Representation - Draft Modification Report UNC 0738

Incremental NTS Entry Capacity Surrender

Responses invited by: 5pm on 12 January 2021

To: enquiries@gasgovernance.co.uk

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

Representative:	Malcolm Montgomery
Organisation:	National Grid Gas
Date of Representation:	12/01/21
Support or oppose implementation?	Comments
Relevant Objective:	n/a

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

Comments provided at end.

Self-Governance Statement: *Please provide your views on the self-governance statement.*

We do not believe that this modification meets the Self-governance criteria and therefore should be subject to Authority direction. This Modification Proposal touches on points of principle that relate to the treatment of interim contracts and capacity hand-back (ticket to ride), as well as dealing with consequences from the implementation of UNC modification 678A. The Authority should be involved in decisions regarding any precedents this modification may set relating to such matters.

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

As no system changes have been identified then National Grid does not plan or anticipate any meaningful delay between approval and implementation.

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

There are additional processes required to implement this modification, this will be based on making use of the existing buyback (surrender) functionality within the Gemini system. This is anticipated to be an ongoing annual process required for the duration of the capacity contracts that are to be surrendered. This is because reserve prices need to be known to be able to implement the planned process, and these prices are not known more than a year in advance.

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.*

None identified.

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

Background. The driver behind this Modification Proposal can be identified as the change in treatment of entry capacity registered between 6 Apr 17 and 30 Sep 20 (referred to hereafter as interim contracts). The UNC rules at the time interim contracts were registered were that a fixed price would be applied albeit the charging arrangements had been signposted as being subject to review in the QSEC auction invitation letters over this period[1]. On 1st October 2020, UNC Modification 0678A was implemented and the payable price for these interim contracts was changed to a floating price arrangement.

There are 4 areas we would like to comment on here regarding this Modification Proposal.

1) Payable Price for Capacity. This modification proposes amendments to the treatment of entry capacity registered in the past (interim contracts) from Apr 17 to Sep 20. The scope of this amendment is limited to addressing some of the consequences of the implementation of Modification 0678A that itself led to a change to the payable price of interim contracts (noting that as outlined above the potential for changes to charging arrangements was flagged in the auction invitation). We also note that if the modification proposal were to be implemented then capacity could not be surrendered for any gas days that have already occurred and been invoiced for.

2) User Commitment. The ticket to ride principle requires Users to be committed to the capacity that they purchase. We continue to support this principle, as it prevents Users overbooking capacity for no risk or cost, which may lead to inefficient development or management of the system. However, we acknowledge the practical consequences of this principle, and in this case we can see that entry capacity commitments to the value of c.£68k at the time of commitment are now estimated as (after implementation of UNC Modification 0678A) entry capacity commitments to the value of £17.4m[2]. The Modification Proposal puts a limit on the value of capacity eligible for surrender (the limit being the original £ value) which means the majority of eligible capacity held may be surrendered, but the original user commitment value

---

[1] https://www.gasgovernance.co.uk/annualauctions

[2] It should be noted that the comparison is not exactly like for like, as under the old charging arrangements then a commodity cost would also be applied to any flow against this capacity. This commodity cost is now avoided, but a Revenue Recovery Charge may now additionally be placed on capacity held.

(as measured prior to implementation of Modification 0678A) as measured by £ will be met. We continue to support the principle of capacity commitment, but at the same time appreciate the principle is pushed to an extreme example here.

3) Classes of Capacity in scope. This modification proposal is limited to non-obligated incremental capacity. The justification for this modification is that projects, during the interim period identified, could not be put on hold and needed to continue to buy entry capacity in order to progress. It can therefore be surmised that non-obligated incremental capacity is being used as a proxy for identifying project capacity. This is a pragmatic shorthand to identifying project capacity, but does introduce the possibility of type I/II errors. i.e. type I errors being the possible existence of non-obligated incremental capacity that was not in fact bought for a project, and type II errors being the possible existence of project capacity in the form of obligated capacity. Proving the reason for buying capacity is tricky for a 3rd party to do. Only shippers are truly aware of the purpose for which they bought capacity and therefore we can make no definitive statements on the likely existence or scale of these types of errors in identifying project capacity.

4) Revenue impact. The scope of this modification proposal is limited to non-obligated capacity which is an incentive feed. Incentive revenue for year Y will have an impact upon SO allowed revenue for year Y+2. If this Modification Proposal were to be implemented then the surrender of capacity would not have an impact upon prices published for years Y or Y+1. However, it could have an impact upon forecast prices for Y+2, and it will also have an impact upon capacity neutrality revenue for all years.

We hope these comments provide useful context.