

Representation - Draft Modification Report UNC 0739

Aggregate overrun regime for Original Capacity held at the Bacton ASEPs

Responses invited by: **5pm on 11 February 2021**

To: enquiries@gasgovernance.co.uk

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

Representative:	Anna Stankiewicz
Organisation:	National Grid NTS
Date of Representation:	11 th February 2021
Support or oppose implementation?	Qualified Support
Relevant Objective:	d) Positive

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

Modification proposal 0501V *Treatment of Existing Entry Capacity Rights at the Bacton ASEP to comply with EU Capacity Regulation* approved by Ofgem for implementation gave Users a one-off opportunity to request their existing capacity allocation at either Bacton ASEP. In the decision letter, Ofgem acknowledged that there might be market changes in the future which will negatively impact flexibility for Bacton Users, specifically highlighting that *'the impact of reduced flexibility is minimal as the other market mechanisms in conjunction with the availability of substantial amounts of unused capacity at Bacton - mean that shippers can flow flexibly between the two new entry points at low cost in the current regulatory framework'*.

National Grid recognises that at the time of the Bacton split Users lost some of the flexibility in capacity usage. Post the split of the Bacton entry point into two ASEPs, Users were able to purchase capacity at the other ASEP to mitigate the loss of flexibility at limited to no additional cost. National Grid acknowledges that under the new charging regime, this is now not possible and there is now a different financial impact as prior to October 2020.

National Grid believes that the implementation of an aggregate overrun regime at Bacton ASEP will provide a degree of flexibility which existed at the time of contractual commitment. It will enable more access to capacity purchased prior to 1st November 2015 at the Bacton ASEPs, and potentially contribute towards better utilisation of that capacity in line with User expectation at the time it was purchased without incurring additional costs. If implemented, this proposal will therefore have a positive impact on Relevant Objective (d) as it promotes effective competition between those Users with "Original Bacton Capacity".

While National Grid recognises the positive impact outlined above, we also deem it appropriate to consider potential implications this proposal will have on other Users. Whilst implementation of this modification would provide those holders of Original Bacton Capacity with the increased flexibility and likely utilisation of pre-November 2015 capacity, it will also likely result in a lower sales of new capacity at the Bacton ASEPs. This may lead to impacts on Capacity Reserve prices for other Users (as explained later in this document under additional Panel questions).

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

National Grid agrees that the proposal should be subject to Authority Direction. Information from Xoserve indicates that the system solution will take approximately 12-15 weeks to deliver should the Modification proposal be implemented.

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

National Grid will incur the costs of making the required changes to central systems and processes. The ROM indicates a cost of at least £91,000 but probably not more than £134,000 to implement.

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

National Grid is satisfied that the legal text it has provided will deliver the intent of the solution.

Modification Panel Members have requested that the following questions are addressed:

Q1: Consider the risk of displacement of shorter-term capacity sales, extent and likely impacts on the consumer.

This proposal, if implemented, could have an impact on short term capacity sales for some Shippers able to make use of the changes this modification brings. Bacton Users eligible to participate in the aggregate overrun regime will be able to utilise the capacity purchased prior to 1st November 2015 and therefore are less likely to purchase new capacity to meet their flows. The amount being charged via Transportation Charges (i.e. via the Allowed Revenues) will not change; however, implementation of this Modification could impact which parties pick up any consequence of reduced revenue from those availing of the aggregate overruns and not purchasing additional 'new' capacity to cover flow.

Less new capacity being sold means that other Users will have to cover any consequential under recovery of Allowed Revenue i.e. it may contribute to the increase in capacity cost for other market participants (and, by extension, increase in costs to end consumers); however, some will be subject to lower charges by not needing to procure additional capacity providing an offsetting mechanism assuming the savings find their way to consumers. The impacts to the consumer would depend on the nature of how Transportation charges are ultimately passed on, which will vary across Users.

The extent of the impact would be difficult to measure due to unforeseeable behaviour of Bacton Users in the future. The impacts and interactions with capacity reserve prices and potentially Transmission Services Revenue Recovery Charges as a result of any behavioural changes should be monitored closely to ensure the integrity of the charging regime.

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

National Grid has not identified any such errors or omissions.

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

No additional analysis has been prepared. Should Ofgem require any further information, we will arrange for this to be provided.