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:	Bill Reed
Organisation:	RWE Supply & Trading GmbH
Date of Representation:	11th December 2020
Support or oppose implementation?	Support
Relevant Objective:	**c)** Positive **d)** Negative **g)** None
Relevant Charging Methodology Objective:	**a)** None **b)** Positive **c)** Negative

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

The modification proposal addresses a specific defect in the UNC identified by NGG relating to the misallocation of revenue from within day entry capacity products, which, according to NGG, are currently subject to capacity neutrality arrangements when they should form part of the revenue under transmission services charges. On this specific point and based on the information provided by NGG, we support implementation of the proposal since it will better meet Relevant Objective (c) in relation to the efficient discharge of the licensee’s obligations and Charging Objective (b) in relation to the charging arrangements properly reflecting developments in the transportation business.

With regard to competition, the proposed solution will introduce significant uncertainty and volatility into the charging arrangements with a consequent impact on market participants. Therefore, the proposal does not better meet Relevant Objective (d) and Charging Objective (c).

The effect of this change is to address the misallocation of revenues in the UNC. There is no impact on the overall cost reflectivity of the proposed solution (Charging Objective (a)).

We are uncertain with regard to overall compliance with Regulation 2017/460 establishing a network code on harmonised transmission tariff structures for gas (Charging Objective (e)). The modification raises important issues about the relationship between the Transmission Owner (TO) and System Operator (SO) activities. It also raises concerns about the allocation of UNC cashflows to transmission services and non-transmission services. In the absence of the relevant information that properly describes UNC cashflows and their allocation to SO and TO activities it is difficult to determine if the proposed solution is compliant with Regulation 2017/460.

The proposed solution does not address the issue of capacity neutrality and the justification for this cashflow in relation to system constraints. The SO may take actions that create the opportunity to make available within day products. The proposed solution may unintentionally impact on the current cost reflective allocation of cashflows to the SO and parties under the UNC. Further work is required to consider this issue in greater detail.

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

Given the material effect of the defect on transmission services revenue identified by NGG we support implementation at the earliest opportunity, subject to providing sufficient notice to market participants of the proposed changes. We would support the introduction of a minimum notice which should be set in a way that enables market participants to take into account the potential for the impact of any change in the RRC. We are concerned that 5 business days may be insufficient if an Ofgem decision is issued over the Christmas period.

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

Given the limited time available for this consultation we have not been able to determine the potential impact of the modification. However, we note that the effect on the revenue recovery charge creates material uncertainty for market participants.

Although beyond the scope of the modification we are particularly concerned that NGG propose the recovery of the RRC over a limited time period (five months at entry and two months at exit). The UNC makes it clear that the RRC is set in relation to a “gas year”, and our expectation is that the RRC when introduced would apply for the remainder of the gas year (UNC TPD Section Y 3.2).

We note that there is further material uncertainty over the level of the RRC as a result of the implementation of the new gas transportation price controls from 1st April 2021.

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

The proposed legal text in Part IIC Paragraph 25.6.1 should make clear that the revised notice period is only relates to the Revenue Recovery Charges in Gas Year 2020/2021. The reference to “*any transmission charge*” should be deleted.

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:

The modification proposal raises important issues on the separation of transmission owner (TO) and system operator (SO) activities and the allocation of the various cashflows under the UNC to transmission services and non-transmission services. With respect to interruptible and within day firm entry capacities it is unclear as to whether the availability of these products is determined by the overall network capacity (TO) or by operational decisions taken by the SO, for examples on the dispatch of network compressors. The linkage between the neutrality arrangements and network constraints suggests that the availability of interruptible and within day firm entry capacities may be related to SO activities.

A full review of UNC cashflows and the allocation of these cashflows to transmission and non-transmission revenue recovery is required so that the market can fully understand the allocation process that underpins revenue recovery by the SO and TO. This will facilitate greater transparency of the arrangements and allow a fundamental assessment of the UNC cashflow allocations in relation to compliance with Regulation 2017/460.

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

(Yes / No)

Please explain your rationale:

Given the materiality of the cashflows and the potential impact on revenue recovery under transmission services charges we support implementation of the modification proposal, based on the evidence submitted by NGG. However, the issue has highlighted a need for a considered assessment of the allocation of UNC cashflows to transmission services and non-transmission service, and in relation to TO and SO activities.

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)

Please explain your rationale:

We recognise that a "one off" relaxation of the NGG obligation to provide two months' notice of pricing changes may be required in this case to address the defect. However, this relaxation should only be for publication of revised Revenue Recovery Charges associated with the removal of capacity neutrality payments as set out in the modification proposal.

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.*

We have no further comments on the modification report.

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

We do not have any additional analysis of information to support our response.