

## 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>	Paul Youngman
<b>Organisation:</b>	Drax
<b>Date of Representation:</b>	11 December 2020
<b>Support or oppose implementation?</b>	Support/Oppose/Qualified Support/Comments* <i>delete as appropriate</i>
<b>Relevant Objective:</b>	<p>c) None</p> <p>d) Positive</p> <p>g) Negative</p>
<b>Relevant Charging Methodology Objective:</b>	<p>a) None</p> <p>b) None</p> <p>c) None</p>

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

We accept that intervention is necessary to halt some entry capacity revenues being allocated to capacity neutrality. In the time available it is not possible to assess all the impacts of the proposal and analyse fully against the relevant objectives.

#### Relevant Objectives

**C) Efficient discharge of the licensee's obligations** – We do not offer comment against this relevant objective except to note that the issues experienced by users occur in how the UNC and the Gas Transmission Licence interact. The charging arrangements (UNC621/UNC678) in the UNC were altered to reflect the TAR network code but the implications from a licence perspective were outside the scope of the UNC change process.

**D) Securing of effective competition between relevant shippers –**

There is a positive (albeit limited) impact against this relevant objective, as it reduces the current distortions and cross subsidisation caused by the entry capacity issue. However, this modification does not propose a complete solution to the issue. In particular, it does not address the misallocation of revenues from Exit capacity sales (which will continue) or the distortive cross-subsidisation issues from the consequential imbalance between transmission services and non-transmission services revenue.

We've not considered any wider consequences or unintended impacts of this modification. But we would note that there hasn't been any analysis to assess the implications of changing the neutrality arrangements, or analysis of collection of the Revenue Recovery Charges over the remainder of the Gas year as prescribed in section Y3 of the UNC (sections Y 3.2.2 and Y 3.2.3 contain the relevant calculations).

### **G) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators**

We believe the modification is negative against this relevant objective. As highlighted above, the modification does not address areas of continuing non-compliance with the regulation and TAR network code. The recently approved charging framework deviates significantly from the intent of the TAR network code. Market participants can neither predict nor model their exposure to transmission services or non-transmission service charges. It is not clear that the actions in the modification and outside of the modification are compliant with TAR. In our view, the proposed RRC changes are inconsistent with the TAR network code, and the provisions of the UNC to apply any RRC to the remainder of the relevant Gas year.

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

No comment.

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

There is currently a misallocation of costs and cross subsidisation from exit to entry which this modification partially addresses.

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

Yes.

#### **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)**

Please explain your rationale:

We cannot give a definitive yes or no to this answer as we have not conducted any analysis as to the impact of removing the feed into the capacity neutrality arrangements. Our presumption is that the neutrality arrangements incentivise the release of capacity by the gas system operator and there may be unintended consequences as a result of this modification.

**Q2: Do you agree that these revenues should be removed from capacity neutrality? (Yes / No)**

Please explain your rationale:

Please see comments under Q1

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

Please explain your rationale:

No. This is not in line with the provisions in the UNC and Tar NC. We are concerned that relaxing any obligations will produce more severe detrimental impacts on market participants and the stability and predictability of charges for transmission services and non-transmission services.

**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 comment.

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

No comment.