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**To:** Joint Office <[enquiries@gasgovernance.co.uk](mailto:enquiries@gasgovernance.co.uk)>

**Cc:** Anna Stankiewicz <[Anna.Stankiewicz@nationalgrid.com](mailto:Anna.Stankiewicz@nationalgrid.com)>; Iwan Hughes <[ihughes@vpi-i.com](mailto:ihughes@vpi-i.com)>

**Subject:** RE: [EXT] 07 July 2022 Transmission Workgroup Agenda including Workgroups 0801, 0805 and 0806

Dear JO,

For the attention of Rebecca (Chair of Transmission Workgroup), Iwan Hughes (proposer of Mod 0805) and Anna Stankiewicz (National Grid).

This is joint GDN feedback on the proposal UNC 0805: Introduction of Weekly NTS Exit Capacity Auctions, sent in advance of the workgroup meeting in order to aid the JO in setting the agenda, and to provide time for the proposer to consider the GDNs suggestions.

I would appreciate it if these comments could be discussed during workgroup and noted for the workgroup report.

<b>Modification on Section</b>	<b>Modification Text</b>	<b>GDN Comments</b>
<b>Section 1: Summary</b>	<i>At present, NTS Exit Capacity can only be bought on an enduring, annual, or daily basis. However, Users may wish to book a week of firm capacity rather than rely on Daily System Exit Capacity (i.e. preferring to “lock in” a volume of capacity for an extended period), for the following reasons:</i>  <i>a) Mitigate against risks that Daily NTS Exit (Flat) Capacity is withheld by National Grid because of a perceived or actual constraint (whilst also increasing visibility for the System Operator); or</i>	This is also true for GDNs wishing to satisfy Peak 1-in-20 obligations.
<b>Section 2: Governance</b>	<i>The modification introduces different treatment according to class of parties in that weekly NTS Exit Capacity Auctions will only be applied at NTS Direct Connect Exit Points, excluding Interconnectors.</i>	We suggest the modification discriminates between Users without providing suitable justification.
<b>Section 3: Why Change? Daily System Exit Capacity Auctions</b>	<i>...Given the cost implications of buying annual capacity for offtakes which exhibit variable consumption patterns, this strategy is uneconomic and will impose additional costs on the customer at the associated Exit Point.</i>	This could also apply to the GDNs and the customers that we represent through the cost pass-through mechanism.

<p><b>Shipper and customer benefits</b></p>	<p><i>Weekly Exit Capacity products will provide the following benefits to Users and consumers:</i></p> <ul style="list-style-type: none"> <li><i>-Reduce availability risk of relying on day ahead capacity products</i></li> <li><i>-Align with anticipated offtake forecasts and internal planning processes</i></li> <li><i>-Reduce administrative costs and potential errors associated with running daily booking processes (resulting in, for example, Exit Capacity overruns)</i></li> <li><i>-Increase National Grid visibility of week ahead bookings</i></li> </ul>	<p>We believe that points 1, 2 and 4 apply equally to the GDNs also.</p>
<p><b>Exclusion of Distribution Network Exit Points</b></p>	<p><i>Although the challenges faced by NTS Direct Connects can be applied to DNs several differences should be highlighted:</i></p> <ul style="list-style-type: none"> <li><i>- Many Direct Connects are subject to greater variability and unpredictability in demand, due for example to activities in complimentary markets e.g. electricity markets</i></li> </ul>	<p>An equivalent variability exists for GDNs during the transition from summer to winter periods, also known as the ‘shoulder months’.</p>
	<p><i>- The costs of acquiring NTS Exit Capacity are incurred by NTS Direct Connects. In the case of DNs these costs can be passed on to shippers (and ultimately customers) through DN charges as there are no explicit commercial incentives placed on DNs to manage NTS Exit Capacity costs</i></p>	<p>Capacity Outputs incentives were in place for the GDNs to encourage the booking of NTS Exit (Flat) Capacity to be made in an efficient manner. These have been removed under RIIO-2 and replaced with a new Licence Condition <b>SSpC A57: Exit Capacity Planning</b> which endeavours to produce a similar outcome.</p>
	<p><i>- DN licences oblige DNs to acquire NTS Exit Capacity to meet 1 in 20 demand conditions. Such an obligation does not apply to NTS Direct Connects</i></p>	<p>As stated above, they also oblige the GDNs to book capacity efficiently. It could be argued that if the GDNs were given the opportunity to utilise this weekly capacity product, then there is the potential for greater efficiency.</p>
	<p><i>- DNs will book capacity at a number of NTS Exit Points to ensure that, in aggregate, they meet their licence</i></p>	<p>This product has the potential to provide additional options to the GDNs in meeting Licence obligations as it is essentially a ‘firm’ product and not subject to curtailment in the event an NTS constraint is called.</p>

<p><i>obligations and are able to satisfy connected demand, potentially making shorter-term capacity products less attractive.</i></p>	
<p><i>- DN Exit Points contribute around 60% of total Forecast Contract Capacity. Any reduction in aggregate bookings (and subsequent revenue contributions) will have a greater impact on charges than equivalent changes to NTS Direct Connect booking behaviours</i></p>	<p>With the potential for Users to book capacity more in line with usage, by including the GDNs, it could be argued that future charges could be more cost reflective.</p>
<p><i>- Permitting DNs greater flexibility in capacity booking may create issues for National Grid NTS in its operation and planning of the NTS.</i></p>	<p>With the GDNs supplementing Annual Capacity with additional weekly bookings, this should provide more granular data than currently available. As this will be published in the ECPG reports and communicated in advance to National Grid, this should aid the operation and planning of the NTS rather than hinder.</p>
<p><i>In short, the analysis shows that DNs, and their customers, would realise cost savings where weekly bookings were to be combined with annual bookings. In the scenario provided for Gas Year 2022/23, initial booking costs would be reduced by 54% and final costs by around 12% once the revenue under-recovery has been recycled through NTS Capacity Charges. The replacement of some annual bookings with weekly bookings at DN's, based on the scenario set out in Section 11 would generate a "revenue under-recovery" of £165m during Gas Year 22/23. If this is compared to NTS Direct Connects booking 50% of their historical bookings on a weekly basis, this would generate a "revenue under-recovery" of around £2m.</i></p>	<p>Whilst we recognise that the booking scenario discussed above has been used to demonstrate the potential impact upon NTS charges, it should be made clear that the reality would be somewhat different.</p> <p>Many GDNs will have, in the 2021 Annual Application Window, booked long-term NTS Exit (Flat) Capacity at their offtakes in line with the latest available Peak 1-in-20 demand forecasts (as per the requirements of the ECPG). This will include bookings of Annual Capacity for Years 1, 2 and 3, and Enduring Annual Capacity for Years 4 onwards. With some 2022 Peak Day demand forecasts indicating a further increase, there is the potential to supplement existing booking levels with the new weekly product.</p> <p>In order for the GDNs i.e. their customers, to benefit from this product, they would need to reduce existing capacity bookings.</p> <p>The issue is existing holdings of Annual Capacity cannot be reduced and reductions can only be made to the Enduring Annual product, and only where User Commitment is not in place.</p> <p>The tables below summarises levels of User Commitment currently held by Cadent.</p>

## User Commitment All LDZs

User Commitment Period	LDZ	Offtake	Comments
Mar 21 - Feb 25	EA	PETERBOREYE	PARCA Request
Oct 24 - Sep 26	EA	BACTON	Required to meet Peak Day demand
	EA	BRISLEY	
	EA	GTWILBRAHAM	
	EA	MATCHNGGREEN	
	EA	ROUDHAMHEATH	
	EA	ROYSTON	
	EA	WESTWINCH	
	EA	WHITWELL	
	EM	KIRKSTEAD	
	EM	SILKWILLOUGH	
	EM	SUTTONBRIDGE	
	EM	WALESBY	
	NW	AUDLEYNW	
	NW	ECCLESTON	
NW	HOLMESCHAPEL		
NW	LUPTON		
NW	PARTINGTON		
User Commitment Period	LDZ	Offtake	Comments
Oct 24 - Sep 26	NW	SAMLESBURY	Required to meet Peak Day demand
	NW	WARBURTON	
	WM	AUDLEYWM	
	WM	LEAMINGTON	
	WM	LOWERQUINTON	
	WM	ROSSWM	
Oct 25 - Sep 27	WM	STRATFRDAVON	
	EM	ALREWASEM	
	EM	DROINTON	
	EM	TURLANGTON	
	NL	HORNODON	
	NL	PETERSGRNSM	
	NW	BLACKROD	
	WM	ALREWASWM	
WM	ASPLEY		
WM	AUSTREY		
WM	RUGBY		

As can be seen from the above, in the majority of cases reductions to Enduring Annual Capacity cannot be made until 1<sup>st</sup> October 2026, with other others extending further still to October 2027.

Therefore, even if this modification were to be implemented in 2022 *and* included the GDNs, it would be a number of years before a scenario similar to that described in Section 11 would become possible.

During the lead up to this, the GDNs would be able to amend the proposed capacity booking levels submitted to both NG and via the ECPG. Doing this would result in the Forecasted Contracted Capacity (FCC) being updated and charges amended accordingly, hopefully ensuring both any revenue under-recovery is kept to a minimum and a more cost reflective NTS Charging Regime ensues.

**Section 7: Relevant Objectives**

*d) Securing of effective competition:*

*(i) between relevant shippers;*

*(ii) between relevant suppliers; and/or*

*(iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.*

We suggest the Identified Impact is 'Negative' as the proposal excludes the GDNs and the customers (11 million plus) they represent.

Relevant Objective:

a) *...By excluding DNs this ensures that National Grid NTS will have more confidence in the*

As stated earlier, we disagree with this statement as National Grid already have Section H information and the addition of weekly data would supplement this.

	<i>planning and operation of the NTS.</i>	
	<i>d) ...In the case of NTS Direct Connects, demand tends to be unpredictable and variable which requires shippers to book capacity at relatively short notice.</i>	GDN demand does also vary seasonally.

Taking all of the above into consideration, we would ask the Proposer to reconsider its position by including the GDNs.

Kind Regards

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