Existing Contracts Review – Cover note

Overview

As part of the review of Existing Contracts National Grid asked Baringa to consider the following questions in the production of its independent analysis and review of the analysis of potential impacts of price differentials between new and existing capacity contracts:

- Assess the materiality of any tariff differentials between existing contracts and contracts which may be entered into under a new regime;
- Determine whether any tariff differential may have a negative impact on competition in the wholesale gas market and on consumer welfare; and
- Explore potential ways to mitigate any negative impact on wholesale market dynamics and consumers.

Background:

Fixed prices for long term Entry capacity are a feature of the GB Charging regime. Existing Contracts are a tranche of capacity under the EU Tariff Code that could be afforded a degree of price protection. These can be directly read across to be, for GB, the long-term entry fixed prices of capacity based on the date the capacity is for and linked to the allocation date. Existing Contracts for GB are those long-term Entry capacity bookings allocated before 6 April 2017. Any such capacity allocated on or after this date should be subject to "floating capacity charges".

A short summary of the data associated to Existing contracts is shown in the following charts.

- Chart 1: Comparisons of average EC price for gas year 2018/19 compared to indicative UNC0678 CWD illustrative prices modelled for gas year 18/19. This chart is to show that on average, by Entry Point type, the average price compared to the CWD illustrative price as a ratio does vary and can be as low as 1.7 time as a ratio.
- Chart 2: Average Entry point specific Existing Contract capacity price for gas year 2018/19 compared to the CWD illustrative prices modelled for Gas Year 2018/19. This chart is to show the point specific average Existing Contract price compared to the CWD illustrative prices under 0678.
- Chart 3: Historical flow data for Gas Year 2017/18 compared to the Existing Contract volumes per Entry point for Gas Year 2018/19. This is to show across the points the levels of flows compared to Existing Contracts and to highlight the range of % flow to capacity proportions.

Chart 1: Comparisons of average EC price compared to indicative UNC0678 CWD illustrative prices modelled for gas year 18/19

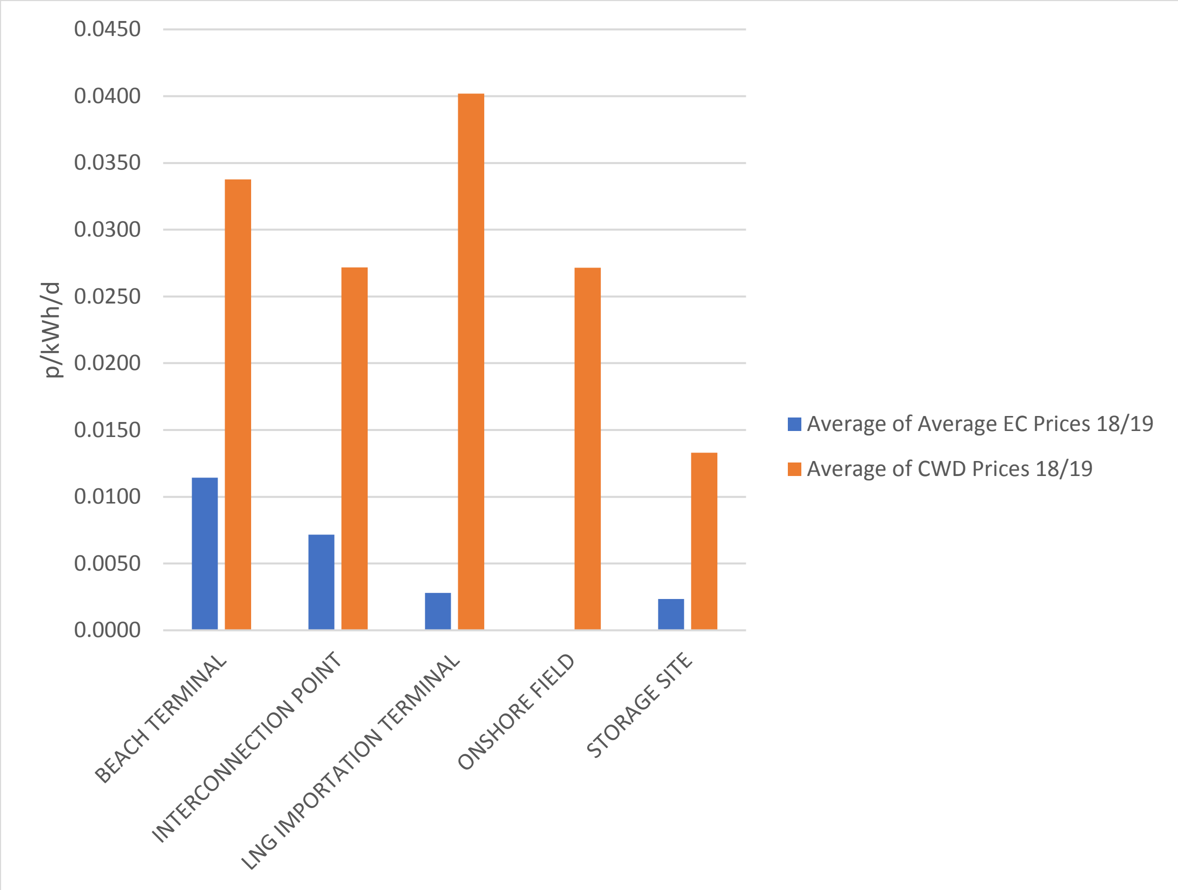


Chart 2: Average Entry point specific Existing Contract capacity price compared to the CWD illustrative prices modelled for Gas Year 2018/19

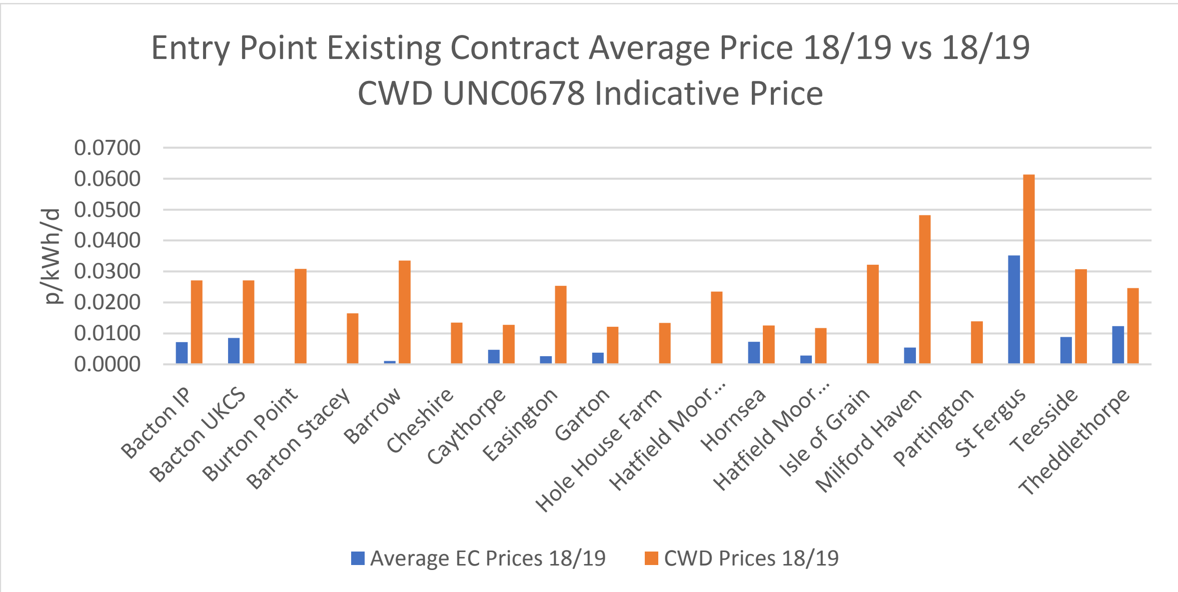
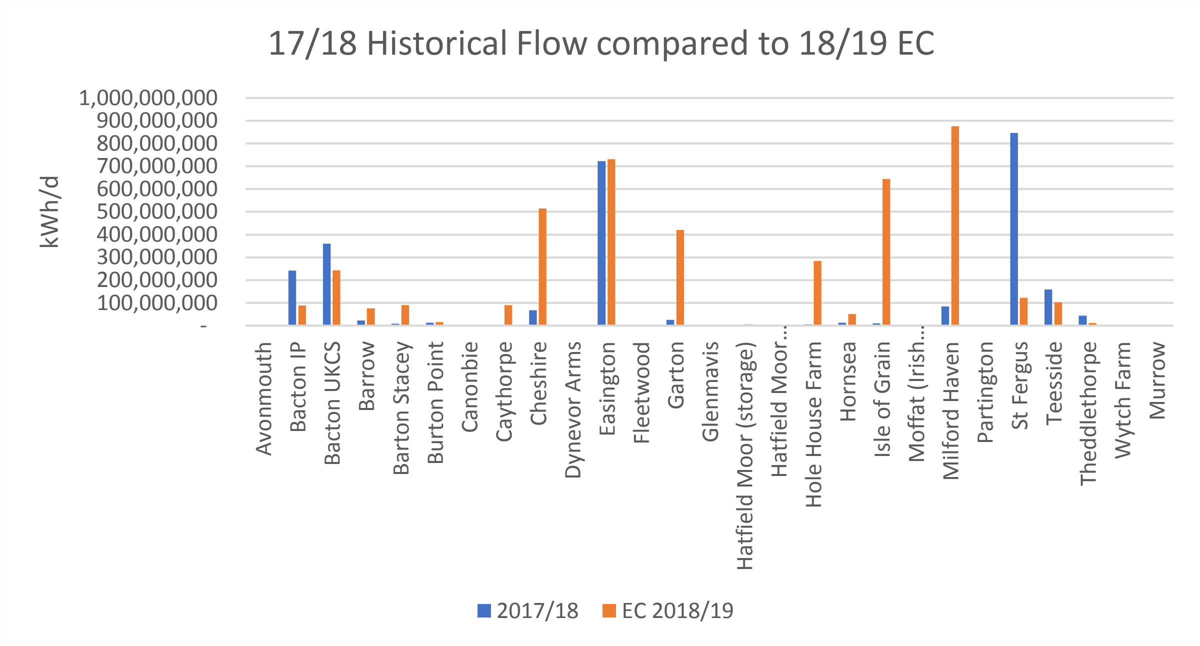


Chart 3: Historical flow data for Gas Year 2017/18 compared to the Existing Contract volumes per Entry point for Gas Year 2018/19



Baringa's assessment

Baringa have produced their independent assessment on the potential impacts from National Grid's request. Specific information related to Existing Contracts was provided by National Grid to support Baringa as part of their assessment. This included details of known Existing Contracts and the associated prices, and some of the potential alternative approaches that could be considered in the relevant section of Baringa's report. Access was also available to the CWD Sensitivity Model 3.1 for UNC0678 and the FCC Methodology proposed and links to the UNC0678 pages on the Joint Office website.

Alternative approaches

Consideration of the "Potential options for reducing the capacity price differential" – reviewed under Section 5 of the report. The options considered here are independent of any TAR NC compliance and consider options that may not be presented in UNC0678 or the alternatives but could be options for treating and accommodating Existing Contracts within the overall pricing framework. In general, these consider broad themes which could cover ranges of delivery in any actual application:

- Changing Entry / Exit split – an element not considered in scope for 0678 and not "taken off the table" and one that could potentially be reviewed in the future;
- Levying charges on Existing Contracts beyond the contracted capacity price;
- Repricing Existing Contracts – updating the payable prices for long term entry capacity with an appropriate mechanism to return capacity.

Conclusion

Reflecting on this assessment, it is not proposed to update UNC0678 further. Following a decision on UNC0678 and future monitoring future changes to the charging framework may be considered.