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UNC678/A/B/C/D/E/F/G/H/I/J: Amendments to Gas Transmission Charging Regime: summary of consultation responses received (as required by Art 26(3) of the European Network Code on harmonised transmission tariff structures for gas)

This is a summary of the responses received to Ofgem's consultation on Amendments to Gas Transmission Charging Regime: minded to decision and draft impact assessment[1]. Our minded to decision and draft impact assessment were published on 23 December 2019 and the consultation closed on 24 February 2020. 25 non-confidential written responses were received. This document fulfils Ofgem's requirement under the European Network Code on harmonised transmission tariff structures for gas Article 26(3).

Summaries of the responses are set out below. The summaries are where provided, the summaries which we asked respondents to our consultation to provide. In the seven cases where summarise were not provided, we have included what we think were the key points made by respondents in the summary below. The complete non-confidential consultation responses are published on our website[2].

Cadent

Having now considered all of the material provided through this consultation, Cadent is of the opinion that there is very little benefit in adopting PS over CWD. On the one hand we can see the benefit to our 11 million Customers collectively seeing lower bills that would be achieved through the CWD RPM. On the other hand, there is some value to be gained by the whole gas industry through the adoption of the PS RPM.

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[1] UNC678/A/B/C/D/E/F/G/H/I/J: Amendments to Gas Transmission Charging Regime: minded to decision and draft impact assessment: https://www.ofgem.gov.uk/system/files/docs/2019/12/unc678_minded_to_decision.pdf

[2] Amendments to Gas Transmission Charging Regime: minded to decision and draft impact assessment – Response documents: https://www.ofgem.gov.uk/publications-and-updates/amendments-gas-transmission-charging-regime-minded-decision-and-draft-impact-assessment

We believe the CWD approach to the RPM to be of greater value than PS and therefore, cannot support the adoption of PS. This response is made on behalf of Cadent and can be published by Ofgem.

Centrica

We have reservations about the conclusions reached by Ofgem with the minded-to-decision and we believe that the Modification proposals raised by Centrica (UNC678B) would better strike a balance between achieving the objectives of the amendments (e.g. compliance with TAR NC, review of the RPM) and providing a smooth transition from the status quo.

CWD is more consistent with UNC objectives, but we acknowledge that PS may result in lower RRC, at least initially. Ofgem conclusions are not underpinned by rigorous quantitative analysis and we believe that UNC678B is preferable.

The FCC Methodology is a critical component of the RPM and it is therefore essential that robust and transparent governance arrangements underpin it. For this reason, we agree that the FCC Methodology should be included in the UNC.

There are significant limitations in the assumptions taken. There is no consideration for the elasticity of different type of supply and especially for supply highly sensitive to network charging costs and there is an inherent assumption that the marginal supply will benefit from a NOC only sporadically and there is no benefit on the wholesale gas price.

We are concerned that some important features of the regime e.g. NOC, FCC, storage discount, are not yet clearly defined. Therefore, we believe that it would be more appropriate for all the changes to the transmission charging regime to take in October 2021.

We believe that all the proposers and Ofgem have taken the right approach by protecting existing contracts from change in tariffs.

Drax

Forecasted Contracted Capacity
We welcome Ofgem's decision to include the FCC within the UNC as otherwise there would be

limited opportunity to consider the FCC developed by National Grid on an ongoing basis and to consider any revision or alternative methodology. We do note however, that the FCC has different rules for different stakeholders and it's not clear how this distinction is justified or serves the interest of energy consumers.

Recommend an October 2021 implementation
The assumptions used for FCC and the model used to produce tariffs have not been finalised and tested. National Grid have been clear that the previous models were indicative only, and may not be used in future to calculate transmission charges. As charges must be reproducible under TAR Network Code we would recommend allowing time for the model and values to be verified and updated following any changes to entry and exit capacity.

Optional Charge
The NTS optional charge was introduced based on the economic benefit to consumers and the whole energy system, of avoiding bypass of the NTS. Where sites bypass the NTS by building point to point pipelines this increases average charges to all remaining consumers. The principles supporting an optional charge remain valid. Ofgem have a number of options to introduce an optional charge within the modification process and we believe the likelihood of bypass is higher than assessed in the impact analysis. We urge Ofgem to reflect and reconsider if all the options presented reflect an undue distortion.

E.ON

E.ON believes Ofgem's assessment is accurate and supports UNC 0678A as the most appropriate between the 2 proposals which meet EU TAR obligation.
E.ON's belief is that avoiding a distance-based cost driver will result in a cost-reflective tariff for all participants, creating a fairer and transparent transmission charging regime.

Based on the impact assessments provided to E.ON we see no clear benefit for moving the methodology away from the UNC at this time, therefore we agree with Ofgem's findings that on balance the FCC methodology is maintained in the UNC.

However, E.ON believes that further work should be completed to consider how, and who, the FCC methodology should be maintained by in the future. We note that that Ofgem intend to carry out a review of GB system operations late spring so we would like Ofgem to consider reforms for the FCC as part of that work.

We agree with Ofgem's assessments against the applicable objectives.

E.ON agrees with Ofgem's assessment and feel the applicable objectives would be better achieved through UNC 0678A.

E.ON supports implementation taking place on 1 October 2020, coinciding with the start of the gas year. We would not support a date which does not align with the gas year commencement.

EDF Trading

Despite agreeing that Postage Stamp can be a suited pricing method for recovery of costs in a network with declining usage and spare capacity EDF Trading believes that there is still some merit in retaining cost-reflective locational charging such as CWD.

EDFT stresses the importance of having transparent and reliable data to determine FCC and clearly defined processes to modify the methodology if/when required.

Since, in principle, the PS methodology is presumably resulting in higher tariffs than CWD for entry-exit combinations located at short distance and this may increase the incentive for bypass of the gas network, it would be useful to retain the possibility to implement a clearly designed optional charge (NOC) to avoid that.

Worth noting that any changes to optional charge regime intended for implementation as of 01st Oct 2020 must be decided on and notified to the market in a timely manner, ideally at least 3 months in advance.

The Postage Stamp methodology seems to allow for an easier way to calculate reference price forecasts. However, as stated above the CDW may be considered a more suitable cost-reflective methodology to be used considering current network's needs.

Despite agreeing on the implementation date at the beginning of the gas the year on 01 October, EDFT has concerns on the timeframe for publication of the changes in tariff as these are likely to remain unpublished until later in the year (in the second half to the year). EDFT encourages the publication of such changes in the shortest timeframe following the final decision.

Energy Intensive Users Group

The cumulative effect of upcoming energy price increases – including the Gas Transmission Charging Regime, will have a significant effect on whether the UK's EII's are able to survive over the short – medium term.

Energy costs increases are expected following the Gas Transmission Charging Review/Mod 678 implementation and the removal of the gas short haul tariff. This proposal alone will result in the gas transportation charge increasing for some EII's by several millions of pounds per year which will make it economically viable for them to build their own duplicate gas pipeline with their neighbouring industrial sites.

In the longer term, if costs are placed on EII's for decarbonising heat (hydrogen/Carbon Capture & Storage), network reinforcements for the electrification of heat and transport and new nuclear, EII's will eventually be priced out of the UK, only for their products to be replaced by imports; many of which that have a higher carbon footprint than the equivalent UK product.

This consultation states that "UNC678A does result in a significant increase in the entry tariff for gas storage… which may negatively impact on revenues for these facilities. The EIUG is concerned that this will place further financial pressure on UK gas storage facilities which will may result in further storage facility closures reducing the security of supply for short term supply issues.

Additionally, the EIUG is concerned that "by avoiding a distance-based cost driver, UNC678A will encourage flows from the cheapest sources of entry regardless of location on the NTS". It is irrelevant what Entry Capacity Prices are, flows into those entry points will be governed more by the physical infrastructure rather than the price signals.

Energy UK

Energy UK broadly supports Ofgem's minded to decision with respect to UNC 0678A with the postage stamp methodology being more appropriate for the current GB system in the short term for cost recovery and to achieve compliance with TAR NC. We agree this is a suitable way of supporting competition, and minimising cross-subsidisation. We do however have concerns that the lack of any sort of locational signal as to where parties should efficiently connect could create or exacerbate constraints in the future.

We also consider that this represents a significant step change in the current charging arrangements which will have wider consequences, including in the electricity market. The issues of the storage discount and optional charge need to be addressed to avoid the undesirable consequences of the closure of storage facilities or bypass of the transmission system, which would not be good outcomes and would increase the cost burden on customers in the medium term. Energy UK would therefore support an October 2021 implementation date to allow these issues to be addressed and ensure a well-managed transition.

We also have concerns that this approach is not consistent with that for the electricity regime and may not promote efficient outcomes in support of the decarbonisation agenda, in respect of sector coupling and low carbon gases.

EP UK Investments

- The proposed RPM would lead to disproportionately high costs for offtakes located close to entry points and must therefore be accompanied by a short haul tariff to discourage construction of private bypass pipelines.
- Complete removal of the current short haul tariff would lead to a significant increase in costs for some CCGTs, which it will be difficult to recover through electricity capacity or wholesale markets.
- If power stations lose short haul, they will investigate all possible options to reduce costs, including building bypass pipelines. This may lead to outcomes which Ofgem has not foreseen. Ofgem's analysis contains methodological flaws that appear to underestimate the risk of users building bypass pipelines.
- We do not agree with Ofgem's finding that NOC Methodology 2 provides an undue cross-subsidy to sites with no credible risk of network bypass. This short haul

methodology is based on the estimated cost of building a bypass pipeline and Ofgem's primary criticism of Methodology 2 appears to misunderstand how it works.

- We therefore consider that Ofgem must direct that a short haul tariff will be retained and that, if the eligibility for the short haul tariff and/or level of short haul discount is to be reduced, any change should be phased over a number of years.
- It important that network users have an opportunity to respond to any changes in network charges and are given appropriate notice of their implementation. We therefore consider that gas charging reform should be implemented from October 2022 at the earliest, with any changes to the short haul tariff phased from that point.

Equinor

Equinor fully supports Ofgem's minded to position to implement UNC678A and the PS methodology. We feel this proposal best reflects the relevant objectives of the UNC. We agree this is a suitable way of supporting competition, and minimising cross-subsidisation. Equinor feels the proposal to be compliant with TAR NC particularly around existing contracts being exempted from RRC. Equinor also welcomes the recommendation to implement FCC methodology within the FCC to ensure good governance in the future. Equinor requests a final decision on the process before the end of May 2020 for implementation in October 2020.

ESB

We understand Ofgem's reasoning for the selection of the Postage Stamp methodology. We consider that it is reasonable to apply Postage Stamp in current market circumstances, but reflect that this is a time of uncertainty and potentially radical transition for the gas system. Locational signals may grow in importance as network use changes and new production sources enter the market.

We are concerned that the quantitative analysis outputs should not be relied on due to the assumptions and constraints used in the modelling. In some cases, the approach used is flawed and the results, and resulting statements, are misleading to the reader. The power generation sector impacts are under-estimated in our view and we believe it is possible that the change in gas charging regime will play a part in closure decisions. We fundamentally disagree that the island of Ireland, and Northern Ireland in particular, do not meet the criteria for being considered isolated gas systems connected via the Moffat interconnector. Ofgem's reasoning on this issue would be welcomed.

Strong consideration should be given to charges becoming effective from 1 October 2021. This would coincide with National Grid's price control under RIIO2, allow sufficient time for development of solutions to short haul, storage and the incorporation of the FCC methodology into the UNC, and ensure there is sufficient notice of charging is provided.

Gazprom Marketing & Trading

Postage Stamp does not reflect the heterogeneity of the NTS, as it smears historical costs on an equitable basis. Whilst it has merits in its simplicity, we do not believe this is a reason to distort the main drivers of the allowed revenue.

We do not agree with Ofgem's assessment as this causes the FCC to be the only variable factor that sits within the UNC and potentially cause instability and uncertainty as it's exposed to the open governance process where users with commercial incentives may wish to understate the FCC and attempt to employ this via the governance process.

The impact of the PS methodology on future green gas market entrants is not justified and assumes these entrants would be located at the extremities of the network.

If the NOC is removed or significantly reduced, this will increase the cost of transporting gas to the GB network therefore the NBP spreads will need to widen, requiring a higher marginal price to signal flows to the GB market.

The analysis fails to quantify the impact of no relief granted for end-consumers and also ignores the near-zero distributional impacts on GB consumers as a result of the Ireland Security Discount.

We welcome Ofgem's decision to implement the new regime at the start of the year, however we also note that implementation of UNC 0678A will result in a sub-optimal outcome as it provides no solution for the optional commodity charge and storage discounts.

We would like to draw Ofgem's attention to an ongoing work programme in the Netherlands; REG2022.

Gas Storage Operators Group

GSOG believes that the proposed gas charging changes will be hugely detrimental to gas storage in the UK and the UK gas consumer.

- Substantial impact on storage facilities, as highlighted in CEPA's analysis that storage will see a 61% reduction in revenues under UNC678A.
- UK storage even less competitive with continental storage and other sources of GB flexibility, increased risk of further closures and mothballing of UK facilities.

The proposed charging arrangements for storage are detrimental to the well-functioning of the market, when higher discounts and usage of storage facilities is hugely beneficial to the market and reduce the cost to the end consumer, as evidenced in CEPA's analysis when comparing the Present Value of the proposals.

- No allowance in the proposed charging for the benefits and flexibility that storage facilities provide to the consumers of gas and electricity.
- No allowance in the charging for storage being an embedded parking facility within the transmission network, and to the nature of flows in supporting the network.
- PS and CWD methodologies are both cost recovery mechanisms and neither are reflective of the costs and usage of the transmission system, even less for gas flowing into storage, which already contributes to cost recovery upon entering and exiting the NTS.

On the process, GSOG notes that the short timescales for implementation of changes present severe risk and disruption for the industry. Also, GSOG regret that limited consideration was given to issues raised in proposals deemed uncompliant by Ofgem.

Interconnector UK

IUK believes a capacity weighted distance (CWD) approach is more appropriate than the postage stamp (PS) approach.

It is important that the FCC is reviewed and the methodology refine, as necessary, once there is more experience of the new charging regime. Having the methodology in the UNC can improve transparency on this key component.

We believe the CWD methodology, by being more cost-reflective to the PS methodology, furthers the efficient and economic operation of the network. It is also more likely to facilitate cross border trade given IP tariffs at Bacton would be lower than derived from the PS methodology. We also agree that UNC678 and UNC678A are both compliant with the TAR NC and therefore better facilitate Objective (g).

Whilst it is clear the current structure of the optimal commodity charge could not continue, we believe UNC678D, which has sought to create a more limited capacity discount is also compliant and could be considered as a temporary measure pending the conclusion of UNC670R. As well as making contributions to NTS costs, short haul has proven to make a wider contribution to the GB gas market by helping encourage gas into the GB market and GB exports.

Whilst we support implementation from the beginning of the next gas year, we urge Ofgem to make its decision by May 2020 to ensure tariffs are clear and known before IP capacity is offered for the next gas year.

Lucite International

LIUK considers that the current short-haul framework (Optional Commodity Rate OCR) provides a fair and proportionate balance of charges that reflect the cost of the investment and operation of the NTS pipeline section that supplies us, versus the opportunity cost of providing a direct connection. Furthermore, the cost levied for our use are not artificially low, inefficient or uneconomic and does not provide a cross-subsidy from other gas consumers or users to our business. As such the existence of the OCR is not in itself a barrier to competitiveness of the system by ourselves or other consumers.

The implication of the introduction of Modification 678A would result in an increase of up to £1.5m per annum. The alternative to our ongoing utilisation of the NTS is to construct a new private pipeline of approximately 4 – 5km through existing land ‘corridors’, which are in private ownership and are readily accessible to LIUK. Based on our studies and investigations it is estimated that construction of an alternative connection would pay back within 2 – 4 years; Under this scenario, LIUK;s management team and Directors would be economically driven to pursue this option given that our business and investors expect to remain in production for very many years to come.

LIUK supports the intent of the Large Users Group and confirms that we too are supportive of the need to reform the gas charging arrangements. The current regime is economically efficient for all concerned; the future methodology must not only be compliant with EU codes, it must help ensure that the UK can compete in a global energy market by providing for the low-cost transportation of our most important commodity supplies.

National Grid Gas

The existing Gas Transmission Transportation Charging Methodology is not fit for purpose as it does not deliver stable and predictable transportation charges and is not complaint with the EU Tariff Code. NGG has led industry development of proposals to deliver change to the Methodology via UNC Modification Proposals 0621 and 0678, the latter seeking to address the concerns expressed by Ofgem regarding the compatibility of 0621 with the EU Tariff Code.

NGG supports the conclusions of Ofgem’s Impact Assessment including the range of indicative Reference Prices stated. In respect of the objectives of the Charging Methodology, we recognise that in an under-utilised system cost reflectivity can be less relevant, therefore implementation of a PS RPM better facilitates the relevant objectives compared to the current LRMC RPM baseline.

We support the need to move away from the LRMC RPM for the reasons stated above and agree that implementation of 0678A would introduce a Methodology which addresses these issues and is compliant with the EU Tariff Code. NGG also agrees with Ofgem’s assessment of the extent of each Proposal’s facilitation of the relevant objectives and believe that implementation of 0678A would provide a revised Gas Transmission Transportation Charging Methodology which is better aligned to future regulatory and commercial market conditions.

NGG would urge Ofgem to reach its final decision at its earliest convenience to enable NGG (and the industry) to continue work towards implementation of new arrangements by 1st October 2020 to facilitate compliance with EU Tariff Code as soon as practicable.

Northern Gas Networks

Whilst the Postage Stamp approach will be more expensive for NGN customers, we consider the simplicity and broad fairness to be an appropriate Reference Price Methodology (RPM) and be easier for customers to understand. It should also be noted that NGN considered that the PS methodology would not provide locationally correct cost reflectivity, however, at a GB level this would provide the fairest spread of costs to consumers.

Postage Stamp Methodology should ensure that network location in relation to NTS Entry Points and Exit Points does not disadvantage gas users and will remain proportional through any future change in gas demand.

With reference to the implementation date, NGN would prefer price changes to be aligned to the start of the RIIO2 period in April or October 2021. The normal National Grid Transmission pricing cycle is aligned to the gas year rather than the regulatory year to match that of the distribution networks. Were the two cycles to align we would be able to better match revenues and costs. The added benefit of aligning revenue allowances and costs from April 2021 would remove the sizable two year catch up adjustment which would distort consumer bills in 2022/23, which would be generated by implementation spanning the two RIIO periods.
NGN would like to clarify that as we are not experts on TAR NC compliance we feel unable to comment on this aspect of the modifications.

OGUK

OGUK is the leading representative organisation for the UK offshore oil and gas industry. Our membership includes around 400 organisations with an interest in the UK's upstream oil and gas sector. As the champions of industry, we work on behalf of the sector and our members to inform understanding with facts and evidence, engage on a range of key issues and support the broader value of this industry in a changing energy landscape.

Although we have a range of members with different commercial positions and interests, there is a general view within the OGUK membership that a postage stamp charging structure is now the most suitable reference price methodology for the UK gas transmission networks.

There is also general support for a timely decision (i.e. October 2020) by Ofgem although ideally this should be subject to addressing the short haul question adequately. OGUK members support the need for a well-designed and targeted short haul discount, which reduces the level of bypass risk without providing additional subsidy to supplement to 0678A (see response to Question 9).

Our response to the Panel consultation in May 2019 explained a number of these points in more detail and is included as an Annex. The answers to the questions below refer to the May 2019 document as appropriate, while adding or commenting on any new evidence that has emerged since then, including the Ofgem impact assessment.

OMV Gas

OMV Gas Marketing & Trading GmbH (OMV Gas) welcomes the opportunity to comment on the OFGEM Charging Methodology Consultation pursuant to NC TAR, as published on 23 December 2019.

We have a preference for the postage stamp methodology (as outlined in modification proposal UNC678A) as it better reflects the characteristics of the meshed network of National Grid than the CWD approach.

We believe that the risk of interruption at ASEPs should be reflected by significantly higher discounts than 10% in the light of the potential continuation of excessively high overrun charges. We believe the current discount system reflects such risk appropriately.

Furthermore, we suggest to introduce a multiplier for daily entry capacity that is significantly lower than 1 (pursuant to NC TAR Art 13 b). The due justification for such measure must be seen in attracting short term volumes entering the UK from Norway, since such volumes are directly competing for flows into other NWE markets.

We support the intention to introduce the new charging regime with effect of 1st of October 2020. However, the final decision including the publication of tariffs should be available sufficiently prior to the annual capacity auction in July 2020.

SGN

Throughout development of the Transmission Charging Regime changes, SGN has raised concerns regarding the potential consumer impact of moving away from the current LRMC3 towards either a CWD4 or postage stamp model.

UNC 0678A changes the charging methodology from locational supply and demand reflective of usage towards an unconstrained system which assumes an offtake can be supplied by any entry point, and therefore charges all customers the same amount regardless of location. As it would not enable NTS to apply any locational signals it is likely to reduce the cost reflectivity of charges.

While the total amount recovered by National Grid should remain consistent, the impact felt by individual consumers depends on the region within which they are based, with Southern customers receiving a slight saving while Scottish customers receive a significant increase.

While the minded-to letter highlights the need for "tariff arrangements which are non-discriminatory and which prevent undue cross-subsidies", proposals plan to smear any over/under recovery of revenue across all exit points rather that target the exit points at which the over/under recovery was created, thus in fact creating cross-subsidies.

SGN remains concerned that the customer impact of the proposals is difficult to justify and would encourage implementation of any changes to be beyond October 2020 in order to manage this customer impact, particularly in Scotland.

SmartestEnergy

We are concerned that PS could increase the risk of bypass, as the methodology has higher tariffs for entry-exit points separated by short distances. Although Ofgem claim that the risk of bypass is low, it is not clear how this opinion was formed and on evidence.

However, CWD could also lead to distortions, through a distance-based charging mechanism. This could also discourage renewable energy developments, which are not necessarily close to entry/exit points and could therefore be a stumbling block in the path to net-zero.

We would marginally agree that PS is preferable for future green gas participants. There are other considerations beyond RPM for green gas participants, such as schemes to promote market stability such as the Renewable Heat Incentive scheme that is due to end in 2021. Whilst the PS does provide some market stability, future schemes will need to be implemented to incentivise green gas participants.

PS is preferable in terms of compliance, as doesn't feature inappropriately targeted reference price discounts, dual regimes, or the capacity surrender rule, which would all not target effective competition. We are concerned about the lack of confidence in modelling, Ofgem comment several times that the limitations and assumptions in the modelling make it challenging to draw conclusions.

PS is also preferable in terms of replicating reference prices, CWD can result in negative/zero reference prices at some locations which requires correction. However, PS does not require this correction.

South Hook Gas

South Hook Gas Company Ltd. (SHG) is supportive of Ofgem's minded to decision to implement UNC Modification 0678A and for such implementation to take place from 1 October 2020. For the sake of completeness, SHG has noted a small number of specific concerns around the implementation of UNC Modification 0678A and remains of the view that its NTS Optional Charge (NOC) methodology contained within proposed UNC 0678J is not non-compliant. SHG is supportive of the development and implementation of an interim NTS Optional Charge (NOC) solution in parallel with the implementation of UNC 0678A, noting that this should be as fully built out as possible in order to minimise final implementation cost once a final NOC solution is developed and approved. In addition, SHG has concerns relating to the calculation and governance of the Forecasted Contracted Capacity (FCC) methodology. SHG agrees with Ofgem's findings within the IA that there is a risk the current methodology may lead to an over-forecasting and therefore, in the short term, the methodology should allow NGG flexibility to amend the FCC to ensure its accuracy. Once the methodology is robust and results in an accurate FCC, then the methodology should be written into UNC and only deviated from under exceptional circumstances.

SSE

SSE raised a Postage Stamp RPM in its modification 678C, this is because it is better suited to the GB network than the Capacity Weighted Distance (CWD) RPM and will result in less distortion to wholesale market prices.

We disagree with Ofgem on its interpretation of Article 35 and the exclusion of an application of the RRC to existing price contracts. Combined with other conclusions from the Minded to Decision this means that no modifications further the relevant objectives and all should be rejected. A new compliant modification should be raised based on 621A but with RRC applied to existing bookings. Additionally, the opportunity to develop further amendments to include a larger discount for storage and a new short haul product to avoid bypass of the NTS should be included.

Storengy

Storengy believes that the proposed gas charging changes will be hugely detrimental to gas storage in the UK and the UK gas consumer:

- Substantial increase in costs and loss of revenues for storage facilities, as highlighted in CEPA' analysis that storage will see a 61% reduction in revenues under UNC678A.
- UK storage even less competitive with continental storage and other sources of GB flexibility.
- Further closures and mothballing of UK storage facilities, loss of security of supply, and loss of price security.
- No allowance in the proposed charging for the benefits and flexibility that storage facilities provide to the consumers of gas and electricity.
- No allowance in the charging for storage being an embedded parking facility within the transmission network, and to the nature of flows in supporting the network.
- Proposed charging arrangements for storage are detrimental to the well-functioning of the market, when higher discounts and usage of storage facilities is hugely beneficial to the market and adds significant value.
- Short timescales for implementation of changes present severe risk and disruption for the industry.

- Postage Stamp and Capacity Weighted Distance methodologies are both cost recovery mechanisms and neither are reflective of the costs and usage of the transmission system.
- Limited consideration given to issues raised in proposals deemed uncompliant by Ofgem, eg substantial increases in prices for some capacity already acquired.

Uniper

We do not support the implementation of UNC Modification Proposal 0678A. Whilst we agree that the proposal can be considered NC TAR compliant, we are concerned about the impact on the GB gas market of moving to a fundamentally different charging methodology.

Implementation of the proposed Postage Stamp (PS) Reference Price Methodology (RPM), alongside a uniform rate Non-Transmission Services charge, would remove all locational signals from the current charging arrangements. It is not clear to us that despite declining gas demand overall, future connectees will not impose any additional costs on the NTS.

By providing no locational signal or incentive, the PS RPM gives network users no indication about the most efficient place to locate on the NTS. Even if the NTS as a whole is unconstrained, there are areas that present operational challenges to NGG, such as the South East of England. As the proposed charging arrangements will incentivise significantly more firm capacity bookings than at present, we may see a tightening of the network. If new users then connect in such an area, NGG may incur costs, potentially leading to inefficient grid investment. This would be paid for by existing connectees and consumers.

This situation could be avoided by retaining a locational forward looking charge to continue to encourage connections in the most efficient locations, thereby mitigating the risk of inefficient investments. As the Capacity Weighted Distance (CWD) RPM retains some degree of locational charging, we believe that UNC 0678 would be a better outcome for all consumers.

Vermilion Energy Ireland

Vermilion supports Ofgem's assessment, in particular that:

- the quantitative analysis as provided by CEPA is appropriate

- the proposals for an NTS Optional Charge, a Wheeling charge and an Ireland Security Discount are all non-compliant.
- an exemption from a revenue recovery charge is not permissible under Article 35 for contracts/booking made from 6 April 2017
- any additional discounts (other than those mandated by the EU Tariff Code) need full justification
- it follows that only 678 and 678A are compliant with EU 2017/460
- the new methodology should be effective for tariffs from 1 October 2020.

Vermilion has a slight preference for 678 over 678A but appreciates that the minded-to decision is finely balanced between the only two compliant proposals, and acknowledges that future additional change may be necessary and desirable to refine specific elements through the UNC Modification process.

The Ofgem motivated decision should be published ahead of the capacity auctions at Interconnection Points in order to achieve compliance. This should be done at the earliest opportunity after receiving the ACER response (ideally at the beginning of May).

Vermilion is particularly concerned about further delay past October 2020 and potential retention of the non-compliant Optional Commodity Charge (on which it has raised two UNC modifications). Vermilion believes that Modification 686 should be approved soon to get closer to compliance in 2020. Approval of Modification 686 would motivate interested parties to find an acceptable and compliant capacity based replacement Optional Charge sooner rather than later.