

Representation - Draft Modification Report 0534S

Maintaining the efficacy of the NTS Optional Commodity ('shorthaul') tariff at Bacton entry points

Responses invited by: **10 September 2015**

To: enquiries@gasgovernance.co.uk

Representative:	Fergus Healy
Organisation:	National Grid Gas Transmission
Date of Representation:	10 th September 2015
Support or oppose implementation?	Qualified Support
Relevant Objective:	a) Potentially positive d) None

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

National Grid NTS would like to emphasise that the creation of the two new Bacton ASEPs has been fully consulted upon by the Authority through both informal (October to December 2013) and statutory (December 2014 to January 2015) consultation processes, as well as UNC Modification 0501V and alternates, through which the creation of two new ASEPs was determined as being required to facilitate the implementation of the EU CAM Code. The resultant impact of this on the application of the NTS Optional Commodity Tariff (shorthaul) at the Bacton ASEP was a foreseeable change from this process.

That being said National Grid NTS is sympathetic to the position that Bacton Users have identified due to the splitting of the Bacton ASEP into two new ASEPs to facilitate the implementation of the EU CAM Code and offers qualified support for this proposal.

Our support is qualified as we believe it is unclear to what extent that the relevant objectives are furthered by this modification. The draft workgroup report states that there is a positive impact on:

Relevant objective a) Efficient and economic operation of the pipeline system, as it ensures efficient utilisation of the NTS as it enables all gas that can be economically transported to the NTS continues to be so transported and that economically inefficient alternative pipelines should be avoided reducing in the overall level of transportation charges that would otherwise have to be paid by shippers using the NTS. This appears to be a reference to the original rationale of the NTS Optional Commodity Tariff which was designed to avoid inefficient market investment and promote use of the NTS, however it is unclear to what extent Users would invest in additional pipeline were this modification not be implemented. There is currently little or no analysis relating to

inefficient investment and the NTS Optional Commodity Tariff (other than a reduction in the charges that affected Shippers would receive) without which it is difficult to quantify this modification with regards to this relevant objective. However were Shippers to provide analysis that the application of the Commodity Rate (Entry (TO and SO) and Exit (TO and SO)) would result in gas that otherwise would have been delivered into the NTS not being delivered to the GB market (or result in efficient investment) then this would have a positive impact on this relevant objective.

Relevant objective d) securing of effective competition: (i) between relevant Shippers, as the modification ensures that there is no discrimination between Shippers or sources of gas, and ensures that no undue barriers to cross border trade are artificially raised. It is unclear whether the application of the Commodity Rate (Entry (TO and SO) and Exit (TO and SO)) on some of a Shippers Bacton flows (which it is worth noting may be utilised for NTS Optional Commodity Tariff to other nominated exit points) would affect competition between Shippers as this is a similar situation faced by many Shippers today, in that they currently can only nominate one entry point to a specific exit point.

We also note that the Proposer has indicated that if the modification is implemented after the 1 November 2015 that it should be applied to the NTS Optional Commodity Tariff from the 1 November. We accept the Workgroups view that this is appropriate were the Modification to complete the process as Self Governance (i.e. the Panel votes for implementation at the September Modification Panel but the interim solution cannot be implemented until after the 1 November), however were the Modification determined not to be Self-Governance and Ofgem were to issue a decision letter approving the modification at a later date and it then be applied back to the 1 November, would mean that the modification was to be applied retrospectively.

Modifications with retrospective application have historically been heavily debated within UNC Workgroup discussions, and in previous decision letters Ofgem has documented its concerns associated with such retrospective application. Such concerns include introducing uncertainty into the market and an increase in the perception of risk, which can negatively impact upon competition.

Self-Governance Statement: *Please provide your views on the self-governance statement.*

The modification itself states that it has an impact on the economic and efficient operation of the NTS and that gas that otherwise might be delivered to the NTS may be dissuaded from being supplied to the GB market. Therefore it is unclear to National Grid NTS how this modification will not have potentially a material impact on existing gas consumers and security of supply and as such in our opinion this modification should not be Self-Governance.

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

The standard timeframe for a Self-Governance modification is sixteen business days after a Modification Panel decision to implement, subject to no appeal being raised, however this modification requires National Grid NTS and xoserve to put an interim solution in place. Whilst we would endeavour to ensure that such a solution was in place to meet the timeframes outlined within the mod this cannot be guaranteed until a change

order is raised and the work initiated which will only occur once a decision on implementation is reached.

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

The modification proposes both interim and enduring processes which have development costs associated to them. The interim solution costs are approximately £100k and the enduring solution costs are approximately £400k. Some administrative costs are anticipated but have been factored into the costs above.

Please note that it is expected that a review of the NTS Optional Commodity Tariff may be required under both the Transmission Charging Review and the implementation of the EU Tariff Code. As such the interim solution will remain in place until such time as these reviews are completed and the suitability of the enduring solution assessed accordingly.

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

Yes

Modification Panel Members have requested that the following questions are addressed

Q1: Views are sought on the allocation of User Pays costs and whether Transporters or Shipper Users should fund these?

The introduction of the various EU Codes by their very nature change the existing arrangements that are currently in place at a number of GB points, one of the most visible of these is the splitting of the current Bacton ASEP into two new ASEPS. As touched upon earlier this was deemed necessary in order to facilitate the implementation of the new EU Codes and was a decision undertaken by Ofgem after consultation with the industry. The impact upon the application of the NTS Optional Commodity Tariff arises from applying the existing UNC and xoserve processes to the two new ASEPs and implementation of this modification will require xoserve's current systems and processes to be amended.

The User Pays Guidance Document published on the Joint Office of Gas Transporters website (page 3 paragraph 4) states that:

"It is envisaged that any Modification Proposal which has the potential, or where it cannot be ruled out, to incur incremental Transporter Agency costs (associated with any Transporter Agency systems or processes) and/or creates or amends a User Pays Service, will be classified as a User Pays Modification Proposal"

It is National Grid NTS's opinion that this is a User Pays Modification and that the principal beneficiaries of the creation of a Combined Bacton ASEP (for the purposes of the NTS Optional Commodity Tariff) are those Shippers that utilise this service. For this reason it is National Grid NTS's view that such a User Pays service should be funded by those Shippers that utilise the service.

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 identified

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

None identified