Modification Proposal 0621E

Differences to NGG's Mod 0621

This Modification differs from National Grid's current proposal in two key ways:

1. Proposes a longer "transition period" of 2019-2022, compared to National Grid's proposal of 2019-2021. Principally, this is to align with the auction bid process in the UK Electricity Capacity Market. Under the current electricity market arrangements, the T-4 Auction requires industry participants to bid 4 years ahead, for delivery of generation capacity from 1 October 2021 onwards. Moreover, the added year provides longer for NGG to analyse and accurately forecast future capacity-based charges, which will be critical to the success of the new charging regime.

2. It is also proposed that "Existing Contracts" (that is any Long-Term Entry Capacity bookings made prior to implementation of this proposal) should continue to be subject to a commodity-based "top-up" (revenue recovery) charge for the duration of the booking. A capacity-based revenue recovery charge, as proposed by NGG, would fundamentally alter the nature of the original contract struck. To avoid re-opening existing contracts, it is therefore proposed to maintain existing exposure to commodity charges for Shippers currently holding long-term entry capacity bookings at all NTS Entry points. The only exception would be for Gas Storage "Historical Contracts", which would not face any revenue recovery charges (consistent with the current arrangements).

Assessment Against the Relevant Objectives

In respect of the proposed 2019-2022 Transition Period

Under the current charging arrangements, parties can make a reasonable assessment of future gas transportation costs as the structure, nature and trend of charges is generally well understood. In Mod 0621, NGG has proposed a transition period of 2019-2021, moving from capacity / commodity to full capacity based charges. Although the base capacity prices will differ from now (due to the implementation of the CWD model), the use of a FCC value of 100% of obligated capacity will result in a commodity based revenue recovery charge, like the current arrangements. Analysis conducted during the Mod development process has shown that the move to full capacity based charges will result in significant changes to payable charges for certain points on the network with some large locational shifts in charge levels.

At the time parties participated in the recent Electricity "T-4" Capacity Auction (February 2018), neither the inputs to the CWD model nor the overall structure of the charging regime were finalised, meaning that it was almost impossible for parties to make an accurate assessment of the full capacity based Exit charges that would be payable in 2021. To avoid unfairly penalising such parties for commercial decisions made on the best available facts, it is therefore proposed in this proposal that the transition arrangements continue until 2022. This would mean that the existing capacity / commodity arrangements would effectively continue into the gas year for which the recent T-4 auction applied (2021-22)

In the proposer's view, this aspect of the proposal would therefore better facilitate Relevant Objective (c) (*That, so far as is consistent with sub-paragraphs (a) and (b), compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers*), as it would maintain a "level playing field", by avoiding imposing unforeseeable costs on Generator Users, which had they been known at the time of the T-4 auction, could have been fully factored into Capacity Market bids. As this was not realistically possible for any party, there is a risk of significant, unavoidable costs being levied which could harm competition between Shippers and ultimately have unintended consequences for both gas and electricity consumers.

In respect of the proposal to apply a commodity-based revenue recovery charge to existing contracts…

In the proposer's view, it is necessary to maintain the existing approach of applying a commodity-based revenue recovery charge for long-term entry capacity bookings made and committed to by Shippers before implementation of these charging reforms in October 2019. Full-capacity based charges for existing contracts, as proposed under 0621 would, in the proposer's view, impose undue costs on Shippers, which could not have reasonably been foreseen at the time the contracts were struck many years ago.

Maintaining a capacity / commodity split for Existing Contracts would ensure fair treatment of all parties, incentivising those who can adjust their capacity bookings to reflect flows to do so (e.g. new bookings) but not punishing those who cannot (i.e. existing bookings). This could be considered to better facilitate Relevant Objective (c) ("*That, so far as is consistent with sub-paragraphs (a) and (b), compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers"*).

Furthermore, this proposal also facilitates Relevant Objective (a) *("Save in so far as paragraphs (aa) or (d) apply, that compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its transportation business"*. In the proposer's view, there is the strong potential for NGG to over-recover revenue from holders of long-term capacity if it applies a capacity-based revenue recovery charge to these Existing Contracts. Holders of such capacity will have already made a significant contribution to historical network costs, through User Commitments factored into historical capacity charges. As a result, it could be argued that a capacity-based revenue recovery charge would be over-charging such users to continue to utilise the network.