

Representation - Modification UNC 0790 (Urgent)

Introduction of a Transmission Services Entry Flow Charge

Responses invited by: 5pm on 06 December 2021

To: enquiries@gasgovernance.co.uk

Please note submission of your representation confirms your consent for publication/circulation.

Representative:	Will Webster
Organisation:	OGUK
Date of Representation:	6 December 2021
Support or oppose implementation?	Comments
Relevant Objective:	
Relevant Charging Methodology Objective:	

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

The proposed modification represents a fundamental change to the approach taken by Ofgem and the industry in the gas charging review. This process ran over several years and to unwind a key element of those changes (i.e. a partial reinstatement of the commodity charge) via an urgent code modification seems questionable. Evolution in the charging arrangements is expected. However, the current trend of implementing changes via urgent processes does not give sufficient time for robust analysis and discussion and creates instability and additional risk for businesses.

That being said, the size of the emerging disparities between charges for existing contracts versus other bookings, although not totally unexpected, is something that does need to be dealt with. This is particularly relevant to the need to encourage continued investment in gas production in UKCS. This is required to ensure a diverse range of gas resources is available, and as a basis for development of hydrogen for energy supply. It is therefore important that new gas resources do not bear a disproportionately large proportion of National Grid's costs.

Implementation: *What lead-time do you wish to see prior to implementation and why?*

The urgent process leaves limited time for analysis or reflection, especially given that the recent modifications to address the short haul tariffs (0727) and the Removal of Entry Capacity Revenue from Capacity Neutrality Arrangements (0748) were only recently implemented.

Even with the urgent process it is doubtful that the changes can be completed in time for a tariff announcement in May 2022 and implementation in October 2022. OGUK members would prefer not to have changes to tariffs during the gas year as this, as explained on numerous occasions, creates uncertainties in pricing contracts in wholesale and retail markets.

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

The analysis supplied by Frontier is less than convincing, especially when read alongside the impact assessment by Baringa for 0621\0678 which came to the opposite conclusion in that it was considered less likely that capacity-based charges could be passed through into the wholesale price. Baringa's analysis also more accurately took into account the fact that capacity can be transferred between shippers so that cheaper existing contracts would be used first.

Price formation in wholesale gas markets is, in any case, not a simple merit curve, cost-plus model. Most gas is traded in forward markets on the basis of expectations of conditions in the wider global energy markets. Either way, the impact of transmission charges on either wholesale prices or consumers' bills is likely to be negligible.

Legal Text: *Are you satisfied that the legal text will deliver the intent of the Solution?*

The proposed change raises a number of legal questions regarding the treatment of existing contracts which were a feature of the 0621/0678 discussions and on compliance with the tariff code. It is questionable, for example, whether the calculation of the proposed throughput charge really represents "under recovery" in a true sense as the charges being paid by existing contracts were determined in a regulatory process designed and overseen by Ofgem at the time. On the other hand, it is also clear that existing contracts have been subject to a commodity related charge in the past. There may also be questions around the extent to which the existence of such large differences in entry charges are anti-competitive.

Finally, it is incorrect for the proposed modification to refer only to the European Tariff Network Code which is no longer applicable in the UK. It should, in addition, refer to Gas Tariffs Code (Amendment) (EU Exit) Regulations 2019 and Schedule 5 to the Gas (Security of Supply and Network Codes) (Amendment) (EU Exit) Regulations 2019

Are there any errors or omissions in the Modification that you think should be taken into account? *Include details of any impacts/costs to your organisation that are directly related to this.*

No comments

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

No further comments