

Representation

Draft Modification Report

0417S: Notice for Enduring Exit Capacity Reduction Applications

Consultation close out date: 11 June 2012

Respond to: enquiries@gasgovernance.co.uk

Organisation: National Grid NTS

Representative: Andrew Fox

Date of Representation: 11 June 2012

Do you support or oppose implementation?

Not in Support

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

National Grid NTS does not agree that Modification 0417S has a sufficiently positive impact on the relevant objectives to justify the introduction of measures that, in our opinion, unduly discriminates between Users with and without a User Commitment. For example, of two Users at the same NTS Exit Point experiencing the same capacity prices, the long standing User without a User Commitment (e.g. with an initialised quantity only) will be limited to giving 14 months notice of a reduction. However, the User with a User Commitment may be able to give shorter notice.

If implemented Modification 0417S would create a movement of cost from those able to take advantage of the changes introduced by the Modification to those that can't. By reducing earlier than would otherwise be the case, they would cease to pay capacity charges from an earlier date. The gap in National Grid NTS' received revenue would be recovered from Users in general. Whilst we recognise that there is an issue with actual prices increasing relative to the indicative price provided at the time of a capacity increase application, we do not believe that Modification 0417S is an appropriate solution to address this issue.

As detailed below National Grid believes that Modification 0417S requires the oversight of the Authority and should not proceed under the self-governance route.

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

No

Self Governance Statement:

Do you agree with the Modification Panel's decision that this should be a self-governance modification?

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National Grid NTS disagrees with the Modification Panel's decision that this should be a self-governance modification. When a User requests additional capacity this may trigger investment, either directly, or indirectly, hence Users are required to provide a sufficient level of commitment to support that potential investment.

Whilst Modification 0417S does not reduce the financial commitment of the User, it does reduce the minimum period for which they must hold, and pay for, the additional capacity. Notwithstanding the statement from Ofgem (Workgroup 0417s minutes 5th April 2012, item 1.1) that "User Commitment was integral to the efficiency of the capacity regime but based on [Ofgem's] understanding [Ofgem] did not interpret that User Commitment would be affected by the proposal" National Grid NTS believe that it would be prudent for this to be clarified through an Authority decision on the Modification.

If, in the view of the Authority, Modification 0417S was to undermine the User Commitment principle this could have a profound effect on National Grid NTS, its investment decision making process and hence the operation of the NTS. Additionally, the Modification enables Users to reduce their capacity, thereby avoiding NTS Exit (Flat) Capacity Charges. The reduction in revenue to National Grid NTS (if Users take advantage of this Modification) will potentially be recovered from an increase in charges to all Users. Therefore National Grid NTS considers that this modification fails the criteria for self-governance in that there may be a material impact on existing or future gas consumers, and on the operation of the pipeline system.

Relevant Objectives:

How would implementation of this modification impact the relevant objectives?

The workgroup report identifies a positive impact on the following relevant objectives.

"Achievement of relevant objective (a) "Efficient and economic operation of the pipe-line system"

Enabling Users to adjust downward their signals for Enduring Annual NTS Exit (Flat) Capacity provides additional information to National Grid NTS that could allow National Grid NTS to release firm and discretionary off-peak capacity at that and/or nearby locations, making more efficient use of the pipe-line system."

This suggests that by allowing a User to reduce their registered capacity earlier than currently is the case additional capacity would be freed up to be released as firm and discretionary off-peak capacity. However, this capacity can already be made available to Users at the same NTS Exit Point through the Transfer and Assignment processes.

In respect of other, nearby NTS Exit Points, the quantity of discretionary off-peak capacity made available would be dependent upon the reason for the initial User putting in a reduction request. If the connecting pipeline or facility is not capable of using the full (pre-reduction) allocated capacity at that NTS Exit Point, National Grid NTS would have already built this into its decision making process for discretionary release. If the connecting pipeline or facility can use the full (pre-reduction) allocated capacity then National Grid NTS is unlikely to make that capacity available elsewhere due to the high level of risk it would be taking on as that capacity could still be obtained at the initial NTS Exit Point.

We conclude, therefore, that the Modification is unlikely to increase the availability of NTS Exit Capacity and that it does not improve "efficient and economic operation of the pipe-line system".

"Achievement of relevant objective (c) "Efficient discharge of the licensee's obligations"

Modification 0417S allows a User to reduce, in defined circumstances, their registered capacity within a year of the allocation taking effect. The possibility of this situation occurring each year is likely to cause uncertainty for National Grid NTS because National Grid NTS would be unaware of the level of capacity bookings until 2 months before the capacity year. This could affect planning processes and lead to sub-optimal decisions. We conclude, therefore, that the Modification is unlikely to increase the availability of NTS Exit Capacity and that it does not improve "efficient discharge of the licensee's obligations".

"Achievement of relevant objective (d) "Securing of effective competition"

Modification 0417S is designed such that Users who have recently acquired additional capacity can dispose of that capacity in advance of the default 14 months notice period. Whilst National Grid NTS recognises that Modification 0417S would allow such Users to avoid additional costs (by way of NTS Exit (Flat) Capacity Charges) that could have a detrimental financial impact upon their business, we believe that Users should be exposed to the reasonable consequences of their decisions. In addition, there are other tools available that could achieve a similar outcome.

We conclude therefore, that this Modification does not improve the "securing of effective competition". Indeed, the Modification has limited application, and as such discriminates against Users without a User Commitment, or experiencing a slightly smaller increase in their actual NTS Exit (Flat) Capacity price compared to the indicative price used to set the User Commitment.

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Impacts and Costs:

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

Ideally, system changes should be implemented to assess whether reduction requests with an effective date less than 14 months satisfy the criteria in the Modification, so that acceptance or rejection can be undertaken automatically. However, we anticipate a very small quantity of transactions will be required. Hence there will be no systems development costs associated with this modification, but there will be additional resourcing costs incurred in processing the few transactions expected. We do not consider this to be significant.

The decision to proceed with Modification 417S (if implemented) without systems development is based on the extremely limited scope of the Modification. It should be noted that if similar modifications are raised that extend the scope of this Modification system changes are likely to be required. As Modification 417S has no benefit for Transporters (except where Transporters are Users) National Grid would expect any such modifications to be User Pays, with costs borne by Users.

Implementation:

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

National Grid NTS believes that the lead time for implementation should be consistent with UNC Modification rules.

Legal Text:

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

Yes

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.

No

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