

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:	Tim Davis
Organisation:	Barrow Shipping
Date of Representation:	12 January 2021
Support or oppose implementation?	Support
Relevant Objective:	<p>d) Positive</p> <p>Efficient allocation of NTS entry capacity supports Users paying for the capacity they use, delivering cost reflectivity and so helping to secure effective competition. Unpredictable retrospective changes to charges discourage investment, and removing the uncertainty, created by the present situation, for new entry projects would help to support the securing of effective competition.</p>

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

A limited volume of incremental capacity was released in response to bids for entry capacity based on the reserve prices that were available at the time. Subsequently, substantial changes to entry capacity prices were introduced retrospectively. National Grid NTS have indicated that the uplift in charges was 257 times, producing charges that are far higher than could have been reasonably anticipated even if it had been known that charges might be changed retrospectively. Long term auctions provide a means for Users to demonstrate their willingness to pay for capacity and create a user commitment. If satisfied with this commitment, National Grid will release capacity. To then retrospectively increase the user commitment by 257 times creates an unreasonable burden and a far larger commitment than the User may have been willing to make. While this is detrimental and unfair for those involved, it also creates a bad precedent that has the potential to deter future investment – regulatory certainty has been undermined.

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

Given the financial value potentially involved (under £2m pa), it is hard to make a case against self-governance.

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

Since no systems changes are involved, implementation immediately following Authority direction would be appropriate. Implementation no later than the middle of February would ensure that surrender applications could be submitted and considered ahead of Q2 2021.

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

Our ongoing entry capacity costs would be reduced since we would use the surrender opportunity.

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.*

No

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

When long term entry capacity auctions were introduced to the UNC, a key feature was the provision of certainty about costs. This is consistent with the general principle of regulatory certainty that is important for encouraging investment, which supports the delivery of effective competition. The scale of change seen was not predictable and was completely unexpected. While it has been suggested that Shippers should have been aware of the concept of existing contracts being treated differently, it should be noted that smallest shippers do not have the resources to follow every detail of every possible change and rely on general principles. It is not reasonable to expect very small shippers (Barrow has one employee) to be as familiar with the detail as larger organisations – indeed, the recent issues that National Grid NTS has faced with charge levels suggests that even they did not understand the change that was implemented. The proposal by National Grid NTS to further increase capacity charges to recover revenue from a subset of capacity holders exacerbates the concerns when a far better approach would have been for National Grid to absorb the under-recovery and spread any adjustment over a number of years, helping to deliver the pricing stability that is important to their customers.