

Representation

Draft Modification Report

0350 - Combining the NTS entry capacity and exit capacity credit checks

Consultation close out date: 11 March 2011
Respond to: enquiries@gasgovernance.co.uk
Organisation: EDF Energy
Representative: John Costa
Date of Representation: 11 March 2011

Do you support or oppose implementation?

Support

Please summarise (in one paragraph) the key reason(s) for your support/opposition.

Implementation of this modification will correct a defect in the UNC. Currently Shippers can use a single credit/security instrument to cover both their entry and exit capacity commitments for the next 12 months. This is due to the fact that currently two separate credit processes are in operation for entry and exit. This proposal will also prevent a User from deferring their Registered Annual Entry Capacity obligations by not lodging credit thereby significantly improve current arrangements and protecting the community against extra costs. Users participating in the QSEC auctions will now be required to pay for the capacity that they have booked, even if they are not in a position to utilise this capacity; or be faced with the ultimate penalty of termination. We believe that this will also reduce the risk of speculative bidding in the auctions which in turn will reduce the risk of inefficient investment by the TSO, the costs of which are be picked up by other ASEP capacity holders.

Are there any new or additional issues that you believe should be recorded in the Modification Report?

It has been stated during the modification process that this will save NG monies from having to run separate credit checks and processes. However while we agree this may be the case we believe the savings are not significant.

Relevant Objectives:

How would implementation of this modification impact the relevant objectives?

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We agree with the proposer that implementation of this proposal will improve the efficient discharge of NG's relevant objectives and have a beneficial impact on competition amongst Users. However, we believe that the main benefit of this proposal is to reduce the exposure of Shippers to any defaulting party that has not lodged sufficient credit. This therefore reduces the risks faced by Shippers, and so potentially reduces a barrier to entry.

For clarity we disagree with the proposer that the reduction of uncertainty in the TO Commodity charge will have an impact on competition. Any benefits from reducing the potential level of this charge is therefore potentially overstated.

Impacts and Costs:

What analysis, development and ongoing costs would you face if this modification were implemented?

NG's £14.75m cost impact estimation on certain Shippers shows how much money is at stake and this value could be seen as a benefit to the rest of the Shipping community and underlines why this proposal is necessary.

Implementation:

What lead-time would you wish to see prior to this modification being implemented, and why?

It is important to note that the shorter the notice period that is made available to lodge additional credit, the greater the costs of lodging such credit. Therefore any decision on implementation needs to balance the benefits of reducing the industry's exposure against the greater costs that will be imposed on some Shippers.

We therefore agree with the proposer that it should be implemented on the 1st of the next month after agreement as per the proposer's suggestion.

Legal Text:

Are you satisfied that the suggested legal text will deliver the intent of the modification?

No comment

Is there anything further you wish to be taken into account?

Please provide any additional comments, supporting analysis, or other information that that you believe should be taken into account or you wish to emphasise.

It is not clear whether this modification will have retrospective implications or whether it just covers credit requirements going forward as this issue originated in 2009. If this proposal were to impact on future entry capacity bookings that were made prior to implementation then this would also capture previous Users bidding. E.g. Shippers bidding for entry capacity for 2016 in the 201 QSEC auction would be impacted by this proposal.

This could have implications for Shippers gaining entry capacity entitlement without being in a position to put up the necessary credit. Such Users would now be classed as a "User in Default" and would have lost their capacity entitlement. We welcome the proposer's and Ofgem's views on this specific issue and whether this would constitute a retrospective impact..