

Representation - Modification UNC 0790 (Urgent)

Introduction of a Transmission Services Entry Flow Charge

Responses invited by: **5pm on 06 December 2021**

To: enquiries@gasgovernance.co.uk

Please note submission of your representation confirms your consent for publication/circulation.

| | |
|---|-----------------------------|
| Representative: | Sam Hughes |
| Organisation: | Citizens Advice |
| Date of Representation: | 6/12/21 |
| Support or oppose implementation? | Support |
| Relevant Objective: | d) Positive |
| Relevant Charging Methodology Objective: | aa) Positive c) Positive |

Reason for support/opposition: Please summarise (in one paragraph) the key reason(s)

Citizens Advice welcomes this modification. Ofgem was clear in its letter on [4th June 2021](#) that the “*transmission charging regime may need further changes to ensure stable and predictable prices and promote effective competition, which are core principles of the Tariff Network Code*”. At present a clear market distortion exists in the dual regime which means that new entry capacity pays 23 times the price that holders of existing contracts pay due to most of the recovery of Transmission Services Revenues being targeted to holders of new Entry Capacity. For Gas Year 2021/22, National Grid states that Existing Contract capacity is 71% of total forecast Entry Capacity quantity, yet is forecasted to only collect 10% of the total Allowed Revenue at Entry. We believe that the introduction of a flow-based charge goes some way in addressing this disparity but we would also note that this modification does not remove the distortion entirely.

Although the Frontier Economics analysis does not offer a quantification of this benefit they assert that overall the modification is positive for competition by reducing the price differential paid by different shippers. We would recommend that any further Impact Analysis conducted by Ofgem should seek to specifically consider the impact on competition in order to quantify the benefit.

As a result of spreading the recovery of transmission services revenues over a wider charging base we agree that this will decrease the risk of material volatility in the Entry

Capacity Reference Prices and, consequently, Entry Capacity Reserve Prices. As a result the expectation is that users can have more market confidence in their own forecasted use of network costs, expected to reduce the cost of risk.

The impact analysis shows a potential distributional impact which could deliver a net present value consumer benefit of between £200million and £400million between the period of implementation and when existing contracts expire in 2031/32. We agree with Frontier Economics' assertion that while these figures contain assumptions and sensitivities, it remains reasonable to assume that the implementation of 0790 would result in positive customer benefits. National Grid similarly assert that they do not believe that concerns such as shipper-specific behaviour differing from those assumed in the analysis would negate the customer benefit. We therefore consider that the modification is better than the baseline arrangements in UNC.

Implementation: *What lead-time do you wish to see prior to implementation and why?*

We agree that implementation of this modification should take effect in time to be reflected in the Transportation Charges which apply from 1 October 2022.

Impacts and Costs: *What analysis, development and ongoing costs would you face?*

N/A

Legal Text: *Are you satisfied that the legal text will deliver the intent of the Solution?*

We have not reviewed the legal text.

Are there any errors or omissions in the Modification that you think should be taken into account? *Include details of any impacts/costs to your organisation that are directly related to this.*

The modification would have benefited from a quantification of the benefits on competition but nevertheless presents a helpful impact analysis. As described earlier, any impact analysis conducted by Ofgem could carry out this quantification.

Please provide below any additional analysis or information to support your representation

N/A