Representation - Draft Modification Report UNC 0805

Introduction of Weekly NTS Exit Capacity Auctions

Responses invited by: 5pm on 12 August 2022

To: enquiries@gasgovernance.co.uk

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

Representative:	Shiv Singh
Organisation:	Cadent
Date of Representation:	8th August 2022
Support or oppose implementation?	Oppose
Relevant Objective:	**a)** Negative **d)** Negative
Relevant Charging Methodology Objective:	Not Applicable

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

We oppose this modification as we believe it discriminates between Users by only applying to NTS Directs.

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

A mid-year implementation could be problematic, so we suggest the start of the next Gas Year i.e., 1st October 2023.

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

None, as this modification would exclude the Gas Distribution Networks (GDN).

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

Yes.

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

The initial version of this modification did include the GDNs and as such, was one that Cadent was in support of. Analysis was then carried out to determine the impact on NTS Exit Charges from use of the product by the GDNs. As a result, the Proposer came to a number of conclusions that led them to exclude the GDNs from the proposal.

Cadent is of the opinion that the conclusions (detailed in Table 1 below) do not paint the whole picture and we have provided the reasoning behind this. It is, therefore, disappointing that the Proposer has chosen to proceed without including the GDNs and the downstream customers they represent.

The main reason for excluding the GDNs appears to be based upon a potential '*revenue under-recovery of £165m*'. The reality is that the likelihood of this happening is no greater than it currently is as the GDNs have a licence obligation to share forecasted capacity bookings with National Grid well in advance of the actual Gas Year.

Once the amended forecasts make their way through to the Forecasted Contracted Capacity (FCC) process and into the resultant NTS Exit Charges, this would result in the 24 million customers downstream of the GDNs being assigned a lower share (than current) of the overall annual charge due to capacity being booked more in line with actual usage. As a consequence, this would mean the remaining Users would be assigned a greater share of the annual charge, but this would also be more in line with their usage.

In conclusion, Cadent opposes this modification as it denies the 11 million customers that it represents the opportunity to benefit from more cost reflective charges.

Table 1

Modification Section	Modification Text	GDN Comments
Section 1: Summary	*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:* *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*	This is also true for GDNs wishing to satisfy Peak 1-in-20 obligations. Due to these license obligations, it is only the Annual products that currently enable the GDNs to satisfy the requirements. The introduction of the weekly product would provide an additional option that would not only result in the purchase of capacity more in line with usage, but also release capacity for use by other Users that would otherwise become sterilised.
Section 2: Governance	*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.*	We suggest the modification discriminates between Users without providing suitable justification.
Section 3: Why Change? **Daily System Exit Capacity Auctions**	*…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.*	This also applies to Cadent and the 11 million customers that we represent through the cost pass-through mechanism.
Shipper and customer benefits	*Weekly Exit Capacity products will provide the following benefits to Users and consumers:* *-Reduce availability risk of relying on day ahead capacity products* *-Align with anticipated offtake forecasts and internal planning processes* *-Reduce administrative costs and potential errors associated with running daily booking processes (resulting in, for example, Exit Capacity overruns)*	We believe that points 1, 2 and 4 apply equally to the GDNs also.

	-Increase National Grid visibility of week ahead bookings	
Exclusion of Distribution Network Exit Points	*Although the challenges faced by NTS Direct Connects can be applied to DNs several differences should be highlighted:* *- Many Direct Connects are subject to greater variability and unpredictability in demand, due for example to activities in complimentary markets e.g. electricity markets*	An equivalent variability exists for GDNs during the transition from summer to winter periods, also known as the 'shoulder months'.
	- 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	The 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 **SSpC A57: Exit Capacity Planning** which endeavours to produce a similar outcome. As the cost of capacity acquired by Cadent is incurred by our customers, any savings achieved would be seen in a reduction across 11 million customer bills.
	- 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	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.
	- DNs will book capacity at a number of NTS Exit Points to ensure that, in aggregate, they meet their licence obligations and are able to satisfy connected demand, potentially making shorter-term capacity products less attractive.	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.
	- 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	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. Conversely, by excluding the GDNs, there is the potential for a skewed market where the NTS Directs are effectively being subsided by the 24 million customers downstream of the GDNs.
	- Permitting DNs greater flexibility in capacity booking may create issues for National Grid NTS in its operation and planning of the NTS.	Arguably, 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 Exit Capacity Planning Guidance (ECPG) reports and communicated in advance to National Grid, this should aid the operation and planning of the NTS rather than hinder.

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.

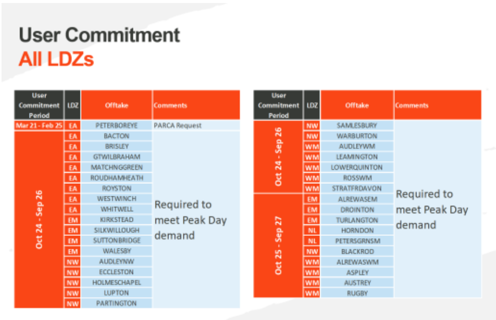
Whilst we recognise that the booking scenario discussed above has been used to demonstrate the potential impact upon NTS charges, it should be made clear that the reality would be somewhat different.

Many GDNs will have, in the 2021 Annual Application Window, booked long-term NTS Exit (Flat) Capacity at their offtakes in line with the 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.

In order for the GDNs i.e. their customers, to benefit from this product, they would need to reduce existing capacity bookings.

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.

The tables below provide a summary of levels of User Commitment currently held by Cadent.



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
Oct 24 - Sep 26	EA	BRISLEY	Required to meet Peak Day demand
Oct 24 - Sep 26	EA	GTWILBRAHAM	Required to meet Peak Day demand
Oct 24 - Sep 26	EA	MATCHNGGREEN	Required to meet Peak Day demand
Oct 24 - Sep 26	EA	ROUDHAMHEATH	Required to meet Peak Day demand
Oct 24 - Sep 26	EA	ROYSTON	Required to meet Peak Day demand
Oct 24 - Sep 26	EA	WESTWINCH	Required to meet Peak Day demand
Oct 24 - Sep 26	EA	WHITWELL	Required to meet Peak Day demand
Oct 24 - Sep 26	EM	KIRKSTEAD	Required to meet Peak Day demand
Oct 24 - Sep 26	EM	SILKWILLOUGH	Required to meet Peak Day demand
Oct 24 - Sep 26	EM	SUTTONBRIDGE	Required to meet Peak Day demand
Oct 24 - Sep 26	EM	WALESBY	Required to meet Peak Day demand
Oct 24 - Sep 26	NW	AUDLEYNW	Required to meet Peak Day demand
Oct 24 - Sep 26	NW	ECCLESTON	Required to meet Peak Day demand
Oct 24 - Sep 26	NW	HOLMESCHAPEL	Required to meet Peak Day demand
Oct 24 - Sep 26	NW	LUPTON	Required to meet Peak Day demand
Oct 24 - Sep 26	NW	PARTINGTON	Required to meet Peak Day demand

User Commitment Period	LDZ	Offtake	Comments
Oct 24 - Sep 26	NW	SAMLESBURY	Required to meet Peak Day demand
Oct 24 - Sep 26	NW	WARBURTON	Required to meet Peak Day demand
Oct 24 - Sep 26	WM	AUDLEYWM	Required to meet Peak Day demand
Oct 24 - Sep 26	WM	LEAMINGTON	Required to meet Peak Day demand
Oct 24 - Sep 26	WM	LOWERQUINTON	Required to meet Peak Day demand
Oct 24 - Sep 26	WM	ROSSWM	Required to meet Peak Day demand
Oct 24 - Sep 26	WM	STRATFRDAVON	Required to meet Peak Day demand
Oct 25 - Sep 27	EM	ALREWASEM	Required to meet Peak Day demand
Oct 25 - Sep 27	EM	DROINTON	Required to meet Peak Day demand
Oct 25 - Sep 27	EM	TURLANGTON	Required to meet Peak Day demand
Oct 25 - Sep 27	NL	HORNDON	Required to meet Peak Day demand
Oct 25 - Sep 27	NL	PETERSGRNSM	Required to meet Peak Day demand
Oct 25 - Sep 27	NW	BLACKROD	Required to meet Peak Day demand
Oct 25 - Sep 27	WM	ALREWASWM	Required to meet Peak Day demand
Oct 25 - Sep 27	WM	ASPLEY	Required to meet Peak Day demand
Oct 25 - Sep 27	WM	AUSTREY	Required to meet Peak Day demand
Oct 25 - Sep 27	WM	RUGBY	Required to meet Peak Day demand

As can be seen from the above, in the majority of cases reductions to Enduring Annual Capacity cannot be made until 1st 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 24 million customers they represent.
	Relevant Objective: *a) …By excluding DNs this ensures that National Grid NTS will have more confidence in the planning and operation of the NTS.*	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.
	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.	GDN demand does also vary seasonally.