

Representation - Draft Modification Report UNC 0805

Introduction of Weekly NTS Exit Capacity Auctions

Responses invited by: 5pm on 12 August 2022

To: enquiries@gasgovernance.co.uk

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

Representative:	Iwan Hughes
Organisation:	Vitol SA
Date of Representation:	12 August 2022
Support or oppose implementation?	Support
Relevant Objective:	a) Positive d) Positive
Relevant Charging Methodology Objective:	Not Applicable

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

The proposal was purposefully directed at NTS Direct Connects as it as these offtakes which would most benefit from the product while limiting the impacts on other Users and customers. Gas demand is far more unpredictable at NTS Direct Connects, with particular relevance to power generators, than at GDNs, which although see some variability do not experience the same extremes in volatility as Direct Connects. The primary purpose of the proposal is to provide NTS Direct Connects with the ability to secure firm Exit Capacity ahead of the day, which they tend to rely on (unlike GDNs which book close to 100% of their capacity requirements on an annual basis). By allowing NTS Direct Connects the ability to book weekly products this will improve NTS planning, as it is safe to assume that those availing themselves of the product will switch away from the daily product. Given less that 1% of NTS Direct Connect capacity bookings are made on an annual basis, the impact will be significant in terms of improving NTS planning data ahead of the day. This is not the case with GDNs where annual capacity bookings make up close to 100% of their total bookings.

The proposal will provide Users (and their customers) with access to an alternative Exit Capacity Product. This product will reduce the risks associated with relying upon a daily product (with its availability uncertainty) and more widely generate benefits to the market and its customers, including an anticipated reduction in Exit Capacity charges as a result of increased revenue recovery as Direct Connects switch from daily to weekly bookings.

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

The modification should be implemented at the earliest opportunity to enable the benefits to be realised without delay.

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

None identified

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

Yes

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.*

None identified

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

While there are obvious benefits to NTS Direct Connects associated with this proposal (as stated above and in the proposal itself) consideration should be given to the costs the change might impose on other Users (and customers). Based on the analysis performed by Waters Wye Associates and contained in Appendix 1 of the Modification Report), a very worst-case scenario would result in costs of £2m being passed through transmission charges. Given the analysis is based on an assumption that Users will move away from annual bookings to weekly bookings, we observe that this is highly improbable. As stated previously, it should be anticipated that NTS Direct Connects will instead substitute daily bookings for weekly bookings, which will result in an overall revenue credit and downward pressure on transmission charges for other Users (and customers).

The same cannot be said for GDNs, where based on the analysis contained in Appendix 1 the revenue shortfall of GDNs switching from annual bookings to weekly bookings would be significant; around £171m is stated in the analysis.

We note that GDNs are of the view that the proposal is discriminatory and weekly products should be made available to all Users. We strongly oppose this view as they are not subject to the same levels in demand volatility and unpredictably and because of their lack of financial exposure to the costs of acquiring exit capacity are less likely to access the product and/or acquire it with the same level of diligence as NTS Direct Connects. The commercial drivers faced by GDNs are very different to those faced by NTS Direct Connects. Further the analysis shows that although the benefits to NTS Direct Connects are significant, the costs associated with the weekly product will be immaterial and most likely negative. The same cannot be said for GDNs where the benefits will be offset by significant increases in transmission charges for all Users, resulting in a net disbenefit for customers of electricity.

On the basis of the above and the observations contained in the Modification Report (Section 3) the exclusion of GDNs from the proposal is well justified and should not be viewed as being discriminatory.