

Representation - Draft Modification Report UNC 0751

Capping price increases for Long-Term Entry Capacity

Responses invited by: 5pm on 11 June 2021

To: enquiries@gasgovernance.co.uk

Please note submission of your representation confirms your consent for publication/circulation.

Representative:	Chris Wright
Organisation:	ExxonMobil Gas Marketing Europe Limited
Date of Representation:	11 June 2021
Support or oppose implementation?	Support
Relevant Objective:	d) Positive
Relevant Charging Methodology Objective:	e) Positive

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

Entry capacity costs are a major consideration for gas shippers, whether modelling an upstream development project, entering into long term gas sales and purchase contracts, or seeking shorter term optimisation opportunities through gas trading. Concerns include both the absolute level of the charge, and its stability/predictability over time.

This has always been the case in the UK, however the implementation of new charging arrangements in October 2020 has introduced three further complications. First, the absolute level of charges at some entry points has increased significantly from historic levels. Second, shippers are no longer able to secure long term capacity at a fixed or known price due to the move to a fully floating reserve price. And third, these challenges are further compounded by the level of capacity price volatility that has been evident since the new arrangements came into effect.

This level of capacity price uncertainty means that gas shippers are likely to be much more circumspect about entering into new investments to bring gas into the UK market, and may face real challenges in securing funding with such a large unknown and un-hedgable cost risk. Where decisions are taken, these are likely to include a notable risk premium. In the longer term this is likely to lead to an unfavourable outcome for the UK market and gas consumers.

Modification proposal 0751 introduces a pragmatic solution by which shippers can secure long term entry capacity, potentially across multiple years, indexed to a pricing mechanism which is much more stable than that provided by the current postage stamp charging mechanism. This will help mitigate many of the challenges outlined above.

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

As soon as possible.

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

To the extent that this modification limits price increases for long term capacity holders compared to prevailing postage stamp reserve prices, an increase in those postage stamp price levels is to be expected in order to maintain National Grid's allowed revenue recovery.

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

Yes.

Modification Panel Members have requested that the following questions are addressed:

Q1: Provide views on whether this Modification is suitable for Self-Governance procedures.

Our preference is for this modification to be implemented as soon as possible; to that end we would prefer that self-governance procedures were followed. However there are aspects of this modification that we believe lean more towards Authority direction. These include impacts on capacity prices for those benefitting under this proposal; potential impacts upon reserve prices for those not caught by this proposal; questions around compliance which the Workgroup was unable conclude; and previous Ofgem principles/decisions which this modification may impinge upon (e.g. Interim Contracts, and the right to hand-back capacity to National Grid in the event of a significant price increase).

Q2: Provide views on whether there are any compliance issues associated with this Modification.

Potential TAR NC compliance.

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.*

No.

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

N/A.