

Joint Office

Enquiries@gasgovernance.co.uk

11 December 2020

Dear Joint Office,

Re: UNC Modification UNC 0748 (Urgent) Prospective Removal of Entry Capacity Revenue from Capacity Neutrality Arrangements

Thank you for the opportunity to provide representation on the above noted Modification Proposal. Please find below Northern Gas Network's (NGN) comments in respect of this Modification.

NGN offers comments in relation to this Modification proposal

Reasons for Comments:

Whilst we support the principle, that impacts to Allowed Revenue should be able to be taken into account and corrected, we have a number of concerns with fairness of process and the legal text drafting.

We feel that this modification is primarily about expediency, rather than the change itself, whilst we sympathise with this we would like to raise concerns at two levels.

Firstly, NGN has previously applied to Ofgem to be allowed to make an in year price change, the reason for this change was due to an impact caused by AQ amendments, something which is outside of NGNs control and could not have been foreseen when the pricing was set. This was rejected by Ofgem.

NTS already have the ability to make in year price changes, which the DNs do not, to further grant permission for them to make an additional price change, outside of the standard notice periods we would consider to be preferential treatment to 1 transporter over another.

Secondly, the 0678A changes have been in circulation as a proposal since January 2019, and therefore sufficient modelling should have been able to take place to allow for this impact to have been foreseen, therefore furthering the appearance of preferential treatment.

As a Distribution Network (DN), we are concerned with the precedent that allowing a price change at short notice could set, as all industry parties should be able to expect stability and predictability around the level of charges. Whilst any impacts of an NTS price change that affects DNs can be recovered in a later year by the DN as part of their allowed revenue (not in the same year due to DNs not being able to make in year price changes), the impact needs to be borne by the DN in the short term. The standard minimum period of 2 months notice, at least allows

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the DN to prepare for this impact and make necessary changes to ensure cashflow. A period of just five days, would not allow for adequate changes to take place and could result in DNs having short term cash flow issues, or impacting their Approved Credit Rating, which is the driver for many businesses to be able to offer the DN credit and can even result in the DN being in breach of financial covenants.

Additionally, as drafted, the legal text does not seem to fully align with the intent of the modification: The modification talks about a 1 off change to specific charge types. As drafted the legal text includes a transitional rule which talks about allowing changes to 'any Transportation Charge' during the current gas year, with less than 2 months notice. For clarity and assurance, we would suggest that the legal text should contain the specific charges that are to be excluded from the current rules in TPD Section B1.8.2(a).

We hope these comments will be of assistance and please contact me should you require any further information in respect of this response.

Yours sincerely,

Tracey Saunders (via email)
Market Services Manager (Industry Codes)

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