

NTS Gas Charging Discussion Document 13 – Impacts of Existing Contracts on Transmission Service Charges

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About Energy UK

Energy UK is the trade association for the energy industry with over 100 members - from established FTSE 100 companies right through to new, growing suppliers, generators and service providers across energy, transport, heat and technology.

Our members deliver nearly 80% of the UK's power generation and over 95% of the energy supply for 28 million UK homes as well as businesses.

The sector invests £13bn annually and delivers nearly £30bn in gross value - on top of the nearly £100bn in economic activity through its supply chain and interaction with other sectors - and supports over 700,000 jobs in every corner of the country.

The energy industry is key to delivering growth and plans to invest £100bn over the course of this decade in new energy sources.

Energy UK welcomes the opportunity to respond to this charging discussion document. We provide comments against the specific questions below.

When considering the impacts of ECs:

1. Do you agree that Existing Contracts are having a significant impact to Transmission Services Entry Reserve Prices?

Yes, but this is not a new issue and was anticipated before modifications to comply with EU TAR NC were approved.

2. Do you believe there should be some remedy to limit/reduce/remove their influence?

No, Energy UK's position is to do nothing as the window of opportunity is closing rapidly.

The biggest challenges being faced here are of time and compliance. Finding a complaint solution that avoids unintended consequences with minimum system change that can be implemented quickly, seems unlikely and may not be possible.

The magnitude of the problem in terms of Existing Contract volumes are falling year on year becoming deminimis in gas year 29/30, aside from storage, which has less impact. The timeline

presented seems to suggest implementation from October 2024 is possible, but October 2025 or beyond may be more realistic, given the assumptions over timelines for workgroup discussion and Ofgem decision, which would likely require an impact assessment to be undertaken. Any option taken forward will need to be assessed for wider impacts, potential unintended consequences, particularly beyond the expiration of Existing Contracts. Essentially be wary of change to address what is becoming a short-term problem.

3. Should there be any treatment, different to the status quo, for ECs and how they are accommodated and charged in the Charging Methodology?

In so far as the UK is still bound by EU TAR NC, it is difficult to see how Existing Contracts can be treated differently in a way that is compliant. The contracts were entered into in good faith and should stand.

Ofgem's decision letter for UNC mod 0790 floats the idea of applying a commodity charge to Existing Contracts similar to that prior to implementation of mod 0678. We agree this could be compliant with Article 35 as such contracts paid a commodity charge previously. The difficulty is how such a charge may be calculated in a way that is compliant with the rest of TAR NC.

The decision letter also notes on page 4 challenges in respect of other parts of TAR NC, including not deliberately setting out to under recover which would seem to be the only option to ring fence some revenue for a commodity charge on existing contracts.

Compliance has been such a key factor in all recent Ofgem determinations on transmission charging (mods 621,678, 790) where the boundaries of just about every approach have been tested, this suggests that compliance should be the starting point for the development of any option. The active engagement of Ofgem on this topic would be helpful.

On the options that focus on TS Entry alone:

4. Do you think any of these options provide a more suitable approach to Transmission Services Charging achieving an objective of more competitive TS Entry charges? If so, please include why this would be beneficial to competition.

It is difficult to comment on options at such a high level that may not be compliant, given the importance of compliance as noted in comments above. Any potential UNC modification must consider the Relevant Objectives in National Gas' licence, which include impacts on competition and compliance with EU Regulations, anything else is not relevant.

5. Are there any other options or refinements / amendments / specific treatment within these options that should be considered and why?

If any options are considered viable to proceed, refinements are likely to emerge during workgroup stage, but as stated previously compliance should be a key consideration at the outset, so that lessons can be learned from previous charging modification development.

An early question would be about the trading of Existing contracts with a 'new' commodity charge and whether this falls away after trading. If not, how are capacity trades tagged as existing contract capacity or not. What would be the system impacts? How may this affect shipper behaviour?

6. Should there be any additional things to consider (e.g. capacity hand-backs)

If anything is introduced that fundamentally changes the arrangements for existing capacity holders then buy backs may need to be considered, but again this would add complexity and compliance questions.

On the broader approach to managing TS Entry charging as part of a bigger objective (e.g. making the UK more attractive to land Gas)

7. Are there merits in reviewing Transmission Services Charging on a broader perspective, recognising that this would encompass Entry and Exit?

TAR NC requires the methodology to be reviewed within 5 years of implementation. This seems to be by May 2024, but the amendments contained in the EU Retained law Bill leave the requirements rather unclear. We await an Ofgem view on what is required.

In any event Users can raise proposals to change the methodology at any time, there does not seem to be a push from Shippers for significant change to the transmission charging methodology.

8. What, if any, objective could this aim to achieve?

We await a view from Ofgem as to what is needed to comply with the TAR NC 5 year review, any other review should focus on the objectives related to modification proposals unless a SCR sets out a different approach.

9. Should a discussion and review of, for example, a change to the 50/50 split be a deliverable for any such review?

No

Energy UK does not consider that a change to the Entry / Exit split should be considered as an option to address the existing contracts impact on pricing, due to the wider ranging consequences which would arise. This is not saying that such a review should not occur, but that any review should be on its own merits with its own terms of reference and probably be within a SCR framework. The split was specifically out of scope in the context of the transmission charging review and any move to increase the proportion of revenue recovered at exit would increase charges to customers, both gas and electricity, as reductions to the NBP price to compensate are not guaranteed nor can they reasonably be measured. Any change would not be quick to implement due to the wider issues that need to be considered.

Overall

10. Assuming an initial conclusion that something should be done (subject to views) do Stakeholders agree that we should explore:

a) TS Entry only?

b) A wider scope i.e. Transmission Services as a whole?

Energy UK considers that **do nothing** should be the preferred approach. It is premature to assume that shippers will conclude that something should be done. If any ideas or concepts are considered for development compliance should be considered first to avoid using significant amounts of industry time on proposals which cannot be implemented.

11. Is there anything not covered in this initial review that would be beneficial to take into consideration to facilitate advancing discussions on optioneering selection / direction / development for 2024 and beyond?

No further comment at this stage

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