

By email

David O'Neill
The Office of Gas and Electricity Markets
10 South Colonnade
Canary Wharf
London
E14 4PU

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RE: UNC678/A/B/C/D/E/F/G/H/I/J: Amendments to Gas Transmission Charging Regime: minded to decision and draft impact assessment

Dear David,

South Hook Gas Company Ltd. (SHG) is grateful for the opportunity to respond to Ofgem's minded to decision and draft impact assessment on UNC Modification 0678 and alternatives (IA). In summary, 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 below 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. Further details on the comments below can be found in SHG's UNC consultation response and views on UNC 0678 analysis.

Firstly, SHG believes that Postage Stamp (PS) is a more appropriate Reference Price Methodology (RPM) than Capacity Weighted Distance (CWD), or the status quo. It is widely accepted that the NTS is a mature system and therefore a marginal cost RPM (such as the current Long Run Marginal Cost methodology) is no longer appropriate. SHG does not believe the CWD RPM represents how the NTS is used and leads to costs being incorrectly allocated to Users at the extremities of the network. It is not possible to allocate historic costs to specific points or routes on the NTS and therefore the cost drivers within the CWD RPM are inappropriate. The PS RPM allocates those historic costs on a non-discriminatory basis which encourages competition and is a simplified approach, which allows for transparency and enables network users to reproduce the reference prices and forecast capacity costs more accurately.

SHG has previously raised concerns around the calculation of the Forecasted Contracted Capacity (FCC) and the governance associated with the methodology. Therefore, SHG agrees with Ofgem's findings in Paragraph 4.47 of the IA that there is a risk the current FCC methodology may lead to over-forecasting the FCC and result in under-recoveries. Indeed, SHG believes these risks may be more significant than Ofgem stated. Using the maximum of historic bookings, historic flows and forecasts will always lead to a significant over-forecasting of FCC and under-recovery of revenues.

SHG has concerns around Chapter 4 of the latest proposed FCC Methodology which allows exceptions to be applied in determining an FCC for a specific Entry or Exit point under Chapter 3 in exceptional circumstances. In principle SHG agrees with this right to deviate from Chapter 3 of the FCC methodology only in exceptional circumstances, given the concerns of under-recovery as a result of the FCC methodology. Therefore, in the short-term, NGG should have more flexibility to amend the FCC to ensure its accuracy. NGG should however share sufficient detail on the changes made (e.g. the principles and assumptions that have been used together with the rationale for using them) in order that stakeholders can have confidence in the FCC. Once the methodology is robust (e.g. after behaviour changes can be seen and better predicted) SHG's view is that the methodology should only permit deviations in specified exceptional circumstances as defined within the rules (preferably UNC) where possible.

SHG believes, in the long term, that moving the FCC methodology from a methodology statement into the UNC would improve the transparency and governance of the FCC methodology. However, we recognise that, in the short term, the FCC needs to remain flexible to ensure the methodologies can be developed and refined to a point where they accurately reflect a realistic forecast of capacity use. Therefore, it would be pragmatic to allow for a transition period where the FCC methodology sits outside the UNC with a commitment to transposing it into the UNC at a later date (e.g. 2 years). On a similar note, SHG suggests that the FCC values (or indicatives) should be published ahead of the final charge setting process to allow for greater transparency and to enable network users to better forecast their charges.

As proposer of UNC 0678J, and in line with the legal opinion obtained by SHG, VPI Immingham LLP (Vitol), EP UK Investments Limited and Saltend Cogeneration Company Ltd (Triton Power), SHG does not agree with Ofgem's assessment that the NOC methodology contained within our proposed modification is non-compliant.

In terms of a NOC solution, SHG's view is that, without a suitable NOC methodology being incorporated in UNC 0678A, this modification will be incomplete. SHG understands that the projected timeframe for implementation of UNC 0678A may make development and incorporation of a fully optimised NOC solution within the modification unachievable. However, if no NOC solution is in place upon implementation of UNC 0678A, SHG envisages a significant likelihood of several network users building private pipelines, which will result in a fragmentation of NTS usage. Therefore SHG's view is that, in parallel with the implementation of UNC 0678A by October 2020, an interim NOC solution should be implemented that is as fully built out as possible in order to minimise the incremental costs of subsequently developing and implementing the modification containing the final enduring NOC solution.

In summary, SHG welcomes Ofgem's minded to decision to implement UNC Modification 0678A and the timescales set out for doing so. SHG notes the importance of a NOC charge going forward to mitigate the risk of inefficient bypass of the NTS and recommends that the most built out solution as possible be developed and implemented in parallel with UNC 0678A as an interim measure, pending the development and implementation of an enduring NOC solution.

We hope this response is of assistance and should you wish to discuss further or have any further questions please contact me on abates@southhookgas.com or +44 (0)20 7234 3505.

Yours sincerely,

Adam Bates

Regulatory and Commercial Analyst
South Hook Gas Company Ltd.