

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:	Smitha Coughlan
Organisation:	Wales & West Utilities
Date of Representation:	11 th December 2020
Support or oppose implementation?	Oppose
Relevant Objective:	c) Positive d) Positive f) Negative
Relevant Charging Methodology Objective:	a) None b) None c) Positive

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

There are two parts to this Modification Proposal

- 1) Changes to the charges subject to revenue neutrality
- 2) Changes to the notice periods required for changes to Transportation Charges.

We oppose this modification due to the unwelcome precedent it sets with regard to notice periods for changes to Transportation Charges and the risk that this is extended to NTS exit charges in future. We also think that the legal text covering this point has been drafted too widely and needs revision.

We can see the argument for changes to the charges subject to revenue neutrality or equivalently changes to the charges that count as collected revenue against the entry allowed revenue. The argument in the Modification Proposal is based more on expediency when it would be better to argue the point based on principles and applied to both entry and exit.

As the Modification Proposal includes both elements we have to oppose the Modification Proposal overall.

General relevant objectives

Relevant objective (c) efficient discharge of the licensee's obligations.

We can see that the proposed changes in this Modification better align the treatment of entry capacity revenues to the services provided. We do not see how the reduction in the notice period for changes to Transportation Charges does much to further this relevant objective although we acknowledge that National Grid recovers its revenue quicker with a reduction in notice period.

Relevant objective (d) (i) securing of effective competition between relevant shippers.

We can see how change the charges subject to revenue neutrality could further this objective for relevant Shippers in regard to entry.

Relevant objective (f) Promotion of efficiency in the implementation and administration of the Code

We think that this adversely impacts this relevant objective as it reduces the notice period for changes in Transportation Charges and creates an unwelcome precedent. The two-month notice period has been a well-established provision for a number of years and serves to increase predictability of charges for both Shippers and DNOs which has been a key issue in the past.

Charging Relevant Objectives

Relevant charging objective (a) charges reflect the costs incurred by the licensee in its transportation business.

We can see how change the charges subject to revenue neutrality could further this objective; however, we do not see that reducing the notice period for changes to Transportation Charges furthers this relevant objective other than by bringing forward the recovery.

Relevant charging objective b) properly takes account of developments in the transportation business

It is clear that there was a change to the charges on 1st October 2020. It is not clear from the Modification Proposal that Shippers collectively have changed their behaviour, rather that the consequences of their behaviour has had material impact on National Grid's revenue. We think that the argument in favour of a change to the charges subject to revenue neutrality arrangements would be better made from principles rather than expediency.

Relevant charging objective (c) facilitates effective competition between gas shippers and between gas suppliers

We can see how change the charges subject to revenue neutrality could further this objective for relevant Shippers in regard to entry.

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

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

None directly but as explained above we are concerned about the potential extension to NTS exit capacity charges and the consequential impacts that would have on our cash flow unless equivalent provisions were simultaneously introduced in respect on DNO charges to Shippers.

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

No, we do not.

Notwithstanding our objection in principle to the reduction of the notice period, the text does not reflect the solution.

The transitional text allows a reduction of the notice period in TPD B1.8.2a. This applies to all Transportation Charges for all Transporters and is much wider than the scope in the Modification Proposal which suggests that this provision only applies to certain NTS entry capacity charges. This must be amended. We further propose that the specific charges to which this one time carve out applies should be specifically referenced. We think that the text also needs to be tightened to reflect the intent of the modification in respect to making changes to the charges all on the same date. In our view the text allows for different charges to be amended on different dates whereas the intent is that there should be one opportunity to amend the charges and that where one charge is amended but another is not then the ability to amend the unamended charge at a later date ceases.

This imprecision in the drafting may have been due to the very short timescales for the production of the legal text or it may have been done on the basis that wider powers are convenient as National Grid are not quite sure what they may want to do in the future. This approach is consistent of a concerning wider trend in 2020 whereby the powers organisations propose to be taken are wider than the initial announcement suggests.

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?

Under the pre 0678A arrangements the NTS's argument was that interruptible services were only offered where there was capacity and therefore were not included in Transmission Operator revenues. In the case of Exit Capacity WWU argued that this meant that DNs were paying for about 80% of NTS exit capacity but only using 50%.

Our understanding, following the implementation of 0678A, is that revenue from interruptible exit capacity is included in in Transportation Services Revenue and therefore counted as collected revenue against the allowed revenue. Therefore, from a principles point of view this should have been applied to entry as well. We support consistency between entry and exit where the same principles apply.

We note that the arguments put forward proposing this approach seem to be based more on expediency than principle and this leads us to question whether our understanding of how revenue from interruptible exit capacity is treated is correct.

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

See answer to Q1.

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?

There are two separate parts to this modification, first the removal of some revenue streams from the revenue neutrality process and second, the relaxation of the notice periods for price changes. They are linked but separate.

We do not agree that National Grid should be given a one-off relaxation. National Grid already has powers to levy Revenue Recover Charges that are not available to Distribution Network Operators. Our concern is that if this modification is implemented then National Grid may seek similar provisions in respect of NTS Exit Capacity Charges in the future based on this precedent. DNOs are already exposed to Revenue Recovery Charges that impact cash flow and to which we have limited ability to respond.

Where additional charges are notified and levied in the same regulatory year (i.e. notice not provided in advance of the start of a regulatory year), the associated revenues cannot be collected in the same year under the RIIO 1 and RIIO 2 regimes, resulting in an adverse cashflow impact. WWU has been subject to a £4m adverse cash flow impact in 2020/21 as a result of the levying of additional costs to DNs that take effect in February and March 2021 under the Revenue Recovery Charge. The price notice detailing these additional charges was published by National Grid on 1 December 2020.

For charges to be reflected in a DN's allowed revenue, they would need to be known by the end of October before the start of the regulatory year. Under the RIIO GD2 Annual Iteration Process, the deadline for regulatory inputs into the PCFM is 31 October.

We would only agree to these powers if the modification explicitly provided that they applied to all Transporters as this would allow DNOs to pass on the changes by revising their charges; however we expect that Shippers on DNO networks would object to the resulting lack of predictability in DNO charges.

We appreciate that a shorter notice period will reduce the size of the change in charges required and mean the recovery is made quicker but believe that the principle of providing two months' notice should be maintained.

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.*

Not applicable for an urgent modification proposal.

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

The consultation period for this very significant modification proposal was only four days. We acknowledge that the Joint Office needs time to collate the probably large number of responses and to produce a Final Modification Report and the Modification Panel members need time to read the Final Modification Report and the individual consultation responses; however, our ability to respond to this modification was constrained by the fact that it was issued for consultation on the day the RIIO 2 Final Determinations were issued. This meant that key people in WWU were limited in the time available to consider this modification.