

Representation - Draft Modification Report

UNC 0636 0636A 0636B 0636C 0636D

Updating the parameters for the NTS Optional Commodity Charge

Responses invited by: **5pm on 14 June 2018**

To: enquiries@gasgovernance.co.uk

Representative:	Kirsty Ingham
Organisation:	ESB
Date of Representation:	14 June 2018
Support or oppose implementation?	0636 - Oppose 0636A - Oppose 0636B - Oppose 0636C - Qualified Support 0636D - Qualified Support
Expression of preference:	<i>If either 0636, 0636A, 0636B, 0636C or 0636D were to be implemented, which would be your preference?</i> On a least worst basis 0636C or 636D
Relevant Objectives:	0636: g) Negative 0636A: g) Negative 0636B: g) Negative 0636C: g) Positive 0636D: g) Positive

Relevant Charging Methodology Objectives:	<p>0636: a) Negative b) Negative c) Negative e) Negative</p> <p>0636A: a) Negative b) Negative c) Negative e) Negative</p> <p>0636B: a) Negative b) Negative c) Negative e) Negative</p> <p>0636C: a) Negative b) Negative c) Negative e) Positive</p> <p>0636D: a) Negative b) Negative c) Negative e) Positive</p>
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Reason for support/opposition/preference: Please summarise (in one paragraph) the key reason(s)

The GCD11 process specified that the Optional Commodity Charge should be reviewed as part of the methodology changes required for compliance with EU Regulation TAR. The aim was for development of a coherent, enduring solution, which would receive the full consultation process by all relevant parties, neighbouring NRAs and ACER. This methodological review process is ongoing under UNC 0621. TAR has been in place since April 2017 and many Member States have already implemented changes to their tariff systems in line with TAR. It would be prudent to take TAR into account in order to avoid unnecessary disruption and inefficiency (due to an interim change, followed by a transition phase to an enduring solution). Given all of the above, 0636 and all connected alternatives should be rejected. It is clearly in the spirit of TAR that any changes affecting neighbouring markets should be subject to full consultation by stakeholders in those markets and have ACER oversight. As a least worst case, exemption of IPs would mitigate this concern.

0636:

As overall comment above. Use of flows rather than capacity in the calculation for the cost of a pseudo alternative pipeline investment is counter-intuitive, as it suggests that the pipeline can change size year on year.

0636A

As overall comment above. An arbitrary distance cap does not further cost reflectivity or competition.

0636B

As above for 0636.

0636C

As above for 0636. Exemption of IPs from any change outside of the full methodology review under 0621 would serve to mitigate our concerns with TAR and impact on neighbouring markets.

0636D

As above for 0636C.

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

ESB has already submitted views¹ about the need to implement any change to the OCC on 1 October, as the start of a Gas Year, or not at all due to contractual and hedging reasons, as well as all related back office and systems updates required. Our views concur with those provided in Petronas' letter of 28 March 2018.

As much notice as possible would be required for Shippers. National Grid has specified in the Workgroup Report (p. 29) a requirement for 3 months' notice prior to implementation of any 0636 related Mod. It is hard to see how this will be possible for 1 October 2018.

Even with a 3 month lead time, the 0636 proposer's suggestion that cost benefits will be passed through to consumers is somewhat implausible: contracting for GY2018 is already underway for larger users; for small and domestic users, given their contracting patterns and terms, any pass-through of benefits will not be felt for many months if at all.

Impacts and Costs: *What analysis, development and ongoing costs would you face? Please specify which Modification any issues relate to.*

GB Shippers need to review their contractual portfolios and assess the impact of any change, undertaking any required redrafting or renegotiation, and related administrative changes, all of which incur cost.

¹ Letter dated 29 March 2018 as action 0303 at meeting 5 April (<https://www.gasgovernance.co.uk/sites/default/files/ggf/book/2018-04/180329%200636%20ESB%20text%20to%20JO.pdf>)

As a generator, as referred to on p. 35 of the Mod report, any pass through of increased transmission costs to the price of gas will be a potential ongoing direct cost, which could impact competitiveness and thus have broader analytical and cost consequences. Cost impacts will therefore be felt by electricity consumers in GB.

0636, 0636A, 0636B: As the price of gas in Ireland and Northern Ireland is chiefly based on the GB wholesale price plus transportation, the impact of any change in transmission costs via Moffat will impact all gas consumers on the island of Ireland. This will also likely be passed through to the electricity sector and electricity consumers. As ESB's operations in Ireland involve power generation and retail gas and power, there will be a requirement for fundamental analysis throughout the business due to wholesale gas price changes and any subsequent related costs.

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

Concern of insufficient notice being allowed for in Legal Text, inconsistent with National Grid's requirement for 3 months' notice from decision to implementation in the Workgroup report (p. 29).

e.g. 636D 24.1.2 (a) and (b): “[...] National Grid has given the Relevant User not less than:

2 months notice

such shorter period of notice as consented to by the Authority in writing and notified by National Grid NTS to the Relevant User”

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.*

The Modification Report is clear in the timing basis of the analysis, however indicative commodity charges for Oct 2018 have been published and are not included in the analysis. We understand that the pressures of the concurrent 0621 Modification process have affected the capacity for analysis within National Grid and the Workgroup, but it would be helpful to have an indication of the impact of 0636 taking into account standard commodity charges for the period the Modification is intended to apply.

It has also not been possible due to access to information for the Workgroup to undertake full quantitative analysis of the whole market impacts of the 0636 and alternatives. Qualitative statements have been provided (pp. 35-6), but an RIA is clearly required to assess the consequences in more depth. We highlight here that Ofgem's impact assessment guidance includes consideration of cross-border effects.

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

ESB strongly believes that a RIA must be conducted for this material change to gas charging, and that this must be a whole market assessment for the entire UK.

Within the process for 0621, Ofgem requested the Workgroup to consider the linkage between 0621 and 0636; applying symmetry to that request, in our view:

- Industry and authority focus should be placed on 0621 as the overarching, fundamental change to the charging methodology in GB.
- It would be prudent for review and development of an enduring solution for inefficient bypass to be conducted contiguously with 0621, as was prescribed in GCD11.
- This would avoid swings and uncertainty in charging from a short-term change, mindful of the objectives of 0621 for predictability and stability of charging.
- This would also allow for the solution to be reviewed in full by ACER, neighbouring NRAs and other interested parties via consultation, as outlined in 0636C and 0636D (see Section 3 of Draft Modification Report).
- In this context in particular, rejection or suspension of 0636 and alternatives appears the best solution to prevent further inefficiency and uncertainty in addition to that caused by 0621, while supporting the facilitation of the best outcome for 0621 itself.