



David O'Neil - Gas Systems, Energy System Transition
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Canary Wharf
London
E14 4PU
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Dear David,

Amendments to Gas Transmission Charging Regime Consultation: Drax response

As requested in Ofgem's minded to decision please find below our summary response below and answers to the substantive questions in the appendix.

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 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.

Yours sincerely

Paul Youngman

Industry Governance manager

Appendix

Question 1: What is your view of our assessment that Postage Stamp is a more appropriate RPM in light of the circumstances of the GB network?

In responding to this question, please address, in particular, the following points in your response:-

(i) in a meshed network with spare capacity and declining usage, a fair approach to cost recovery would be based on the level of access to the system irrespective of individual location; and

Either of the methodologies could be used and it is not clear that there is a substantial benefit from using the postage stamp methodology over the CWD methodology. The postage stamp methodology is less cost reflective than CWD. In certain locations on the network this choice could drive sub-optimal investment decisions as there is no variation in transmission charges irrespective of location and availability of capacity.

The implication stated - that there is an unlimited supply of spare capacity on the network now and into the future - is not substantiated. For instance, National Grid are working on options to integrate hydrogen through their Gas Markets Plan. Additionally, National Grid take both physical and commercial actions to ensure the gas system is balanced and address localised constraints and issues. Equally the processes in place to substitute capacity to new customer points, allocates on ratios higher than 1:1, which implies that there are different risks /costs for the same unit of capacity dependent on the location. If all capacity is the same, then there should be no such differentiation in the substitution of capacity between locations.

(ii) CWD may introduce signals for use of the network which discourage flows at more distant entry and exit points, without improving network efficiency.

CWD does not discourage flows at more distant entry and exit points. What National Grid have done with their CWD methodology is base the calculation on all points across the country rather than looking at any zonal differentiation as allowed for under Article 8.1. The consequence of this is that exit points located at the geographic centre of the country have, on average, a shorter distance to travel to **any** entry point than exit points located very close to an individual entry point. This leads to non-intuitive charges where exit points close to an entry point have higher charges than exit points that are not close to any entry point. This issue may be solved by zoning or inclusion of an OCC charge.

Question 2: Do you agree with our assessment that maintaining the FCC methodology in the UNC improves the transparency and consistency of governance compared to maintaining the FCC Methodology outside of the UNC?

Yes we agree, maintaining the FCC within the UNC improves transparency. The FCC methodology was released relatively late in the development process and will inevitably require validation and adaptation over time.



Question 3: What is your view on our assessment that the PS RPM would be preferable to the CWD for future green gas market entrants?

We do not agree that there is any additional intrinsic benefit for green gas market entrants from the PS RPM.

Question 4: What are your views on our assessment of the quantitative analysis?

The economic assessment is not based on a like-for-like assessment but on a prediction of future flows and the assumption that there is perfect alignment between capacity bookings and flows. This makes understanding and comparing the costs of transition difficult for market participants, as the assumptions used in the modelling may or may not materialise. Equally the majority of consumer benefit is attributed to projected reductions in gas wholesale prices feeding into lower electricity wholesale prices. It is not clear if the benefits predicted are due to the reference price methodology chosen or other factors in the modelling.

By contrast the assessment of the likelihood of parties to disconnect from the transmission network has been constrained in several ways. Firstly, it has been predicated on the sites that currently use the optional charge. This understates the risk of disconnection as it does not include the increase in costs that many exit points face under the postage stamp arrangements. The second assumption is that exit points will be constrained by a five year payback period. We believe these two assumptions understate the risk of investment in point-to-point pipelines, leading to inefficient bypass of the NTS. Without an optional charge we believe that exit points could disconnect from the NTS leading to an increase in charges for the remaining connected parties and wider consumers.

Question 5: What are your views on our assessment of the modification options presented to us against the applicable UNC objectives?

It is our view that all of the modifications proposed could be reasonably argued to be compliant with the EU tariff network code satisfying UNC objective 'e'. Our preference is for modification 678B which proposed a CWD based methodology with optional capacity charge. This option would address the issues inherent in a national application of CWD and would also mitigate against inefficient bypass of the transmission system by reducing the incentive on parties to build point-to-point pipelines and disconnect from the transmission system.

We also recognise that there are other options that apply the postage stamp approach with an optional charge, and consider that these would also satisfy the UNC objectives.

Question 6: What are your views on our conclusion that only two modifications UNC678 and UNC678A - are compliant with the relevant legislation? If you disagree, please provide a fully reasoned explanation.

We disagree that UN678 and UNC678A are the only two modifications that are compliant with the TAR Network code. There is very little difference between these modifications and the other modifications that propose an optional charge. We do not agree with Ofgem that the optional charges

presented amount to undue discounts. This is in part accepted by Ofgem in paragraph 4.65, where an optional charge would reduce the risk of bypass.

Question 7

a) Given our conclusion that only two modifications are compliant with the relevant legislation, what are your views on our minded-to decision to approve UNC678A rather than UNC678?

We do not agree with the decision to implement UNC 678A as it is a cost recovery mechanism and is not cost reflective. We're similarly of the view that UNC678 is not cost reflective as it does not apply the CWD in accordance with Art 8.1 which allows for zonal differentiation. To improve cost reflectivity and avoid inefficient bypass of the NTS, Ofgem should re-consider options that include an NTS optional charge.

b) Do you consider our minded-to decision to appropriately reflect the principles based assessment and quantitative analysis presented in this report?

See response to (a) .

c) Do you agree it best facilitates the relevant objectives? Please fully justify your response.

See response to (a).

Question 8: What are your views on our assessment that the proposed RPM (PS under UNC678A) achieves, inter alia, the following objectives:

a) enables network users to reproduce the calculation of reference prices and their accurate forecast;

Yes, although as do all other modification proposals if models and tariffs are released in a timely manner. We recommend implementation from October 2021 to enable the development of a more robust FCC methodology and tariff model.

b) presents a better option than CWD for the recovery of the costs of the gas transmission system in the presence of a meshed network characterised by spare capacity and declining usage, and where cost-reflectivity is less relevant;

We do not agree per our points in answer to question one.

c) ensures non-discrimination and prevents undue cross-subsidisation (you may refer to the results of NGGT's Cost Allocation Assessment ("CAA") published as a subsidiary document to this consultation);



The majority of options achieved this in our view.

d) ensures that significant volume risk related particularly to transports across an entry-exit system is not assigned to final customers within that entry-exit system;

In our view there was little difference between options.

e) ensures that the resulting reference prices do not distort cross-border trade?

There was no substantive evidence of this for either option.

Question 9: What are your views on our minded-to decision that implementation should take place from 1 October 2020 to coincide with the start of that gas year?

Implementation dates should be at the start of a relevant gas year. Though Ofgem's minded-to decision prefers 678A, the details and models used to derive and produce the actual tariffs have not been produced. National Grid have been very clear that the models produced in the development of all the modifications have been indicative only. We therefore believe there is a strong argument not to implement before 1st October 2021. Implementing earlier would be sub-optimal for consumers, as market participants would not have sufficient information to provide accurate forward prices to consumers.

Question 10: Are there any other matters, whether or not addressed in our analysis or minded-to findings, which you think we should take into account in reaching our final determination?

We have no further comments.