

## 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](mailto:enquiries@gasgovernance.co.uk)

<b>Representative:</b>	Pavanjit Dhesi
<b>Organisation:</b>	Interconnector IUK Ltd
<b>Date of Representation:</b>	12 June 2018
<b>Support or oppose implementation?</b>	0636 - Oppose 0636A - Oppose 0636B - Oppose 0636C – Oppose 0636D - Qualified Support
<b>Expression of preference:</b>	<i>If either 0636, 0636A, 0636B, 0636C or 0636D were to be implemented, which would be your preference?</i>  0636D
<b>Relevant Objectives:</b>	0636: <b>g)</b> Negative  0636A: <b>g)</b> Negative  0636B: <b>g)</b> Negative  0636C: <b>g)</b> Negative  0636D: <b>g)</b> Positive

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

The NTS Optional Commodity Charge (Short haul) has proven to be important in attracting gas to the GB market and encouraging greater use of the NTS by avoiding inefficient by-pass. It is an important driver of flows over the Interconnector (IUK) and with the end of IUK’s original long term bookings from October 2018, changes to this tariff or uncertainty around it will have an influence on IUK’s market prospects and bookings. We therefore feel compelled to respond to this consultation.

Tariff stability and predictability are key agreed objectives of the current GB NTS charging review and reflect the aims of Tariff reforms as set out in the European Tariff Network Code. It is recognised by industry that the NTS Optional Commodity Charge needs to be reformed, in particular due to commodity charges at IPs only being permitted for the cost of flowing gas and not revenue recovery.

There is unfortunately considerable uncertainty at the moment. NGG has proposed a transitional reform of Shorthaul in Mod 621 from October 2019 but nothing on an enduring solution apart from suggesting that this would need to be reviewed. Despite the GB Charging Review and the Mod 621 process considering future charging reforms, Mod 636 has also been proposed and allowed to proceed. It seeks earlier changes to the short haul tariff in 2018. This has resulted in a number of alternatives. Mod 653 has also

been proposed seeking to establish an enduring solution from 2019. The process has, in short, become chaotic. There are now potentially 3 changes to short haul within four years. This does not create tariff stability and predictability. It is commercially disruptive to the market, harmful to flows/bookings prospects across IUK and does not facilitate cross border trade.

IUK would recommend none of the Mod 636 proposals are taken forward to implementation and that Mod 621 and Mod 653 and considered for the appropriate short haul reforms.

If Ofgem think it is sensible to make reforms earlier than October 2019 through Mod 636, then we give qualified support to Mod 636D. Given commodity charges can no longer be applied to revenue recovery at the IPs, an enduring EU-compliant solution has to be found. Mod636D ensures compliance with the European Tariff Network code rules by avoiding making interim changes at the IPs to a tariff post the European Tariff Code coming into effect. It also avoids short term changes that would be disruptive to cross border trade.

We support, as requested by industry in the working group discussions, that Ofgem do an impact assessment on these changes as part of its determination given it is a material change to tariffs and current commercial arrangements.

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

Short haul is an important driver of flows over the Interconnector and with the end of IUK's original long term bookings from October 2018, changes to this tariff or uncertainty around it will have an influence on IUK's market prospects and bookings. We are already in a far from perfect situation given we will be offering CAM products very soon for the gas year 2018/19 within an environment of considerable uncertainty about NGG's future charges. This uncertainty and short lead times for change are not helpful for facilitating cross border trade. We therefore believe there should be at least a six month lead time prior to implementation.

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

The uncertainty or multiple changes to short haul tariffs in a short time period harm IUK's prospects of selling capacity at the Bacton IP. There is therefore a potential revenue implication for IUK and harm to the market more generally through frequent changes or uncertainty not facilitating cross border trade.

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

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**