

Representation

Draft Modification Report

0439: Notice for Enduring Annual Exit (Flat) Capacity Reduction Applications

Consultation close out date: 15 April 2013
Respond to: enquiries@gasgovernance.co.uk
Organisation: National Grid NTS
Representative: Andrew Fox
Date of Representation: 15 April 2013

Do you support or oppose implementation?

Support

Please summarise (in one paragraph) the key reason(s) for your support/opposition.

The 14 month rule provides little benefit to National Grid NTS, but creates problems for Users, e.g. uncertain financial exposure. Removal of this unnecessary rule will improve certainty and hence competition. It will also remove discriminatory rules introduced by Modification 0417S.

National Grid NTS believes that User Commitment remains a key element of the capacity regime, principally in the role that it plays in under-pinning investment. It is our understanding that User Commitment will not be undermined by implementation of Modification 0439; on this basis National Grid NTS can support the Modification. This support is based on the belief that provided that the User Commitment Amount is paid by the relevant User through their exit capacity charges then the User Commitment will not be undermined by the ability of the User to reduce their capacity allocation with an effective date less than one year after the initial increase took effect. Hence, we believe that should the Authority direct in favour of implementation of this Modification then this will be confirmation of National Grid NTS' view on User Commitment. In this regard we welcome the Modification Panel's decision that this Modification does not satisfy the self-governance criteria.

Are there any new or additional issues that you believe should be recorded in the Modification Report?

The Draft Modification Report briefly mentions the impact of this Modification on National Grid charges. We agree that there should be no impact on National Grid's allowed revenues.

However, TO exit commodity charges are notified to Users via our "Indicative NTS Charges" notice, normally published early in May. These rates are based on an assumed level of exit capacity

0439
Representation
15 April 2013
Version 1.0
Page 1 of 4
© 2013 all rights reserved

revenue. The actual TO exit commodity charges are published on 1st August.

If expected capacity revenue falls, e.g. due to reduction requests made in July pursuant to this Modification, the indicative TO exit commodity charge rate will require upward adjustment to determine the actual TO exit commodity charge to apply from October.

Hence, this Modification increases the risk that indicative charges will be inconsistent with actual charges. The magnitude of any increase required between May (indicative) and August (actual) will depend on the extent to which Users reduce their registered capacity with less than the current 14 months notice. Whilst the extent of such reductions is impossible for National Grid NTS to accurately predict, a reduction in National Grid NTS' exit capacity revenue of 10% would require a corresponding increase to the TO exit commodity charge of approximately 0.0018p/kWh. [Note: this figure is an approximation based on a number of assumptions. It is not intended to provide an indication of future charges and should not be used as such.] This increase equates to 16% of the current, from 1st April 2013, TO exit commodity charge rate.

Although this risk will apply each year, the magnitude is likely to be highest in the initial year or in future years where a significant increase in capacity charges occurs.

National Grid NTS believes that the Modification Panel and the Authority should be fully aware of the risk outlined above when considering the proposed Modification.

Relevant Objectives:

How would implementation of this modification impact the relevant objectives?

The Draft Modification Report identifies a positive benefit of the Modification on relevant objectives:

c) Efficient discharge of the licensee's obligations.

The Draft Modification Report does not detail which obligations are positively impacted by the Modification. However, National Grid NTS notes that, in respect of relevant objective d) (see below) the report states that:
*"under the current arrangements not all Users, in all circumstances, are bound by the 14 months' notice period requirement.....
This modification will ensure that all Users are subject to the same rules for reducing exit capacity holdings, and therefore should improve competition between Users and minimise discrimination."*

We note that different arrangements were introduced by Modification 417S and in our response to that proposal we raised such concerns. We welcome, therefore, the establishment of non-discriminatory processes that this Modification will bring: if implemented.

d) Securing of effective competition.

In our response to Modification 417S we stated that we believe that Users should be exposed to the reasonable

0439
Representation
15 April 2013
Version 1.0
Page 2 of 4
© 2013 all rights reserved

consequences of their decisions. We retain that belief. However, we recognise that volatility in capacity charges can expose some Users to costs well in excess of what they had expected and planned for. In some cases, these costs may not be “reasonable consequences”. This Modification, if implemented, will ensure that Users are not exposed to unexpected costs through increasing capacity charges. This will improve their financial efficiency and hence their ability to compete effectively. However, as discussed above, this Modification may introduce uncertainty into the setting of TO exit commodity charges. This may counter the benefits of more certainty over exit capacity charges.

Similarly, new investors will have greater certainty of their exposure to future capacity charges. This will facilitate investment in new gas infrastructure and thereby effective competition.

g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or ACER.

Removal of the discriminatory aspect of current arrangements will facilitate compliance with Article 16(2) of EC Regulation 715/2009, which obliges the “transmission system operator [to] implementnon-discriminatory and transparent capacity allocation mechanisms....”

Impacts and Costs:

What analysis, development and ongoing costs would you face if this modification were implemented?

Negligible.

However, National Grid NTS will need to set up systems to be consistent with the revised rules (see below).

Implementation:

What lead-time would you wish to see prior to this modification being implemented, and why?

National Grid NTS believes that the lead time for implementation should be consistent with UNC Modification rules. Ideally, a decision to implement should provide sufficient time (at least one clear business day) for necessary IT systems works to be undertaken prior to implementation, e.g. decision no later than 27th June if implementation is to be in time for the 2013 July application window.

Legal Text:

Are you satisfied that the legal text [and the proposed ACS (see www.gasgovernance.co.uk/proposedACS)] will deliver the intent of the modification?

Yes

Is there anything further you wish to be taken into account?

Please provide any additional comments, supporting analysis, or other information that that you believe should be taken into account or you wish to emphasise.

No

0439
Representation
15 April 2013
Version 1.0
Page 3 of 4
© 2013 all rights reserved