

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:	Pavanjit Dhesi
Organisation:	Interconnector UK Ltd
Date of Representation:	10 th December
Support or oppose implementation?	Support
Relevant Objective:	<p>c) Positive/ d) Positive/ g) Positive/</p>
Relevant Charging Methodology Objective:	<p>a) Positive/ b) Positive/ c) Positive/</p>

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

With the market increasing profiling and optimising bookings with shorter term products, it is appropriate for NTS daily interruptible and within day Entry Capacity revenue to be removed from the Capacity Neutrality arrangements and into National Grid's allowed revenue calculation. This is consistent with the EU tariff network code objective that TSOs should primarily recover their allowed revenue from capacity sales.

The changes are in the consumer interest. Entry tariffs into the GB market are now the most expensive compared to key North West European countries and set to rise considerably more with a RRC price spike suggested to be introduced for February 2021. These high tariffs are a barrier to gas entering the GB market and likely to result in higher wholesale gas prices if/when GB needs more gas. This translates into higher consumer bills. The modification proposal will dampen the expected February entry revenue recovery charges (RRC) increase and should dampen further increases in the

RRC and reserve prices in the future, thus reducing the cost to supply GB consumers compared to no change.

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

The uncertainty in the RRC changes is already impacting activity in the market and had a knock on impact to connected assets like IUK. Industry has been vocal about the need for stable and predictable NTS charges.

Clearly the more notice period that can be given the better. The market needs sufficient time hence why 2 months is considered appropriate in normal circumstances. This enables shippers to plan and execute commercial transactions and also allows connected parties like IUK to market capacity appropriately. Sufficient notice allows the market to function efficiently.

We note that proposal is allowing the possibility for the resultant charges to be changed with a minimum 5 business days' notice. Ordinarily we believe such a small timescale is inadequate. However, given the broader benefits the proposal will bring by helping reduce the RRC from what it otherwise would be, we support the proposal. It should however clearly be noted in any decision that this is permitted only on this occasion and we hope in practice a prompt decision can be made by Ofgem to allow a longer notice period.

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

Insert Text Here

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

Insert Text Here

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. The market is increasing profiling and optimising bookings with shorter term products. It is therefore appropriate for NTS daily interruptible and within day Entry Capacity revenue to be removed from the Capacity Neutrality arrangements and into National Grid's allowed revenue calculation. This is consistent with the EU tariff network code objective that TSOs should recovery their allowed revenue from capacity sales.

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

Yes. See answer above. It is unfortunate that the proposed change was not raised as part of the new charging regime changes which came into force from October 2020; this has resulted in higher charges affecting the market. If this revenue does not go into

allowed revenue it will only serve to increase capacity prices and RRC levels going forward to the detriment of the effective functioning of the market.

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)

Yes only on this occasion. Given the broader benefits the proposal will bring by helping reducing the RRC from what it otherwise would be, we support the proposal. As this question indicates, it should be a "one off". Normal practice must be to ensure the market has sufficient notice and we hope whilst the modification allows a minimum of 5 business days' notice, that a decision can be made promptly to give a longer notice period than that.

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