Eni Global Energy Markets SpA

Clarification on how Capacity Constraint Management incentive works

Update on Capacity Constraint Management incentive and information provision to the industry

- The latest correspondence from Ofgem on this subject was issued on 3 January 2021, which informed the industry that the Capacity Constraint Incentives are under the review: https://www.ofgem.gov.uk/sites/default/files/docs/2021/02/riio-gt2_ccm_incentive_review_letter_0.pdf

- Incentives impact on charges but it is not straightforward to understand how this process works.

Please could Ofgem and National Grid Gas:

1. Provide the industry with a simplified demonstration of how the incentives currently work by using the capacity revenues collected in Gas Year 2019/2020 and how this will impact incentives for Gas Year 2021/22 (please use the table on the following slide).

2. Provide a simplified demonstration of how the incentive will work by using the example of the revenue currently collected in Gas Year 2020/21 and how that will impact the incentives for Gas Year 2022/23.

3. Provide the industry with an update on how the incentives may change in the future, when the changes are likely to become effective and the explanation on what the incentives aim to achieve.

Capacity revenue	Does it feed into SO Incentives?	Does it feed into Capacity Neutrality?	Note: clarify impacts on SO charges in 2 years' time.
Within Day Firm Entry and Exit Capacity	Yes (TBC) (clarify how this works for the Q420 revenue)	No (clarify how this works for the Q420 revenue)	In the new regime, significantly more Transmission Service revenue is collected from WD auctions than in the old regime where a 100% discount on the reserve price applied. Now, approximately 50% of capacity is sold via WD Firm Auctions. WD capacity revenue in GY20/21 influences the SO incentives for the charging period that applies in 2 years' time. Please clarify how this works and what is the incentive cap. Please clarify if £45 million of Misallocated revenue in Q420 will feed into the Incentives for GY 22/23.
Sales of interruptible and off-peak capacity	Yes (TBC) (clarify how this works for the Q420 revenue)	No (clarify how this works for Q420 revenue)	Low quantities of interruptible capacity released over the summer time. A desirable capacity product. DA Interruptible capacity revenue influences the SO incentives for the charging period that applies in 2 years' time. Please clarify how this works and what the incentive cap will be. Please clarify if £45 million of Misallocated revenue in Q420 will feed into the Incentives for GY 22/23.
Entry capacity overrun charges	No (clarify how this works for the Q420 revenue)	Yes (UNC B 2.13.2 (a) ii/iii)	The revenue does not feed into incentives but NGG does not receive any revenue for any capacity overruns either. All revenue is feeding into the Capacity Neutrality Credits and is returned to shippers who purchased firm capacity. The value of overruns for the first 5 months of GY 2020/21 is approximately £2 million.
Sales of non-obligated entry and exit capacity	Yes (TBC)	Yes (UNC B 2.13.2 (a) i)	In the new regime, NGG has collected high revenues from non-obligated exit capacity release. Shippers would benefit from a higher release of non-obligated entry capacity though. In the first instance, the revenue is fed into Capacity Neutrality Credits and then it feeds into the SO incentives so it is influencing the SO revenue for the period that applies in 2 years' time (GY 22/23).
Locational Sells and PRI Charges	Yes (TBC)	Yes (UNC B 2.13.2 (a) iv/v/vi)	No change in the new regime compared with the old one.