Representation – Modification UNC 0748 (Urgent)

Prospective Removal of Entry Capacity Revenue from Capacity Neutrality Arrangements

Responses invited by: 5pm on 11 December 2020

To: enquiries@gasgovernance.co.uk

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

Representative:	Robert Morgan
Organisation:	Neptune Energy
Date of Representation:	11 December 2020
Support or oppose implementation?	Support/~~Oppose/Qualified Support/Comments~~* *delete as appropriate*
Relevant Objective:	**c)** Positive/Negative/None* *delete as appropriate* **d)** Positive/Negative/None* *delete as appropriate* **g)** Positive/Negative/None* *delete as appropriate*
Relevant Charging Methodology Objective:	**a)** Positive/Negative/None* *delete as appropriate* **b)** Positive/Negative/None* *delete as appropriate* **c)** Positive/Negative/None* *delete as appropriate*

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

Neptune strongly supports the proposed modification UNC 0748. The significant cost of entry capacity under the current capacity charging regime has lead to 2 behaviours by shippers; (1) Those shippers with excess long term entry capacity, now have a valuable and marketable commodity, the marketing and sale of this capacity to another shipper generates no incremental revenue for National Grid (but provides a profit for the holder of such capacity and a saving for the purchaser), and (2) dictates that shippers without long term entry capacity are economically incentivised to book capacity as close possible to the time of gas delivery in order to avoid over-bookings and over-payments i.e. to book Interruptible or Within-Day Capacity. The fact that these logical, commercial behaviours were not contemplated means that the associated loss of revenue was not forecast under the new charging regime by National Grid. This modification seeks to rectify a part of that – specifically the inclusion of Interruptible and Within-Day Capacity in Capacity Neutrality, which means it does not count towards National Grid's allowable revenue recovery. Neptune believes that it is unreasonable that the revenue generated from Interruptible or Within-Day Capacity does not count towards National Grid's allowable revenue recovery, since this effectively leads to companies paying for such capacity twice; once through the entry capacity tariff (such tariffs then being distributed to shippers with Enduring Capacity) and then a second time through a Revenue Recovery Charge (RRC). Further, since the RRC is not applied on any capacity booked before April 2017, the burden of paying for any revenue recovery shortfall falls only on shippers booking Entry Capacity booked after April 2017 rather than being apportioned proportionally across all shippers. Whilst we fully support this proposal, we do not however believe the modification goes far enough to remedy the adverse impacts of the new charging regime on those companies without long term entry capacity. Therefore our support for this modification is without prejudice to future modifications aimed to rectify the inequitable entry capacity regime that has been implemented with effect from 1st October 2020.

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

Neptune Energy supports a prompt implementation to ensure that the issue associated with the Capacity Neutrality charge is mitigated as soon as reasonably practicable.

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

Neptune Energy has 2 large gas flows entering the UK National Grid; Cygnus at Bacton and Gjoa-Vega at St Fergus.

Under the old capacity regime, for shippers without long term capacity bookings, entry capacity was typically booked within-day at zero cost and the commodity charge was then paid on all volumes delivered - the commodity charge was ~1.7p/th.

Under the current arrangements, the entry capacity tariff and the GNTSC, which combined are 0.0845p/KWh or ~ 2.47p/th (itself already significantly higher than under the previous regime). With the proposed RRC of 0.0717p/KWh or ~2.1p/th, costs to enter the National Grid become ~4.6p/th i.e. nearly 3 times higher than costs under the old regime. We understand that the proposed modification will reduce the RRC to be between 0.0578 - 0.0672p/KWh and whilst any reduction is helpful, it still means that entry capacity cost are over double the costs of the previous gas year.

If such costs are reasonably forecast to continue in the future then it will likely have an impact on the future development of gas fields in the UKCS (putting in jeopardy the principle of maximum economic recovery), as well as gas imports from fields located in other sectors of the North Sea such as Norway and the Netherlands and lead to an earlier cessation of production of existing fields, not just for Neptune but for wider industry.

Many UKCS fields also have the optionality to sell into alternative EU markets such as the Netherlands. Prohibitive cost increases could have the unintended consequence of reducing UK security of supply as operators impacted by these changes consider alternative markets.

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

Due to time constraints the Legal Text has not been fully reviewed and therefore we cannot comment on whether the Legal text will deliver the intent of the Solution.

Ofgem have requested that parties give due consideration to the following questions:

Q1: Do you agree that the treatment of interruptible and within day firm entry capacities feeding into capacity neutrality is inappropriate?

(Yes / ~~No~~)

Under the current regime the tariff costs are the same regardless of which auction the capacity booked in, it incentivises shippers to book as close to the time of delivery to give the highest chance of booking to match flows. Accordingly, the majority of entry capacity bookings will be made either as interruptible or within-day firm entry capacity.

Under the previous regime, where there were capacity constraints within-day capacity that had been previously acquired at zero price could incur a premium and it was important that National Grid NTS in no way benefited financially from subsequent increased revenues in those circumstances.

The logic for including interruptible or within-day firm entry capacity in Capacity Neutrality made sense under the old tariff regime. However, given the current tariff set up, it is no longer appropriate that such capacity bookings feed into the capacity neutrality since National Grid must now recover most of its revenue through such short term capacity bookings .

Q2: Do you agree that these revenues should be removed from capacity neutrality?

(Yes / ~~No~~)

The revenue attached to interruptible or within-day firm entry capacity should be recovered by National Grid and be included within their allowable revenue recovery. It is simply illogical that a capacity booking regime be set up in a way that incentivises certain commercial behaviour (i.e. to book interruptible or within-day firm entry capacity) but the revenue generated from such behaviour does not flow to the system operator but instead to shippers who have previously booked the much cheaper long term entry capacity, which then requires National Grid to recover the same costs again from only the shipper for whom the Revenue Recovery Charge is applicable.

Q3: Do you support that National Grid should be a granted a one-off relaxation of its obligation to provide two months' notice of pricing changes?

(Yes / ~~No~~) (See the 'Solution' section of the modification)

We support the one-off relaxation of the notice period to implement this modification, since this implementation is simply reducing the costs for shippers who are having to book entry capacity under the new regime and reducing the amount of windfall profits for holders of long term entry capacity (who could not reasonably have expected to be receiving such windfall profits when they booked the capacity).

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.*

Insert Text Here

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

Insert Text Here