

## 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](mailto:enquiries@gasgovernance.co.uk)

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

<b>Representative:</b>	Bethan Winter
<b>Organisation:</b>	Wales & West Utilities
<b>Date of Representation:</b>	12 August @ 5pm
<b>Support or oppose implementation?</b>	Comments
<b>Relevant Objective:</b>	<p><b>a) Positive</b> However by excluding GDNs there is a missed opportunity for National Grid to receive weekly nominations for the NTS / LDZ offtakes.</p> <p><b>d) Negative</b> The Identified Impact is 'Negative' as the proposal excludes the GDNs and the customers they represent.</p>
<b>Relevant Charging Methodology Objective:</b>	Not Applicable

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

We appreciate the benefits to sites directly connected to the NTS but the exclusion of GDNs means that benefits to customers embedded within distribution network are missed. Our response for this response is to capture our current position which has developed over the course of discussions at workgroup, in particular, having seen the outcome of the analysis on the pricing.

We consider that this modification furthers relevant objective (a) *Efficient and economic operation of the pipe-line system* but, by excluding GDNs there is a missed opportunity for National Grid to receive weekly nominations for the NTS / LDZ offtakes. We consider that the modification does not further relevant objective (d) *Securing of effective competition:(iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers* as the proposal excludes the GDNs and the customers connected to their systems.

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

Not applicable as the current modification excludes GDN

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

Not applicable as the current modification excludes GDN

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

We are not aware of any issues with the legal text.

**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.*

GDN Users are specifically excluded from this modification and some reasoning has been provided by the proposer. GDNs have a different view on the reasoning in a number of cases and have provided a joint response to the workgroup which is included on pages 8 and 9 of the draft modification report.

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

Background:

During GD1 Capacity Output incentives were in place for the GDNs to encourage the booking of NTS Exit (Flat) Capacity to be made in an efficient manner. In GD2 these have been removed and replaced with a new Licence Condition **SSpC A57: Exit Capacity Planning** which endeavours to produce a similar outcome.

To meet our license obligations, the NTS Exit Capacity that GDNs book needs to be sufficient to ensure we can meet demand on a peak 1:20 winter day. As per the Exit Capacity Planning Guidance document (ECPG), which forms part of a new licence condition introduced under RIIO2 (Standard Special Condition A57: Exit Capacity Planning), we are obliged to closely align the capacity bookings to the 1-in-20 Peak Day demand forecast. This ensures we remain compliant with this licence obligation and that our customers gas supply is not put at risk.

When booking NTS Exit Capacity we apply the following principles (amongst others), as detailed in our ECPG methodology statement:

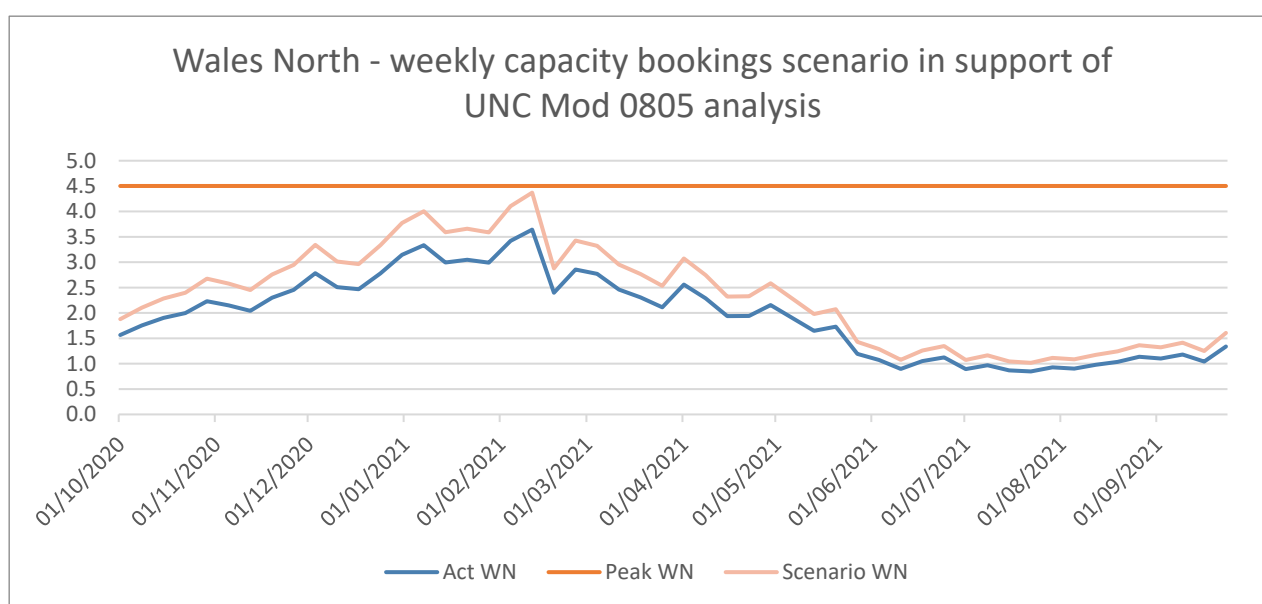
The following principles and assumptions are applied when producing offtake level capacity requirements:

- NTS Offtake capacity must be available to satisfy our 1:20 licence condition.
- NTS Flat Capacity must be guaranteed through purchase of annual or enduring capacity as there are circumstances where NTS may not release capacity through daily auctions See: [Microsoft Word - Exit Capacity Release \(approved\) v14.0.docx \(nationalgrid.com\)](#); paragraph 162.

Booking NTS Flat Capacity through the use of long-term products rather than via daily auctions means that GDNs are booking significantly more NTS Flat Capacity than we need on most days in the year because of the seasonal variation in our customers' requirements. The costs of this are pass-through so in turn our customers are paying for more capacity than they need.

The graph below provided an indication of the levels of excess capacity which is currently booked for the Wales North (WN) LDZ "Peak WN" against a weekly capacity booking that could be made should this modification be implemented **and** apply to GDN Users. In this scenario exit capacity bookings could be reduced by 54%.

Note: We believe this product would support our 1:20 requirement since it mitigates against risks that Daily NTS Exit (Flat) Capacity is withheld by National Grid because of a perceived or actual constraint.



**Analysis:**

We have been aware that directly connected sites are able to optimise their bookings taking into account the commercial risks associated with NTS withholding daily capacity because they don't have the same 1:20 licence requirement as GDNs.

However, if this modification is implemented the directly connected sites will continue to pay significantly less than the equivalent site located within a distribution network even though the risk of NTS withholding daily capacity has been removed.

Given the arrangements around NTS revenue recovery we were keen to understand whether implementation of this modification would result in cost savings, or whether we would introduce additional work to manage a weekly process which would be more than offset by increases in NTS charges that would result in us paying similar levels to today even though bookings were seemingly optimised.

We therefore requested some analysis be undertaken to understand the overall impact on costs, noting that any under-recovery resulting from a change in booking behaviour

would result in increases to NTS Exit Capacity Prices which may result in very little change to the overall cost of capacity to GDNs and their customers.

Whilst the analysis in Appendix 1 is recognised as very crude we believe that the level of redistribution of 12% of the total annual peak day booking requirement for GDNs which would transfer to NTS Direct Connect sites is worth noting and may represent a sufficient cross-subsidy to warrant further UNC modifications.

Conclusion:

If this modification is implemented in its current form, we will consider whether to raise an additional modification to allow GDNs to access the same product.

WWU did not raise an alternative extending the scope of the modification as we were not able to justify the original Shipper proposal due to our lack of knowledge of their business and processes.