



Representative:	Henk Kreuze
Organisation:	Vermilion Energy Ireland Limited
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Summary

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.

Introduction

Vermilion Energy Ireland Limited (hereinafter “Vermilion”) has been an active participant in the process to reform the GB charging arrangements alongside the implementation of the European Network Code on Gas Tariffs. We have responded to all consultations including UNC Modification 621, Modification 678 and the EU interim consultation. Our response to this “final consultation” is not confidential.

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

Vermilion believes that either the CWD methodology or the Postage Stamp methodology would be compliant with EU 2017/460. For this reason has supported both 0678 and 0678A proposals in earlier stages of this process.

Vermilion believes that network costs are intrinsically linked to pipeline building costs and as such considers that distance is an important element of costs. For this reason Vermilion has marginally supported the CWD methodology.

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?

Vermilion’s preference would be for the FCC methodology to be outside of the UNC as this would likely facilitate a speedier response to the receipt of new information and experience of this new process. The long process of a UNC Modification is not sufficiently responsive to the need to recover revenues in a timely manner and may be subject to a long delay by Users with vested interests in the status quo. However, Vermilion considers there may be some merit in Ofgem’s 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. Vermilion notes that if this is the final decision then it would be more practicable to incorporate the FCC methodology into the UNC as a second stage to implementation of the new charging arrangements which are subject to a very tight timescale.

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?

Vermilion is unable to comment on which RPM would be most acceptable to future green gas market entrants.

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

Vermilion supports Ofgem's assessment of the quantitative analysis as provided by CEPA. The CEPA analysis provides a dynamic and longer term view (over 10 years) rather than the static view as provided by National Grid in its derivation of indicative tariffs (for 4 years).

We agree with Ofgem's statement *"we are conscious of the need to apply caution when drawing conclusions from results. The uncertain nature of some assumptions, such as future gas and electricity demand, technological developments and commodity prices, mean that actual outcomes will inevitably differ from forecasts and that outcomes identified in the modelling may be sensitive to market trends"* and so welcome consideration under the two FES scenarios which incorporate high and low levels of gas use respectively.

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

Vermilion in general supports Ofgem's assessment of the modification options presented to them against the applicable 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.

Vermilion, in its response to the UNC Modification 678, considered 678 and 678A compliant with the substantive requirements of the EU Tariff Code (EU 2017/460) as requested by the Authority in its decision letter on Modification 0621.

In our response to the UNC678 consultation we commented on the Revenue Recovery charge. We noted that all proposals included such a charge but that rules on exemptions to this charge differed between the proposals. We stated:

"We consider such a charge is not a requirement of the EU Tariff Code but appreciate views that it may provide a useful safeguard in the event forecast revenues are significantly different from target revenues. We would expect that it would be used rarely and with Authority approval. So, we do not regard this as a pressing issue now as timely substantive compliance is the current target."

We concur with Ofgem that exemption from a revenue recovery charge is not permissible under Article 35 for contracts/booking made from 6 April 2017. Proposals which exempt new storage contracts from a revenue recovery charge are therefore non-compliant.

We agree with Ofgem that discounts, other than those mandated by the EU Tariff Code, need full justification and consideration should be given to the effects on those unable to obtain the discounts. We accept that it is entirely possible and consistent that future additional change may be necessary and desirable to refine specific elements.

We agree with Ofgem that the proposals for an NTS Optional Charge within the 678 set of proposals are non-compliant. We further agree with Ofgem that the proposal for a Wheeling charge and an Ireland Security Discount is non-compliant.

Stakeholders who believe storage discounts should be higher or an Optional Charge should be re-introduced can pursue incremental change to the basic methodology through the UNC Modification process. We note that the Modification 670R Review Workgroup is currently considering options for a compliant Optional Charge.

So, we agree with Ofgem that only UNC678 and UNC678A can be considered compliant with the relevant legislation.

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?**
- b) Do you consider our minded-to decision to appropriately reflect the principles based assessment and quantitative analysis presented in this report?**
- c) Do you agree it best facilitates the relevant objectives?**

Please fully justify your response.

Vermilion believes that either the CWD methodology or the Postage Stamp methodology would be compliant with EU 2017/460. For this reason has supported both 0678 and 0678A proposals in earlier stages of this process.

Vermilion believes that network costs are intrinsically linked to pipeline building costs and as such considers that distance is an important element of costs. For this reason Vermilion marginally prefers the CWD methodology.

Vermilion appreciates the minded-to decision is finely balanced between the only two compliant proposals.

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;**
 - 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;**
 - 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);**
 - 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;**
 - e) ensures that the resulting reference prices do not distort cross-border trade?**
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Vermilion agrees that network users should be able to reproduce the calculation of reference prices and their accurate forecast under the Postage Stamp methodology provided the relevant information is published in a timely manner.

Vermilion does not agree that the postage stamp methodology necessarily presents a better option than CWD in the presence of a meshed network characterised by spare capacity and declining usage, and where cost-reflectivity is less relevant. Vermilion believes that network costs are intrinsically linked to pipeline building costs and as such considers that distance is an important element of costs.

To the extent that the Cost Allocation Assessment (CAA) is an appropriate measure of non-discrimination and prevents undue Cross-subsidisation then the postage stamp would appear more compliant as the capacity values (ranging between 2.75 and 8 for years 2019/20 to 2022/23) is within the 10% target whereas the CWD values (ranging between 13.4 and 17.10 for years 2019/20 to 2022/23) is outside the 10% target. There has been no explanation provided on the relevance of this test.

Vermilion agrees that significant volume risk related particularly to transports across an entry-exit system is not assigned to final customers within that entry-exit system.

Vermilion agrees that the resulting reference prices do not distort cross-border trade.

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?

Vermilion fully supports implementation for the new methodology and the resultant tariffs to be effective from the start of the Gas Year 1 October 2020. A decision as soon as possible is preferred (ideally at the beginning of May) so that reference and reserve prices are published in time for the capacity auctions at Interconnection Points which take place in July.

The Ofgem motivated decision should be published at the earliest opportunity after receiving the ACER response.

Vermilion believes it is important to be compliant with the relevant Legislation, both the EU Tariff Code (EU 2017/460) and Gas Regulation 715/2009. A fully compliant methodology which satisfies all parties may be difficult, if not impossible to achieve; a methodology which substantially improves the compliance position this year should be considered essential when the alternative is to prolong the status quo of non-compliance. Any charging methodology should have the ability to evolve and respond to changing circumstances and, as stated in response to Question 6, we accept that it is entirely possible and consistent that future additional change may be necessary and desirable to refine specific elements.

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 agree with Ofgem's assessment that neither of the proposed NTS Optional Charge arrangements would be compliant with the relevant legislation. We understand the desire to re-consider if there might be a suitable methodology that could mitigate any potential risk of "inefficient by-pass". This work is currently being considered within the UNC Modification 670R review Workgroup.

We are particularly concerned with the length of time taken to develop a new compliant methodology, given that compliance was required for tariffs effective as from 1 October 2019. The work has been subject to many delays and uncertainties. As a result of the somewhat lengthy process, Vermilion has raised UNC Modification 0636 in October 2017 to address the significant cross-subsidy arising from the very high commodity charges. This proposed an updating¹ of the existing commodity based charge to better reflect the underlying costs in constructing and operating a by-pass pipeline as a step in the right direction in the provision of a methodology which could be considered to be compliant with relevant legislation. A further UNC Modification 0686² has subsequently been proposed to give more notice of the removal of the commodity based optional charge, which Ofgem has deemed to be non-compliant³⁴⁵. It should be noted that the removal of the commodity based optional charge is an integral part of the only two compliant Modification 678 proposals (namely 0678 and 0678A). At the time of writing this response, Ofgem's Impact Analysis and decision on this Modification 686 is still outstanding. Approval of Modification 686 would motivate interested parties to find an acceptable and compliant capacity based replacement sooner rather than later.

¹ The original charge was introduced in 1998 and has never been increased to reflect inflation over the last 22 years and is now attractive to 30% of flows on the system.

² Modification 686 was raised in April 2019 and the final Modification report was provided to the Authority 20 June 2019

³ Ofgem decision on Mod 0621: <https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/page/2018-12/Ofgem%20Decision%20Letter%200621.pdf>

⁴ "In conclusion, the proposed commodity-based NOC at non-IP points does not fall within either of the exceptions under Article 4(3) and is therefore not compliant with the TAR NC."

⁵ Ofgem also stated in its decision on Mod 621 "We consider the existing OCC, and proposed NOC, provide a cross-subsidy between those who can, and those who cannot, utilise the charge."