Representation - Draft Modification Report UNC 0765

New retrospective debit and credit charges to reflect changes to the treatment of Entry Capacity Revenue between October and December 2020

Responses invited by: 5pm on 20 September 2021

To: enquiries@gasgovernance.co.uk

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

Representative:	Colin Williams
Organisation:	National Grid NTS
Date of Representation:	20 September 2021
Support or oppose implementation?	Support
Relevant Objective:	**c)** Positive **d)** Positive **g)** Positive
Relevant Charging Methodology Objective:	**a)** Positive **b)** Positive **c)** Positive

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

As the proposer, National Grid NTS supports the implementation of this Modification Proposal.

Purpose of Modification

The purpose of the Modification is to create new debit and credit charges to reflect the removal of revenues recovered from daily interruptible and within-day Entry Capacity (obligated only) from Capacity Neutrality arrangements between 01 October 2020 and 31 December 2020 (inclusive), consistent with the prospective change introduced from 01 January 2021 by UNC Modification 0748. Following implementation of UNC Modification 0678A on 01 October 2020, inappropriately high cashflows were subject to the Capacity Neutrality Arrangements (c. £0.5m per day). This Proposal seeks to create a charge to reflect removal of daily interruptible and within-day Entry Capacity (obligated only) revenue from Capacity Neutrality, within the relevant period, 01 October 2020 and 31 December 2020 inclusive, totalling approximately £47m. it would also put in place a mechanism to credit Entry Users who have picked up the impact of this via their

Transmission Services Entry Revenue Recovery Charges in the period 01 February 2021 to September 2021.

Application

The Entry Transmission Services Revenue Recovery Charge (TSRRC) is applied to the aggregate amount of NTS Entry Capacity that a User holds at an Entry Point on a given day "Fully-Adjusted Available Capacity" minus the "Existing Available Holdings", which are defined as User's Available NTS Entry Capacity for such Entry Point and Day as at the Tariff Regulation Effective Date (06 April 2017). Part of the Entry TSRRC which was introduced on the 01 February 2021 was the revenue proportion which reflects the removal of revenues recovered from daily interruptible and within-day Entry Capacity (obligated only) from Capacity Neutrality arrangements between 01 October 2020 and 31 December 2020 (inclusive). Who pays the Entry TSSRC will be dependent on what capacity they hold and have available at the time that the Entry TSSRC is applicable.

Within UNC Modification 0765 proposal a debit charge will recover from relevant Users part of the revenue which was distributed to them as a consequence of the Capacity Neutrality mechanism. These Users inadvertently received a payment arising from the treatment of that part of the Capacity Revenue Neutrality Charges associated with interruptible and within day obligated Entry capacity during the period October to December 2020 (inclusive). The proposal then produces a credit charge that will re-distribute the revenue collected via the transitional debit charges to all holders of Fully Adjusted Available Entry Capacity (except Existing Available Holding) over the period 01 February 2021 to 30 September 2021 (inclusive). Each relevant User will receive transitional credit charges proportional to their capacity holdings over that period.

Retrospectivity

The modification is retrospective in nature, correcting a position where we believe the capacity neutrality payments were excessive and drove up charges to those Entry Users who are liable to pay Transmission Services Entry Revenue Recovery charges across the period 01 February to 30 September 2021. This modification is consistent with the principles established under UNC Modification 0748 that the capacity neutrality payments from October 2020 onwards were unduly high and should be corrected, albeit in this case on a retrospective nature for the period October to December 2020.

Retrospective changes in principle are not desirable and, depending on the proposal, could be seen to impact confidence in market arrangements, in this case National Grid believes such concerns are outweighed by the adverse impacts on competition of the inappropriate revenue redistribution actioned in this period.

By making this change to address the issue and correcting the inappropriate revenue redistribution caused by the high capacity neutrality payments we believe this should reduce the detrimental impact on competition between Entry Users.

Impact

Impact on each User will be different depending on what types of Entry capacity they held between 01 October 2020 and 31 December 2020 (inclusive) and the capacity that they hold between 01 February 2021 and 30 September 2021 (inclusive). The impact on customers will be dependent on if the benefits or costs will get passed on or were previously passed on by the Users of the NTS.

We note in the analysis, that is also reflected in the workgroup report, that there are charts that show the likely distribution of the credit in comparison to the actual distribution of the debit charge. Were these two distributions the same, i.e. a debit that is mirrored with a credit of the same amount, then this modification would not redistribute monies differently and therefore not be needed. However, we note that there is a very different profile for debits compared to credits, as shown in the draft workgroup report (Figure 3: Analysis graph presented at August 2021 Workgroup which includes data from February to June 2021). Whilst this analysis brings the data up to the end of June 2021 as an illustration, we agree with some comments made that the shape of this is unlikely to materially change once data is available to take it out to the end of the affected Gas Year, September 2021.

This shows that the impact of the credits paid out in the period affected Entry Users in a way which did not fit the intent of the Charging Regime, and therefore shows the disproportionate impact of the credits that were given to some Entry Users and the negative impact to the charges Entry Users affected have subsequently picked up. Two examples can help illustrate this:

- One example to look at here is where there has been a large payment via capacity neutrality but no subsequent contribution to charging via the Transmission Services Entry Revenue Recovery charges.

- A second example to consider is where there is a small capacity neutrality payment and a substantially larger impact to charges via Transmission Services Entry Revenue Recovery charges.

On this basis, addressing issues such as the disproportionate impact and that this is not fitting with the intent of the methodology, we believe implementation would better facilitate the identified Relevant Objectives and Relevant Charging Methodology Charging Objectives for the reasons we set out in the Proposal.

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

As set out in the Proposal, implementation should take effect as soon as practicable noting that this should be the first calendar day of a month taking into account the timescales for system development which are within the Modification. The payments will be processed in M+1 following the implementation of the Modification

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

An enduring solution will cost at least £80,000, but probably not more than £110,000 to implement.

This change would need to be prioritised through the Change Management Committee alongside other changes within Xoserve's planned Gemini programme. The high-level estimate to develop and deliver this change is approximately 10 to 12 weeks for Analysis through to Post Implementation Support. Please note a lead time of 3 months for startup/sanction/mobilisation should be considered though there is the potential for this to be shortened subject to the delivery mechanism and availability of resources.

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

We are satisfied that the legal text delivers the intent of the solution identified in this 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 not identified any such error or omissions.

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

N/A