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EFET response to NTS Charging Discussion Document (NTS GCD) NTS GCD 13
Impact of Existing Contracts on Transmission Services Charges.

We would like to make the following remarks in the context of NTS GCD13:

- **National Gas or Ofgem should demonstrate via a quantitative impact assessment the need for a revision of the current charging methodology by highlighting the benefits to competition and end consumers;**
- **Once this first stage of the process is completed, only the options that are in line with the TAR NC and other relevant regulations shall be considered and a new consultation should be carried out.**

The NTS Charging Methodology has now been discussed for over a decade. During the lengthy discussions to date and thanks to concerted efforts by industry participants to implement the EU Tariff Network Code (NC TAR), the current arrangements have facilitated NGT's Relevant Objectives. In particular they have allowed securing long term bookings at a point where the NTS was in need of major investment. Any modifications to the Methodology need to be duly justified and point at expected benefits without creating unnecessary regulatory instability and market uncertainty.

In any case, compliance with the NC TAR needs to be ensured. For example, the options which include the creation of a new commodity charge do not appear to be fully compliant with the EU Tariff Code which states that Transmission services revenue should by default be recovered by capacity-based transmission tariffs (Art 4(3)). We further highlight that neither National Gas nor Ofgem has provided any assessment on whether the different options considered are in line with the TAR NC and other relevant regulations.

A proper impact assessment would help understanding why changes are considered and what they are trying to achieve. When the current charging regime was introduced, it was well known that Existing Contracts would be paying less for capacity than new contracts. Ofgem noted in the document "UNC678/A/B/C/D/E/F/G/H/I/J: Amendments to Gas Transmission Charging Regime: minded to decision and draft impact assessment" on 23rd December 2019, that "*while we consider that protection of Existing Contracts may lead to a 'dual regime', we also consider that this presents a transitional arrangement which provides appropriate price protection for a limited period of time. We note that the volume of Existing Contracts will reduce over time as Existing Contracts come to the end of their contractual period*".

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The analyses of the well-known existing differentials of capacity charges between Existing Contracts and other capacity users during the consultations of UNC678 and UNC790, effected by Baringa in 2019 and by Frontier Economics in the Impact Assessment in 2021, showed that these differences would not undermine competition, which was known and accepted by Ofgem, when they approved and implemented the current regime. If this situation has changed in the meantime, it should be evidenced before changes to the Methodology are introduced.

In view of the above, we believe that any changes to the charging methodology should follow a detailed cost-benefit analysis that evidences net gains stemming from any amendments considered.

References

1. Baringa report on price differentials, 2019: https://www.gasgovernance.co.uk/sites/default/files/ggf/book/2019-04/Tariff%20differentials%20between%20new%20and%20existing%20contracts%20-%20Baringa%20report.._.pdf
2. Frontier Economics report on gas transmission charges reform, 2021: https://www.gasgovernance.co.uk/sites/default/files/ggf/book/2021-11/NGG%20charging%20reform%20-%20impact%20assessment%20-%20final%20-%20291121%20stc.pdf

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