UNC 0790 Q&A Webinar 25 November 2021

On 25th November National Grid hosted a Q&A Session on the UNC0790 proposals to allow any specific questions to be addressed. Questions were invited in advance if possible.

Whilst no questions were received in advance of the Q&A session, the opportunity was taken to ask for any question's stakeholders may have on the 0790 proposals. The following questions were posed during the session and a summary of the answers are below.

Question	Answer
The Frontier Economics study said they did not see any major competition effects from the change proposed, given that is one of the reasons for the proposed aims, what are your views?	We believe there are competition benefits. Whilst the Frontier assessment perhaps sees more benefit overall in the distribution, there will inevitably be variances on impacts across the range of Shippers. We believe the price disparity that would be reduced with 0790 on capacity and the more even spreading of the commodity charge, overall, still benefits competition with the comparison of the payable prices being closer. This proposal would not make them the same but does reduce the price differential that we believe is positive overall for competition.
In the legal text it is now clear that the quantity of the commodity charge that is eligible for shorthaul discount is proposed to be equal to the eligible quantity for the entry capacity charge. Do you agree that in principle they shouldn't be the same where the quantity of known price is different	The application of the discount to the proposed flow-based charge that links to Shorthaul. That is, where there is a capacity discount applied (i.e. where there is an Eligible Entry Quantity) then the flow based charge could also be discounted. Applying a flow based charge discount where no capacity discount is available (due to transfers, for example) can mean confusion of the shorthaul product. The scenario of trades and discounted commodity charges we do not think falls under this remit and would be part of a separate conversation on the scope and application of shorthaul within the methodology.
is your assumption that one type of shippers purchased existing capacity while other type of shippers purchase new capacity?	Shippers can, we recognise, have portfolios that can be a mix of existing capacity and new and with others may have wholly existing or new capacity. The assessment looks at the position in aggregate to assess the impacts. Where there may be shipper specific impacts away from the aggregated view, this view can be shared through the representations. For the purposes of the assessment, an aggregated view, without going into shipper specific assessments is the most pragmatic and sensible approach when reviewing the overall impacts. We recognise there may be some shipper specific impacts due to the nature of their own contractual arrangements beyond our view, and these are not possible to accommodate for this reason.
Didn't every shipper have the opportunity to buy long term capacity but choose not to because	These changes focus on the new regime. Arguably the new arrangements from 2020

they could buy capacity for free ? Wasn't this detrimental to competition in the past ?	present some major changes from the previous regime. The old regime had arguably run its course in terms of delivering against what it was intended to do with the imbalance towards commodity charging when its aim was capacity. Part of the reason for change to the new regime (where 100% discounted capacity it not available) was to make pricing and charging more equitable in terms of what is paid to access and use the NTS.
can you give a summary of how the commodity charge will feed into under-recovery and RRC.....if there is an underrecovery against the commodity charge element could it be later recovered via the capacity based RRC?	As it stands the proposed new commodity charge cannot be updated once published. Therefore, as written, the methodology overall would permit the use of RRCs to recovery any differences to target compared to actual revenues. If there was an under recovery from the commodity compared to its specific target then this difference could be recovered by the capacity based RRC. It is worth noting, under UNC0748 the forward looking modification for capacity neutrality, Ofgem publsiehd a letter signalling some expectations on use of any capacity based RRCs. The points mentioned would always be taken into account. Where possible the use of RRCs would be avoided.
As i understand it from the Frontier presentation their calculation of benefit is based on the assumption that the value of existing capacity (rent) is equivalent to the prevailing capacity price and that flows (in particular marginal flows) are not impacted. Fair summary?	We believe the flow levels are assumed to be unchanged and the capacity in terms of marginal flows when considering passing on, is based on prevailing rates. Further details expanding on this particular point will be presented in a further note from Frontier Econimics reflecting on the particular question around this and those raised at the webinar on 23rd November.
This mod has a potential negative impact on the incremental entry capacity NPV test. Is there any update on how NGG plans to address these given the NPV test is outside of the UNC?	We note this impact is present in the existing methodology where the Entry Capacity based RRCs are present. The proposed flow based charge may be more certain at the start of gas year. In terms of how this topic of total charges playing into the NPV test, it should be part of the discussions around further updates to the Capacity Release Methodologies to assess merits of any potential change in this area.
Where are you on the complimentary mod? Still be progressed in time of Oct 22?	Still in progress. We will provide more at December's NTSCMF.
Will the discount on the commodity element for shorthaul usage lead to a potential competitive impact where EC capacity holders will be competitively disadvantaged vs new shippers. Given the shorthaul regime has only just been implemented and its effect on Revenue is unknown, this could well add additional volatility to entry capacity prices that you are aiming to reduce. Additionally, the easiest way to address	We do not believe it should lead to a competitive disadvantage. In combination, looking overall, this should provide competition improvements with lower (than current method) capacity reserve prices and more equitable application of the proposed flow-based charge. The new shorthaul product has only been in place since October 2021. We do not believe this proposal would drive volatility into Entry

the year on year price volatility is aligning the Gas Year and Charging Year.	prices. Notably it aims to reduce volatility through the calculation of reference prices that comparably to the current method would be less volatile due to the increase in the volumes over which the reserve prices are ultimately determined. If they were aligned, then there would be lower revenue volatility. The other modification would look to also lower revenue change volatility through keeping revenue years and gas years as they are (ie. Not the same) but adjust the target gas year revenue through a new method. This would likely help with revenue volatility but not price differentials for Existing and non-existing capacity. This issue would remain as the denominator for new capacity would continue to be high and therefore susceptible to volatility through small changes to revenue / capacity volume variances.
What is the cut-off date by which you need Ofgem to make a determination on the mod to permit Oct 22 implementation?	Charges will be published by the end of May 22 for October 22 application. Before this is the window needed. Ideally as soon as possible before the publication to provide time to calculate the necessary charges.
What is the expected value of entry TO commodity charge for Oct 22?	Indicatives calculated showed that an updated Entry Reserve price for October 2022 of 0.0444p/kWh/d would provide an Entry Commodity charge of 0.0183p/kWh. These are indicative and would be subject to changes however provide a reasonable expectation of the sorts of levels it could be should UNC0790 be implemented.
To maybe summarise some of the responses, are NG saying that even if some of the concerns about exact methodology and precise figures are accounted for that the expectation is that this mod will have a positive benefit to consumers?	National Grid does believe there is still a consumer benefit. If there a level of consumer impacts lower than those presented, noting some of the observations where shipper specific behaviours may differ from those assumed, we do not believe it will negate the consumer benefit.
Presumably Ofgem will still need to undertake an IA?	We believe this is the case. The assessment carried out by Frontier could help support this process.
When will write up be available and update FE work?	We are looking for close of play on Friday 26th November.

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