

Representation - Draft Modification Report UNC 0779 0779A

0779 - Introduction of Entry Capacity Assignments 0779A - Introduction of Entry Capacity Assignments with Defined End Date

Responses invited by: **5pm on 11 February 2022**

To: enquiries@gasgovernance.co.uk

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

Representative:	Lauren Jauss
Organisation:	RWE Supply & Trading GmbH
Date of Representation:	3 February 2022
Support or oppose implementation?	0779 – Support 0779A – Support
Alternate preference:	<i>If either 0779 or 0779A were to be implemented, which would be your preference?</i> 0779A
Relevant Objective:	<p>0779</p> <p>a) Positive</p> <p>d) Positive</p> <p>0779A</p> <p>a) Positive</p> <p>d) Positive</p> <p>We believe that UNC779A is significantly better at achieving the relevant objectives, because it improves the efficiency and operation of the pipeline system and facilitates more effective competition in respect of short term capacity bookings and requirements as well as in respect of long term capacity which UNC779 provides for only. Meanwhile the estimated range of implementation cost is the same for both solutions.</p>
Relevant Charging Methodology Objective:	Not Applicable

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

RWE is the proposer of the alternative UNC0779A, and we believe it is the best solution.

Firstly, the alternative UNC0779A will allow Users to be assigned Entry Capacity for a limited period and be eligible for the Conditional Discount to Avoid Inefficient Bypass of the NTS (shorthaul) and Storage Discounts where applicable. Currently, the only route to acquire capacity from third party Users is through Secondary Entry Capacity but this is not eligible for shorthaul discounts. Many potential Assignee Users will only require the Entry Capacity for a specific short term period which UNC0779A would allow for, but UNC0779 only allows Entry Capacity Assignments for the longer term because it stipulates assignment for the full remaining duration of a capacity holding.

Any Primary Exit Capacity held in conjunction with Secondary Entry Capacity does qualify for shorthaul and potentially for storage discounts. However, as we understand it, the reason for not allowing the associated Secondary Entry Capacity to qualify is because the price at which it was procured is not known to National Grid. Also, the party that would be eligible for the discount does not have a contract with National Grid on which a discount can be given. In our view, these are technicalities as a result of the contractual structure which can be overcome by allowing flexibility in Assignment of Entry Capacity.

In some scenarios under the current arrangements, there may be little or no Primary Capacity remaining at some ASEPs. In this case, a User is limited or unable to deliver gas to the system using a Primary Capacity contract because the capacity has already all been procured by other Users, even though the capacity may not be fully utilised. In another scenario, either a User selling gas or a facility operator may have already procured Entry Capacity in order to deliver a parcel of gas into the system and there is no value in another User also booking Entry Capacity for the same gas. The result in these scenarios is that from the perspective of a User wanting access to the NTS for a shorthaul route, even where they are the producer, or importer of the gas, it appears as if there is no unused capacity available on the NTS and additional pipeline capacity is required. Similarly, as we understand it, a User wishing to deliver gas from qualifying storage Entry Points may in future be unable to access storage discount arrangements with Secondary Capacity holdings.

Secondly, the alternative proposal UNC0779A provides another route for Users with variable flow requirements who typically book short term capacity both to optimise their capacity holdings to better match their physical flows and to reduce their liabilities and associated credit and collateral requirements with third parties. UNC0779 also achieves these aims, but only delivers these system benefits with regards to long term capacity products because it does not allow for assignment of capacity for a limited period or for assignment within 5 business days of delivery.

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

We would like to see implementation as soon as possible. We understand from xoserve that an April 2023 implementation date is a realistic implementation date.

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

This modification would not increase costs but would rather reduce our third party credit and collateral requirements.

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

Yes

Modification Panel Members have requested that the following questions are addressed:

Q1. What are the merits of the alternative Modification 0779A Capacity exclusion aspects?

The original UNC0779 proposal excludes assignment of capacity procured in weekly auctions. However, it also requires a minimum 5 business days' notice ahead of delivery of the assigned capacity. Therefore, under this process, there would only be a very small time window anyway between the results of the capacity auction and the deadline for assignment of any part of a weekly contract.

The alternative UNC0779A allows for notification of capacity assignments up to day ahead of delivery, Xoserve have confirmed that day ahead notification is deliverable and is within the same estimated cost range as the original proposal's 5 business days. The alternative does not specifically exclude assignment of weekly capacity products. The reduced notification period in the alternative will increase the time window for being able to assign weekly capacity compared with the Original UNC0779 proposal. However, we would not expect weekly capacity assignment under UNC0779A to be as frequent as the assignment of other products. This is because there is a low probability of a User procuring capacity in a weekly auction and then, within a relatively short time window, deciding instead to want to assign it.

Given that assignment of weekly capacity products can be delivered for no extra discernible cost, we do not see any reason to exclude it.

Q2. Do you have any views around redistribution of costs and likelihood of under recovery of costs for National Grid?

In the UNC0779 original proposal, National Grid Gas have presented analysis illustrating the maximum possible reduction in collection of allowed revenue due to increased access to storage discounts and shorthaul that would instead need to be recovered across all other Users via a higher Reserve Price. We understand that these figures assume all Existing Contract volume is assigned. National Grid Gas do state that this is a "worst" case scenario. However, we believe it is substantially overestimated because the actual expected utilisation and volume of assignments is likely to be significantly lower than the maximum possible capacity that could be assigned.

Even more importantly however, we do not agree that continuation of the status quo would result in the current forecast Entry Reserve Prices. This is because we believe that the risk of inefficient bypass of the NTS remains high as a result of Users having limited ability to qualify for shorthaul under the current arrangements. If inefficient bypass

were to occur, Entry Capacity Reserve Prices would be even higher than if better access to shorthaul discounts were allowed.

In addition, we understand that Users might not be able to fully access storage discounts through Secondary Capacity trades in future, and this may be a barrier to effective utilisation of and investment in storage.

Restricting eligibility for shorthaul and for storage discounts are detrimental to efficient operation of the pipeline system in our view.

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

We do not have any further relevant data or information for publication.