

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:	Christiane Sykes
Organisation:	Shell Energy Europe Limited (SEEL)
Date of Representation:	11 December 2020
Support or oppose implementation?	Support
Relevant Objective:	<p>c) Comments</p> <p>d) Positive</p> <p>g) Comments</p>
Relevant Charging Methodology Objective:	<p>a) Comments</p> <p>b) Comments</p> <p>c) Positive</p>

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

Shell Energy Europe Limited (SEEL) support this proposal on the basis that the current mismatch creates distortive pricing as it does not effectively target costs to those shippers that accrue the benefit of the procurement of capacity.

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

SEEL supports minimum 5 days' notice to change the RRC to allow on a one-off basis for a single change to be made to the RRC and relating to a Day in Gas Year 2020/2021 without the need for the minimum 2 month notice period providing (i) the change is made within 2 months of the date the Authority directs Modification 0748 be made, (ii) not less than 5 business days' notice is given of the changed rate and (iii) the changed rate applies from the first day of a month.

A one-off change to *any* Transportation Charge would, however, significantly undermine a key premise of the modification, which is to minimise a negative impact on future price volatility and would exacerbate the unprecedented level of market uncertainty already facing network users.

Moreover, an ad-hoc change to other transportation tariffs would undermine existing contracts and remaining market confidence. We understand it is not possible for Ofgem to ‘cherry pick’ specific aspects of the proposal and with only three days to respond to the consultation, there was limited time for industry participants to propose an alternative modification so perhaps a workable solution if the legal drafting can’t be amended at this stage, would be for NGG to publish a letter to confirm that it will not use this clause to make a one-off change to any other transportation charges.

Given the extent to which the revenues currently feeding into the capacity neutrality are contributing to National Grid’s under-recovery and therefore, some of the RRC volatility, it is paramount that this is resolved at the earliest stage practicable to mitigate some of the unprecedented tariff uncertainty and volatility following implementation of modification proposal 0678A.

According to Section Y3.3 of the UNC, where NGG’s estimates for the purposes of determining the RRC prove to be materially inaccurate, NGG may revise the RRC for the Gas Year. To ensure network code compliance, a variation to this proposal, which sets the RRC for the remainder of the Gas Year would ensure NGG is not in breach of its contractual obligations under the network code. If a variation is not feasible at this late stage, then direction from Ofgem that the accumulated under-recovery is fed into the RRC for the remainder of the Gas Year would ensure code compliance and further serve to have downward impact on the level of the RRC, mitigating further exposure to unforeseen costs redistributed to network users.

We note, however, that according to the network code modification rulesⁱ, ‘where the Authority accepts that the Uniform Network Code...may require modification as a matter of urgency, the exclusion, acceleration or other variation, subject to the Authority’s approval, of any particular procedural steps which would otherwise be applicable...may include provisions which differ as between proposed modifications to the Uniform Network Code’. In our view, this leaves scope for the usual procedural steps, which govern the timing of a variation request to be deviated from and there should be no material affect from clarifying that the one-off change to transportation charges refers to the RRC only and a change to the RRC to apply for the rest of the Gas Year will ensure network code compliance.

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

Network tariff uncertainty and volatility undermines the market and as noted in the proposal, ‘if no action is taken to address the issue, the current arrangements would continue to result in a significant under recovery of National Grid NTS’ Allowed Revenue in Formula Year 2020/21 and continue to have a negative impact on future price volatility, with impacts carrying over into subsequent years.’

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

See points made above.

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 for the reasons given above.

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

Yes for the reasons given above.

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 but only the RRC. See above for rationale.

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.*

A wider review of National grid's allowed revenue streams and methodology for Forecasted Contracted Capacity should be reviewed in due course but for the purposes of this urgent modification proposal, it is not possible to review these in the timescales given.

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

ⁱ <https://www.gasgovernance.co.uk/sites/default/files/ggf/page/2019-01/18%20Modification%20Rules.pdf>