation of the pipe-line system

1.17 As 1.1

1.18 As 1.2

1.19 As 1.3

1.20 VPI notes that 0621B proposes that on an enduring basis the existing NTS Optional Charge should have a distance cap of 60km and be subject to an annual RPI adjustment. This is not consistent with VPI's interpretation of the shorthaul tariff which we believe should reflect the historic decision not to build a private pipeline to bypass the NTS. Compared to alternative modifications which do not account for an enduring NTS Optional Charge, 0621B is positive for SRO (a).

1.21 The proposer of 0621B argues that the current level of shorthaul discount applied to Transmission Owner (TO) charging has become distorted in recent years by their structural link to the rising level of TO Commodity charges. VPI recognises that the alternative modification has been designed to address this by reducing the level of discount, whilst addressing the structural design of TO shorthaul charging methodology in the attempt to provide a robust, enduring basis for dis-incentivising inefficient bypass of the NTS.

1.22 0621B is less distortionary compared to other 0621 modifications as it moves less cost to capacity charges, except at interconnection points (IPs) whether EU TAR NC does not allow commodity revenue recovery charges from 1st October 2019.

1.23 As 1.5

(b) N/A

(c) Efficient discharge of licensee's obligation

1.24 VPI acknowledges views from several industry participants that the removal of existing contract volume and revenue before calculating reference prices leads to a greater distortion between the prices paid by existing contract holders and those making new capacity purchases. VPI recommends Ofgem look at this closely during their forthcoming impact assessment.

(d) Securing effective competition

1.25 As 1.5

1.26 VPI agrees with the proposer of 0621B that charges derived from the CWD methodology will only be stable and predictable if the FCC (Forecasted Contracted Capacity) values are stable. FCC values based on Obligated capacity, are published in advance in National Grid's licence and change infrequently so will be more stable.

(e) N/A

(f) N/A

(g) Compliant with Regulation and any relevant legally binding decisions of the European Commission

1.27 As 1.1

Charging Methodology Relevant Objectives:

(a) As 1.5

(b) All proposals seek to address developments in gas transportation such as the need to comply with EU Regulations from the 1st October 2019.

(c) As 1.5

(d) N/A

(e) As 1.1

0621C

Standard Relevant Objectives (SRO):

(a) Efficient and economic operation of the pipe-line system

1.28 As 1.1

1.29 As 1.2

1.30 As 1.3

1.31 VPI note that 0621C proposes that on an enduring basis the NTS Optional Charge should be calculated as a discount to the CWD derived reference price with revenue rebalance adjustment. As 1.5 above, VPI believes that CWD is not cost reflective and will unduly discriminate against customers located close to entry points. Compared to alternative modifications which do not account for a NTS Optional Charge, 0621C remains positive for SRO (a).

1.32 VPI note that, compared to 0621, 0621C proposes no changes to the Non-Transmission Services/ System Operator charging methodology, nor the associated NTS Optional charges. This is because the EU Tariff Code permits commodity charges to recover the throughput-related costs of operating a transmission pipeline system, whilst the associated shorthaul transportation discounts should continue to reflect the avoided costs of system operation.

1.33 As 1.5

(b) N/A

(c) Efficient discharge of licensee's obligation

1.34 VPI acknowledges views from several industry participants that the removal of existing contract volume and revenue before calculating reference prices leads to a greater distortion between the prices paid by existing contract holders and those making new capacity purchases. VPI recommends Ofgem look at this closely during their forthcoming impact assessment.

(d) Securing effective competition

1.35 As 1.5

(e) N/A

(f) N/A

(g) Compliant with Regulation and any relevant legally binding decisions of the European Commission

1.36 As 1.1

Charging Methodology Relevant Objectives:

(a) As 1.5

(b) All proposals seek to address developments in gas transportation such as the need to comply with EU Regulations from the 1st October 2019.

(c) As 1.5

(d) N/A

(e) As 1.1

0621D

Standard Relevant Objectives (SRO):

(a) Efficient and economic operation of the pipe-line system

1.37 As 1.1

1.38 As 1.2

1.39 As 1.3

1.40 VPI note that 0621D does not propose any transitional or enduring role for the NTS Optional Charge so is considered negative for SRO (a). VPI note that the proposer, a Distribution Network Operator, offers a form of optional charge on its own network.

(b) N/A

(c) Efficient discharge of licensee's obligation

1.41 VPI acknowledges views from several industry participants that the removal of existing contract volume and revenue before calculating reference prices leads to a greater distortion between the prices paid by existing contract holders and those making new capacity purchases. VPI recommends Ofgem look at this closely during their forthcoming impact assessment.

(d) Securing effective competition

1.42 As 1.5

(e) N/A

(f) N/A

- (g) Compliant with Regulation and any relevant legally binding decisions of the European Commission

1.43 As 1.1

Charging Methodology Relevant Objectives:

(a) As 1.5

- (b) All proposals seek to address developments in gas transportation such as the need to comply with EU Regulations from the 1st October 2019.

(c) As 1.5

(d) N/A

(e) As 1.1

0621E

Standard Relevant Objectives (SRO):

- (a) Efficient and economic operation of the pipe-line system

1.44 As 1.1

1.45 As 1.2

1.46 As 1.3

- 1.47 VPI note that although 0621E proposes that in the transition period the existing NTS Optional Charge should have a distance cap of 60km and be subject to an annual RPI adjustment, no solution is proposed on an enduring basis. It is therefore negative for SRO (a).

1.48 As 1.5

(b) N/A

- (c) Efficient discharge of licensee's obligation

- 1.49 VPI acknowledges views from several industry participants that the removal of existing contract volume and revenue before calculating reference prices leads to a greater distortion between the prices paid by existing contract holders and those making new capacity purchases. VPI recommends Ofgem look at this closely during their forthcoming impact assessment.

- (d) Securing effective competition

1.50 As 1.5

(e) N/A

(f) N/A

(g) Compliant with Regulation and any relevant legally binding decisions of the European Commission

1.51 As 1.1

1.52 Further to 1.51, VPI agrees with the assertions made in 0621E that if any 0621 modification was to proceed it will directly impact generators awarded agreements in the February 2018 T-4 Capacity Auction. Ahead of this auction it was impossible to make an accurate assessment of the full capacity based Exit charges that would be payable in 2021.

Charging Methodology Relevant Objectives:

(a) As 1.5

(b) All proposals seek to address developments in gas transportation such as the need to comply with EU Regulations from the 1st October 2019.

(c) As 1.5

(d) N/A

(e) As 1.1

0621F

Standard Relevant Objectives (SRO):

(a) Efficient and economic operation of the pipe-line system

1.53 As 1.1

1.54 As 1.2

1.55 As 1.3

1.56 VPI note that although 0621F proposes that in the transition period the existing NTS Optional Charge should have a distance cap of 60km and be subject to an annual RPI adjustment, no solution is proposed on an enduring basis. It is therefore negative for SRO (a).

1.57 As 1.5

(b) N/A

(c) Efficient discharge of licensee's obligation

1.58 VPI acknowledges views from several industry participants that the removal of existing contract volume and revenue before calculating reference prices leads to a greater distortion between the prices paid by existing contract holders and those making new capacity purchases. VPI recommends Ofgem look at this closely during their forthcoming impact assessment.

(d) Securing effective competition

1.59 As 1.5

(e) N/A

(f) N/A

(g) Compliant with Regulation and any relevant legally binding decisions of the European Commission

1.60 As 1.1

Charging Methodology Relevant Objectives:

(a) As 1.5

(b) All proposals seek to address developments in gas transportation such as the need to comply with EU Regulations from the 1st October 2019.

(c) As 1.5

(d) N/A

(e) As 1.1

0621H

Standard Relevant Objectives (SRO):

(a) Efficient and economic operation of the pipe-line system

1.61 As 1.1

1.62 As 1.2

1.63 As 1.3

1.64 VPI note that although 0621H proposes that in the transition period the existing NTS Optional Charge should have a distance cap of 60km and be subject to an annual RPI adjustment, no solution is proposed on an enduring basis. It is therefore negative for SRO (a).

1.65 As 1.5

(b) N/A

(c) Efficient discharge of licensee's obligation

1.66 VPI acknowledges views from several industry participants that the removal of existing contract volume and revenue before calculating reference prices leads to a greater distortion between the prices paid by existing contract holders and those making new capacity purchases. VPI recommends Ofgem look at this closely during their forthcoming impact assessment.

(d) Securing effective competition

1.67 As 1.5

(e) N/A

(f) N/A

(g) Compliant with Regulation and any relevant legally binding decisions of the European Commission

1.68 As 1.1

Charging Methodology Relevant Objectives:

(a) As 1.5

(b) All proposals seek to address developments in gas transportation such as the need to comply with EU Regulations from the 1st October 2019.

(c) As 1.5

(d) N/A

(e) As 1.1

0621J

Standard Relevant Objectives (SRO):

(a) Efficient and economic operation of the pipe-line system

1.69 As 1.1

1.70 As 1.2

1.71 As 1.3

1.72 VPI note that although 0621J proposes that in the transition period the existing NTS Optional Charge should have a distance cap of 60km and be subject to an annual RPI adjustment, no solution is proposed on an enduring basis. It is therefore negative for SRO (a).

1.73 VPI believes that further analysis is required to determine how the potential implementation of a postage methodology charging methodology impacts genuine shorthaul users. By this, the postage stamp methodology will result counter-intuitive outcomes such as high exit charges for large sites located close to entry points. VPI remains extremely concerned that future short haul tariffs - on a transitional and enduring basis - will fail to adequately reflect the historic decision around avoided costs by choosing not to connect to the NTS.

1.74 From a wider charging perspective, the postage stamp model may be a fair way to allocate costs in a fully unconstrained system, but it remains uncertain to what extent the system is unconstrained both now and in the future. This can be demonstrated at exit points where there is a lot of PARCA activity and network investment may be required in the future. VPI therefore supports the principle of retaining locational diversity in charges over the medium term.

(b) N/A

(c) Efficient discharge of licensee's obligation

1.75 VPI acknowledges views from several industry participants that the removal of existing contract volume and revenue before calculating reference prices leads to a greater distortion between the prices paid by existing contract holders and those making new capacity purchases. VPI recommends Ofgem look at this closely during their forthcoming impact assessment.

(d) Securing effective competition

1.76 As 1.5

(e) N/A

(f) N/A

(g) Compliant with Regulation and any relevant legally binding decisions of the European Commission

1.77 As 1.1

Charging Methodology Relevant Objectives:

(a) As 1.5

(b) All proposals seek to address developments in gas transportation such as the need to comply with EU Regulations from the 1st October 2019.

(c) As 1.5

(d) N/A

(e) As 1.1

0621K

Standard Relevant Objectives (SRO):

(a) Efficient and economic operation of the pipe-line system

1.78 As 1.1

1.79 As 1.2

1.80 As 1.3

1.81 VPI note that although 0621K proposes that in the transition period the existing NTS Optional Charge should have a distance cap of 60km and be subject to an annual RPI adjustment, no solution is proposed on an enduring basis. It is therefore negative for SRO (a).

1.82 As 1.5

(b) N/A

(c) Efficient discharge of licensee's obligation

1.83 VPI acknowledges views from several industry participants that the removal of existing contract volume and revenue before calculating reference prices leads to a greater distortion between the prices paid by existing contract holders and those making new capacity purchases. VPI recommends Ofgem look at this closely during their forthcoming impact assessment.

(d) Securing effective competition

1.84 As 1.5

(e) N/A

(f) N/A

(g) Compliant with Regulation and any relevant legally binding decisions of the European Commission

1.85 As 1.1

Charging Methodology Relevant Objectives:

(a) As 1.5

(b) All proposals seek to address developments in gas transportation such as the need to comply with EU Regulations from the 1st October 2019.

(c) As 1.5

(d) N/A

(e) As 1.1

0621L

Standard Relevant Objectives (SRO):

(a) Efficient and economic operation of the pipe-line system

1.86 As 1.1

1.87 As 1.2

1.88 As 1.3

1.89 VPI note that although 0621L proposes that in the transition period the existing NTS Optional Charge should have a distance cap of 60km and be subject to an annual RPI adjustment, no solution is proposed on an enduring basis. It is therefore negative for SRO (a).

1.90 As 1.5

(b) N/A

(c) Efficient discharge of licensee's obligation

1.91 VPI acknowledges views from several industry participants that the removal of existing contract volume and revenue before calculating reference prices leads to a greater distortion between the prices paid by existing contract holders and those making new capacity purchases. VPI recommends Ofgem look at this closely during their forthcoming impact assessment. 0621L proposes to include the existing contracts in the calculation to ensure that there is no undue distortion between existing capacity holders and parties purchasing capacity in the future.

(d) Securing effective competition

1.92 As 1.5

(e) N/A

(f) N/A

(g) Compliant with Regulation and any relevant legally binding decisions of the European Commission

1.93 As 1.1

Charging Methodology Relevant Objectives:

(a) As 1.5

(b) All proposals seek to address developments in gas transportation such as the need to comply with EU Regulations from the 1st October 2019.

(c) As 1.5

(d) N/A

(e) As 1.1

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

1.94 As 1.1

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

All 0621 modifications:

1.95 NTS exit charges for generators are available in the 0621 workbooks. Analysis completed by National Grid demonstrates the scale of increase in charges proposed – and impact on sites close to gas entry points without an enduring shorthaul mechanism being in place.

1.96 VPI Immingham LLP is currently facing significant regulatory uncertainty around the future of the gas transmission charging regime. The move from flow based to capacity based charges without any certainty around an enduring short-haul mechanism - which itself is under review by 0636 and 0651 – means that we are unable to accurately forecast future costs which will impact our operations. As both CWD and postage-stamp methodologies are not cost reflective, VPI could see a significant increase in charges for using the gas network. VPI is also unable to accurately assess how 0621 will impact future gas investments on both the transmission and distribution networks as, for example, it is unclear how charges will impact those at a lower voltage (in addition to two year lag.)

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.*

1.97 VPI Immingham LLP has not reviewed any legal text available.

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?*

1.98 VPI agrees with issues identified in section 10 of the working group report. Other areas that should be considered include:

1.99 Impact of CWD on electricity prices and the optional commodity charge (now network optional charge) on a transitional and enduring basis.

1.100 Impact on the electricity capacity market (transmission and distribution)

1.101 Impact on electricity market and security of supply

1.102 Overall impact on consumers (including those connected to the distribution network)

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)?*

1.103 VPI believes to answer this questions requires analysis around forward looking forecasts as well as how FCC error-margin will impact the market.

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?*

1.104 VPI has not commented on this question

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.*

1.105 Industry has reported several errors in published analysis during the 0621 consultation process. An independent review should take place to ensure a high degree of certainty exists that each 0621 modification is modelled correctly.

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

1.106 VPI would like to draw to Ofgem's attention recent work by Frontier Economics commissioned on behalf of Energy UK members.