

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:	Charles Ruffell
Organisation:	RWE Supply & Trading GmbH
Date of Representation:	14 th June, 2018
Support or oppose implementation?	0636 - Oppose 0636A - Oppose 0636B - Oppose 0636C - Oppose 0636D - Oppose
Expression of preference:	<i>If either 0636, 0636A, 0636B, 0636C or 0636D were to be implemented, which would be your preference?</i> None.
Relevant Objectives:	0636: g) Negative 0636A: g) Negative 0636B: g) Negative 0636C: g) Negative 0636D: g) Negative

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) Negative</p> <p>0636D: a) Negative b) Negative c) Negative e) Negative</p>
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Reason for support/opposition/preference: Please summarise (in one paragraph) the key reason(s)

0636/0636C

We fundamentally disagree with the use of historic flow data as a proxy for Load Factor in the NTS Optional Commodity Charge formula. Replacing the capacity-based M (Maximum NTS Exit Point Offtake Rate (MNEPOR)) at the site with a commodity-based M based on average allocated daily energy makes no sense. A pipeline would be designed to meet anticipated peak (capacity) not average flow requirements and the derivation of the Optional Commodity Charge needs to reflect this.

Justification for the change is based on out of date analysis that has already been rejected by the industry (GCD 11, 2015). Flows used to derive the projected benefits are assumed to be unchanged, implying no response to a significant change in costs by users of the Optional Commodity Charge. This assumption is not credible. Together, these factors undermine the overall benefits case which, in any case, has not been updated to reflect a later implementation date than that originally envisaged.

The cost redistribution from recalculation of commodity rates will create significant distributional impacts at an individual customer site level. These impacts have not been fully analysed or evaluated. We believe that Ofgem is best placed to consider these on

a confidential basis. These, together with the gaps identified in the Workgroup Report itself should be addressed by Ofgem as part of a Regulatory Impact Assessment.

For the avoidance of doubt, we agree with the views expressed in the workgroup report that Ofgem should undertake a Regulatory Impact Assessment in line with its own guidance given the materiality of the cost redistribution and impact on consumers. Analysis of the costs and benefits needs to be robust and based on current data.

0636A/0636B/0636D

These proposals either include an update to the cost base used to determine the Optional Charge or introduce a distance cap. While these are consistent with Modification Proposal 0621 and its Alternatives (except 0621C and 0621D) which will implement an update to the Optional Commodity Charge from October 2019, we do not support making changes in October 2018, for the 2018/19 gas year, even if that date was achievable. Implementing a change in October 2018 will expose Users of the Optional Commodity Charge to commercial risk in respect to contracts already agreed and give little time for the market to react before another change is made. Frequent changes the Optional Commodity Charge in a relatively short space of time is unwelcome and disruptive and we believe changes should only be made as part of the comprehensive reforms to the charging regime from October 2019.

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

We do not support implementation of any of these Modification Proposals.

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

The analysis in the Workgroup Report is too limited to make an informed assessment.

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

We have not reviewed the legal text.

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.*

None.

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

None.