Joint Office of Gas Transporters

UNC 0XXX:

Capping price increases for Quarterly System Entry Capacity

Proposer: Storengy (represented by Nick Wye, WWA Ltd)

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Why change?

- The equalization of multipliers for Long-term and short-term entry capacity disincentives long term bookings
- In some cases, long term bookings are required in order to underpin project investment, ensuring the rights to deliver gas into the NTS are secured
- Long term capacity booking can be within obligated levels i.e. not requiring incremental expansion of the capacity
- The implementation of UNC 0678A penalizes long term bookings, by introducing price instability, creating unmanageable risks for project developers (and their financiers)
- QSEC bookings require that the User holds the same amount of capacity for each day within the quarter. Unless there is a Load Factor of 100%, QSEC holders are contributing to Allowed Revenue without return. A price cap solution will remedy some amount of cross-subsidisation
- In addition, it is likely to discourage LT bookings, resulting in drive towards the ST. This will lead to revenue uncertainty, instability and price variability e.g. through fluctuating RRCs

Options

- In order to introduce some degree of price protection for LT capacity bookings, changes to the UNC must be made

Solution

- Introduce a cap on the price increased for LT capacity bookings using the approach taken in Germany as a blueprint
  - Cooperation agreement of grid operators permits the partial of full hand back of capacity where capacity prices increase by more than CPI
- In each Gas Year the maximum price payable for LT entry capacity will be the price at the time of the booking (Auction Year Price) multiplied by the average CPI (for each year from the Auction booking Year to the Holding Year)
- E.g. if capacity was booked in GY 2019, the maximum price payable in GY 2021 is Price set in the GY2019 auction adjusted for CPI over the period 2019 to 2021
- The solution does not include the ability to hand back the capacity, but caps the payable price

Recommended Steps

- Not subject to self-governance because of the impacts on the commercial activities related to the shipping, transportation and supply of gas where certain classes of capacity are subject to an alternative approach for arriving at the payable price