

## 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](mailto:enquiries@gasgovernance.co.uk)

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

<b>Representative:</b>	Ricky Hill
<b>Organisation:</b>	Centrica Energy Ltd
<b>Date of Representation:</b>	11/12/2020
<b>Support or oppose implementation?</b>	Qualified Support
<b>Relevant Objective:</b>	<ul style="list-style-type: none"> <li>c) Neutral</li> <li>d) Negative</li> <li>g) Neutral</li> </ul>
<b>Relevant Charging Methodology Objective:</b>	<ul style="list-style-type: none"> <li>a) Positive</li> <li>b) Positive</li> <li>c) Negative</li> </ul>

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

Centrica offers qualified support for this modification. We agree that any changes to capacity neutrality payments must be prospective rather than retrospective. However, we strongly disagree with the proposal to reduce the notice period for changing the Revenue Recovery Charge (RRC) to as little five business days, even as a one-off. Given the interaction that transmission tariffs have on the gas price, such a short notice period would have a highly negative impact on the attractiveness of the NBP. At least 30 days' notice should be provided for a change to the RRC and any change should land on the 1st of a given month.

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

The modification implies some aggressive implementation timescales, both for the cessation of capacity neutrality payments and altering the currently published RRC. The wider market impacts do not appear to have been properly considered.

In terms of the capacity neutrality payments, parties should be given at least 30 days' notice that these will change, and the new rules should begin on the 1st of a given month. Shippers may need time to adapt to the change in capacity neutrality arrangements, for example, with regards to apportioning any neutrality recalculation and reallocation to internal and external customers.

The potential notice period of 5 days for changing the RRC is far too little. At least 30 days' notice should be provided, and any change should land on the 1st of a given month. Changes in the level of the RRC at very short notice, and the knock-on effect to wholesale gas prices, will reduce the attractiveness of the NBP relative to other markets, at a time when liquidity is already falling. We believe that changing the RRC with such short notice would not be in line with the Relevant Objective (d) of 'securing effective competition'.

We are also concerned that the consultation process has been rushed with very little time to analyse whether the solution properly rectifies the defect on an enduring basis. We would recommend that National Grid or Ofgem engages a consultant or auditor to scrutinise the proposals before a final decision is made.

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

The main impact on Centrica is the uncertainty around transmission charges and the wider impact on wholesale gas prices. The detail is provided in our answer to the question above.

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

Yes, we believe the legal text reflects 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**

Please explain your rationale:

The original purpose of Capacity Neutrality was to ensure that National Grid did not benefit from any Constraint Management costs, and therefore retained its neutral position. The proportion of capacity payments now flowing through the capacity neutrality arrangements, from the sale of interruptible and within day firm, departs from the original intention. It is therefore right that they are removed, subject to the points we make above.

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

**Yes**

Please explain your rationale:

See answer to question 1

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

**No**

Please explain your rationale:

See answer to 'implementation' section.

**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.*

No further comment

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

No further comment