

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:	Jeff Chandler
Organisation:	SSE
Date of Representation:	11/12/20
Support or oppose implementation?	Qualified Support
Relevant Objective:	
Relevant Charging Methodology Objective:	

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

On 30th November when National Grid (NG) published its Transmission Services Revenue Recovery Charges (RRC)₁ for 2 and 5 months for exit and entry, respectively, they did not comply with the UNC. The UNC section, Y 3, is clear that the RRC should be applied “for the Gas Year”. The definition of the gas year, reference GT C2.2.1(e), is 1st October to 30th September. Hence to be compliant, the RRC should be applied from the date of implementation (1st February) until 30 September, i.e. 8 months.

NG has breached TAR NC Article 20 and the UNC Contract, and this sets a market destabilising precedent of undermining the UNC. We look to Ofgem to resolve this with NG urgently as Shippers cannot make changes to published charges.

Once this is resolved the RRC will be applied over a longer time period and will be lower, causing less distortion to the market.

We offer qualified support to modification 748 as this would reduce the size of the Transmission Services under-recovery and the RRC but we have concerns, as described below:

1. The proposed legal text allows a one-off change in 2020/21 to “any transportation charge” with 5 days’ notice. “[25.6.1 The minimum notice requirement in TPD Section](#)

B1.8.2(a) shall not apply in respect of a single change of rate of any Transportation Charge payable”.

TAR NC stipulates that Reserve Prices are only set once a year, but the proposed legal text would allow these to be changed too. The text should be changed to restrict the changes to just RRC or Ofgem’s implementation decision should restrict change to just RRC and not “any” charge.

2. The proposed modification 748 applies to entry but does not resolve a similar issue at exit, where daily capacity revenue has been allocated to Non-Transmission Services revenue and not Transmission revenue. This element of Non-Transmission Services revenue is then redistributed to both entry and exit. If implemented 748 would facilitate the different treatment of entry and exit and not address the cross subsidy between exit and entry, neither of which are complaint with TAR NC. A similar urgent modification is required for exit, but this has yet to be developed.

1 <https://www.nationalgrid.com/uk/gas-transmission/document/133866/download>

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

The increase in RRC will increase entry and exit costs and feed through into higher wholesale market prices for gas and electricity as well as increasing volatility and risk premiums.

Based on NG’s publication of 30th November, the combined Transmission Services cost of entering and exiting gas on and off the NTS will increase from ~2.7p/th now to ~5.2p/th in February.

If this modification is implemented by Ofgem, it will lower costs to ~4.8 p/th.

If Ofgem force NG to re-publish the RRC in line with the UNC and the Gas Year and implement this modification total costs will be 3.9 p/th.

Due to high capacity charges, it would appear that daily capacity bookings have been optimised to match gas flows and have replaced longer term capacity bookings. These incremental daily capacity bookings will feed through on a marginal cost basis and increase the price of gas at the NBP and exit points. Where gas is burnt to generate electricity at the margin, this will lead to higher electricity prices too.

This modification will help reduce these costs and therefore we support implementation, noting the earlier caveats.

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

The proposed legal text allows a one-off change in 2020/21 to “any transportation charge” with 5 days’ notice. “25.6.1 The minimum notice requirement in TPD Section B1.8.2(a) shall not apply in respect of a single change of rate of any Transportation Charge payable”.

TAR NC stipulates that Reserve Prices are only set once a year, but the proposed legal text would allow these to be changed too. The text should be changed to restrict the changes to just RRC or Ofgem's implementation decision should restrict change to just RRC and not "any" charge.

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?

The TAR NC is clear on what is Transmission revenue and what is Non-Transmission revenue. The UNC and NGs' cashflows and licence should be compliant with this.

A wider review of System Operator licenced activities and incentives should be undertaken by Ofgem to ensure that if daily capacity revenue is transferred to Transmission revenue that appropriate incentives remain in place to ensure release of daily capacity.

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

The TAR NC is clear on what is Transmission revenue and what is Non-Transmission revenue. The UNC and NGs' cashflows and licence should be compliant with this.

A wider review of System Operator licenced activities and incentives should be undertaken by Ofgem to ensure that if daily capacity revenue is transferred to Transmission revenue that appropriate incentives remain in place to ensure release of daily capacity.

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?

The proposed legal text allows change to "any" transportation charges with 5 days' notice. "25.6.1 The minimum notice requirement in TPD Section B1.8.2(a) shall not apply in respect of a single change of rate of any Transportation Charge payable." TAR NC requires 30 days' notice of changes to RRC. Additionally, TAR NC stipulates that Reserve Prices are only to be set once a year. But the proposed legal text would allow these to be changed too. The text should be changed to restrict the changes to just RRC or Ofgem's implementation decision should restrict change to just RRC.

Are there any errors or omissions in this Modification Report that you think should be considered? Include details of any impacts/costs to your organisation that are directly related to this.

Neither an impact assessment nor detailed workgroups have been undertaken to allow a detailed understanding of cashflows from Transmission Revenue to Capacity Neutrality and subsequently to entry and exit Non-Transmission revenue and NG incentives.

We believe the existing arrangements and this proposed modification leads to cross subsidy and different treatment of entry and exit points, both in conflict with TAR NC. Therefore, an urgent modification is also required to resolve the issue at exit.

In its modification NG imply that revenues flowing into entry capacity neutrality and deviations of bookings from forecasted values were unforeseen, however;

1. Capacity neutrality arrangements are unchanged and issues of where revenues flow for the capacity products were raised in the Final Modification Report of 621, the mod that ultimately lead to 678A.
2. With regard to forecasts, it was anticipated that Shippers would book short term products in response to the new charging arrangements as stated in Ofgem's Final Decision Letter on mod 678A, with the expectation of bookings more closely matching flows. In-addition, significant quantities of annual exit capacity was returned in July 2020 which could have acted as a further prompt.

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

The RRC charge as published by NG on 30th November will result in high daily costs for transporting gas on the NTS. This cost is in excess of typical inter-day spreads and may result in gas being withdrawn from storage before the increase in charges in February. In-addition, inter-day spreads may not be high enough to reward re-injection of gas. This potentially leads to less supply and may raise security of supply issues post January.

We urge Ofgem to implement modifications 727 and 729 which have been with Ofgem for decision since July and September 2020, respectively. This would allow a justified reduction to NTS transportation costs for Storage and help alleviate the above issues.