

Representation – Draft Modification Report UNC 0877S

Alignment of TO Revenue and TO Revenue Adjustment terms to the current Gas Transporter Licence

Responses invited by: **5pm on 07 June 2024**

To: enquiries@gasgovernance.co.uk

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

Representative:	Nigel Sisman
Organisation:	Sisman Energy Consultancy Limited
Date of Representation:	5 June 2024
Support or oppose implementation?	Qualified Support
Relevant Objective:	f) Positive – the proposal would seem to deliver a correction to legal text introduced from UNC 333A “Extending update of the default Marginal Buy Price and System Marginal Sell Price” in 2011 that is unimplementable
Relevant Charging Methodology Objective:	Not Applicable

Reason for support/opposition: *Please summarise the key reason(s) for your support or opposition.*

This proposal was unannounced before its pre-modification discussion in May’s NTS CMF. No participant was able to consider the proposal before National Gas Transmission’s presentation and the subsequent limited discussion. However despite the limited industry engagement this response offers qualified support for the proposal.

The proposal seeks to address an anomaly that has only recently been revealed. However our view is that the problem has been present since the default system marginal price methodology was introduced in 2011 via UNC 333A “Update of the default System Marginal Buy Price and System Marginal Sell Price Modification”.

The proposal suggests a problem has arisen as a result of changes in terminology associated with RIIO-T2 implementation and an oversight in the associated change UNC 0774C “Alignment of the UNC TPD to the National Grid Licence in respect of the NTS”. However it would seem that the problem preceded this and emanates from the drafting associated with the 2011 implementation of UNC 333A.

The legal drafting from UNC 333A, which currently applies, seems to require a recovered revenue to be used to derive an average price for capacity within the methodology. However a recovered revenue for the relevant period would not be available at the time the average price for capacity is calculated. Thus the UNC may contain a provision that is unimplementable. It has never been clear what value the licensee has used (for TOR_t and

TOK_t) in the necessary calculation although Sisman Energy Consultancy have, on several occasions, sense checked the calculations and found the outcomes to be credible although unverifiable. The default system marginal price defines User exposures to imbalance cashout and influences cashflows associated with balancing neutrality. It is therefore important that the outcome of the default system marginal price sets an adequate but not excessive imbalance exposure to Users and which should not create excessive cashflows within balancing neutrality.

It is likely that the UNC 333A drafting should have referenced allowed revenues (i.e. forecast) rather than recovered revenues and hence the broad intent of this proposal is appropriate. Hence we support this proposal although we make no comment on the appropriateness of the methodology.

Our concern, which is much wider than this issue, is that there are adverse and unintended consequences that arise from unfortunate and misunderstood interactions between UNC, Licence, regulatory financial reporting and their complex interactions.

More narrowly, in respect of this proposal, this response offers “qualified support”. Whilst the proposal should be implemented it would be helpful to address the two points identified in respect of the legal text comments below. Furthermore greater transparency about all values featuring in the default system marginal price calculation is warranted. This could easily be achieved by detailing both the values, and identifying a public source reference, for the four terms to be used in the methodology statement calculation (i.e. Annual Compression Fuel Cost, Total System Demand, ADJR_t and 1 in 20 peak day demand). The outcome would then be verifiable.

We agree that the proposal affords an opportunity to make timely progress to resolve this issue subject to the clarifications sought in this response being addressed and with implementation of the recommendations for improved transparency.

Governance Statement: *Please provide your views on the self-governance statement or reasons why Authority Direction should apply.*

No view expressed

Impacts and Costs: *Please provide a view on the impacts and costs you would face.*

No view expressed

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

It would be helpful to have a robust implementation prior to the publication of the next Default System Marginal Price Statement.

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

It would be helpful to understand which ADJR_t value should be used. For example is it the value associated with the most recent publication by Ofgem of the PCFM or is it a value subsequently derived by National Gas? Greater transparency about the source of the ADJR_t, and if other than the latest Ofgem published value a justification for the value, should be included in the Default System Marginal Price Statement.

Additionally does the calculation to derive the Average Forecast Capacity Price require refinement? Is the calculation $ADJR_t / \text{Peak Day demand}$ (which implies a p/kWh/annum value) or should it be derived as $ADJR_t / (\text{nos of days in relevant Gas Year} * \text{Peak Day demand})$ (a p/kWh/day value)?

Panel Questions: *Panel Members have requested that the following questions are addressed.*

None raised

Error or Omissions: *Are there any errors or omissions in this Modification Report that you think should be taken into account? Please include details of any impacts/costs to your organisation that are directly related to this.*

None beyond comments above.

Additional analysis: *Please provide below any analysis or information to support your representation.*

None supplied.