

Representation

Draft Modification Report

0452: Introduction of the Planning and Advanced Reservation of Capacity Agreement (PARCA)

Consultation close out date: 11 November 2013
Respond to: enquiries@gasgovernance.co.uk
Organisation: E.ON UK
Representative: Richard Fairholme
Date of Representation: 11 November 2013

Do you support or oppose implementation?

Qualified Support

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

We support this proposal to the extent that it provides enhanced certainty for Shippers and Developers looking to build and connect new gas transmission infrastructure. This proposal, if implemented, would introduce a new contract-based framework for delivering incremental capacity on the NTS, which should help parties to better understand capacity-related risks and costs as their project progresses.

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

We do not believe it is clear in the Modification (and 'draft PARCA contract') whether National Grid failing to obtain planning permission is a termination "event", which could lead to liabilities being crystallised. In our view, it would be undesirable if Shippers and Developers were expected to shoulder the cost of failed or inadequate planning applications by National Grid NTS, over which they have no control. We would welcome clarification from the proposer on this point.

Relevant Objectives:

How would implementation of this modification impact the relevant objective

We have nothing further to add to the proposer's justification against the relevant objectives.

Impacts and Costs:

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

No significant costs are expected.

0452
Representation

17 October 2013

Version 1.0

Page 1 of 2

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Implementation:

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

As soon as possible, in order to to minimise the likelihood of projects being held up due to on-going uncertainty of the market rules.

Legal Text:

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

Yes, although it is ambiguous on the issue raised under “new issues”, above.

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.

We believe that this proposal and UNC Mod 0467 should be treated as alternatives as they implement the same framework, but offer different approaches to indemnifying National Grid NTS under Phase 2 of the PARCA process. Overall, it is clear that neither Mod fully protects the wider Shipper community from the risk of socialisation of costs in the event that following termination, the project-specific security provided under Phase 2 inadequately covers the actual costs incurred by NG NTS in the planning application phase.

On balance, we believe that because Mod 0452 could, by using capacity reserve prices as the basis for calculating security required, result in instances of significant under-securitisation by individual market participants (for example where the reserve price is at or near zero), the “alternative” Mod 0465 represents our preferred approach. We also note that the cost of submitting and progressing planning applications should not differ significantly by geographic region and therefore a single “averaged” cost for all projects intuitively feels more appropriate than a locational charge. However, in the absence of any published information on the actual costs of National NTS going through planning, it is difficult for Shippers to accurately gauge whether the security being requested under either Mod is appropriate.