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:	Kirsty Ingham
Organisation:	ESB
Date of Representation:	11 December 2020
Support or oppose implementation?	Qualified Support/Comments
Relevant Objective:	**c)** Positive **d)** Negative **g)** Comments
Relevant Charging Methodology Objective:	**a)** None **b)** None **c)** Negative

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

NGG's presentation of the issues asserts that the Entry capacity neutrality arrangements have emerged to be no longer fit for purpose since the implementation of 0678A in Oct 2020. This modification UNC 0748 seeks to resolve the identified deficiencies in the neutrality mechanism in a timely manner, which appears rational. It is not clear, however, what the consequences of this change may be, and the possible outcomes cannot be explored in the timeline. This is of major concern given the continued uncertainty and volatility that the market is already incorporating in trading activity. NGG expects there to be a positive impact on predictability and stability of charging from UNC 0784, but this is unclear and in itself this Mod leads to volatility.

We oppose 5 days' notice of a charging change due to the impact on the market, hedging and commercial positions, and also the prospect that this could set a precedent.

We are unclear on TAR NC compliance impacts, although we have concerns as the Transmission Services/Non-Transmission Services, TO/SO alignment and tangled web of revenue allocations has not been adequately explained. This area requires a thorough review, which is not in the scope of this Mod as it stands, should have taken place within the 0621/0678 processes and must now be conducted as soon as possible, and certainly before final tariffs are set for gas year 2021.

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

The resultant charging changes should be published with a notice period of at least 1 month.

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

We are not able to assess the impacts in the time available. The uncertainty surrounding introduction of Entry RRCs and this modification has impacted wholesale gas prices and trading activities, which as a gas-fired power generator and supplier, will affect our businesses (in GB and the island of Ireland). Further changes will lead to future volatility.

The scale of the RRCs is directly connected to this modification, therefore we raise that the compressed period of application of RRCs causes the level to be artificially high in comparison with the charges that would be set according to UNC TPD Section Y, 3.3. In accordance with this text, RRCs would be applied across the remainder of the gas year and adjusted within that gas year should their level require further changes. RRC levels would therefore be lower. NGG anticipated that RRCs would be set at inconsequential levels when introduced to the charging methodology through UNC 0678A.

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

No. The use of the term *any Transportation Charge payable to National Grid NTS in respect of any Day in Gas Year 2020/2021* does not limit the notice period waiver to RRCs. A reference to UNC TPD Section Y, 3 is required.

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)

Yes, as outlined in the current situation

Neutrality was constructed to prevent NGG from benefiting from constraint management money flows. The Mod report makes reference to short-term capacity scarcity leading to premia being paid, and that the aim was that NGG should not financially benefit in this circumstance. In the case of a capacity constraint and price premia being bid, we question whether this principle remains unchanged and is an unintended consequence that needs to be taken into account, however unlikely it appears today.

We are concerned that there are other NGG revenue allocations that need to be investigated in light of this. Specifically, the lack of alignment of SO/TO pots to Non-

Transmission and Transmission Services revenues. The cross-subsidy that has been demonstrated between Exit capacity Transmission Services payments and Non-Transmission Services charges is a key concern.

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

(Yes / No)

As Q1 above, in the current market circumstances it appears rational. However, the principle of whether any auction premia above reserve price in the case of constraint should be allocated to neutrality or to NGG revenue should be reviewed.

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)

No.

NGG is entitled to provide 1 month notice and that should not be waived. We are concerned that precedent could be set and subsequent change proposals would also be inadequately analysed and poorly managed.

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.*

It is possible to infer from the Mod Report (p. 9) that because the Allowed Revenue remains the same, any consumer impacts will be due to Shippers' commercial arrangements. The revenue paid to NGG is the same, simply NGG is moving it around differently internally. This is somewhat disingenuous as the fluctuating and uncertain Entry cost has a direct and material impact on the wholesale price which is ultimately passed through to end-users. It is rational for Shippers and suppliers to take uncertainty into account in pricing.

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