Representation - Draft Modification Report UNC 0730

COVID-19 Capacity Retention Process

Responses invited by: 5pm on 05 November 2020

To: enquiries@gasgovernance.co.uk

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

Representative:	Smitha Coughlan
Organisation:	Wales & West Utilities
Date of Representation:	5th November 2020
Support or oppose implementation?	Oppose
Relevant Objective:	**a)** Negative **d)** Negative
Charging Relevant Objective:	**a)** Negative

Reason for support/opposition: Please summarise (in one paragraph) the key reason(s)

WWU opposes this modification as it introduces a right to hold capacity without paying for it. This introduces a new concept into the Uniform Network Code for distribution networks.

We think that introducing a process by which Shippers can reserve capacity at no charge will have a negative effect on relevant objective *(a) Efficient and economic operation of the pipe-line system* and due to its potential impact on specific reinforcement it will also have a small negative impact on relevant objective *(d) i) Securing of effective competition between relevant shippers*.

We also think that it will have negative impact on relevant charging objective *(a) that compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its transportation business*; due to the charges levied being less cost reflective than before because the Shipper is not paying for the capacity that it has reserved but not used.

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

We agree that this modification proposal should be an Authority Direction as it changes Transportation Charging arrangements.

Implementation can take place once Xoserve have implemented the necessary changes. DNs will want a way of relatively easily being able to report on, and forecast, the capacity and revenue associated with this discount. This is required to enable DNs to forecast collected revenue accurately and to meet their licence obligations in respect of ensuring that they do not under or over collect allowed revenue. As the change could be in effect for a significant period of time in that it depends on how long the provisions of Transition Document VI paragraph 4 endure, that in turn depends on the length of the COVID 19 pandemic, a system solution seems the most appropriate approach.

Impacts and Costs: *What analysis, development and ongoing costs would you face?*

The implementation of 0678A has increased uncertainty regarding charges to DNs from NG for NTS exit capacity as DNs are now exposed to the Revenue Recovery Charge. This means that setting DN charges to recover these charges is now more difficult than previously as they are unpredictable and so adding an additional source of uncertainty on the revenue side compounds this problem.

The financial impact of this modification on WWU is extremely difficult to quantify as it depends on two factors:

- the number of end consumers that are required to close by law; and
- the number of Shippers that make use of the provisions of Transition Document VI paragraph 4 (UNC modification 0723) to set the Supply Meter Point to isolated

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

Yes, the legal text makes clear that this modification only affects the LDZ capacity charge and does not include other capacity charges.

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

No

Please provide below any additional analysis or information to support your representation

The proposer believes that by giving relief from 50% of LDZ capacity charges some end consumers will remain connected to the network when otherwise they would disconnect. We realise that everyone would like to pay less, but it is very difficult to establish whether a reduction in transportation charges would, on the margin, be enough to prevent end consumers disconnecting (probably almost entirely through going out of business) so whether this modification will have the desired impact is a matter of opinion.

The issues are similar to the issues raised by UNC modification proposals 0728 and alternates that proposed a discount to NTS transportation charges for some end consumers located close to NTS Entry points. Although the intent of this modification is to provide relief to some Shippers it will definitely have two redistributive effects.

First, a general impact in that other Shippers will pick up the shortfall in revenue although subject to the operation of lag due to the way the price control works.

Second there will be an impact on DNs' working capital as collected revenue is likely to be lower and more volatile than forecast and any shortfall in 20/21 will not be collected until 2022/23, thus increasing risk to the DNs.

Transportation price setting occurs in the January preceding a regulatory year and is based on a demand snapshot from the start of the preceding December. In order to collect the total allowed revenue for future years, DNs would need a forecast of the amount of capacity relief being awarded to shippers, by the preceding January. DNs would then need to reduce SOQs by an amount that equates to the estimated loss in revenue. The unit rates would be calculated on this reduced SOQ figure, so that prices were inflated by an appropriate amount that allows recovery of total allowed revenue. A failure to accurately forecast these relief amounts in time for price setting in January would increase the risk of over or under recovery of allowed revenue, thereby increasing the risk of a penalty to DNs.

Although it might be correct that generally demand is not growing there are areas of networks that do have capacity constraints. In areas where capacity is constrained, a Shipper holding capacity for which it is not paying has no incentive to release it. This means that a customer that wishes to connect to that part of the system may well be charged for reinforcement when it is not in fact required or that if the specific reinforcement passes the Economic Test then that it is funded by generality of customers when it is not in fact required. If Shippers are in an area where they believe there is spare capacity, then they can release capacity for Class 1 and 2 Supply Meter Points in the capacity reduction window and then re-apply as and when they need it again. In April Supply Meter Points that are in Class 3 and 4 will pay LDZ capacity charges based on the Formula Year AQ for 2021/22, this will reflect any reductions in Annual Quantity during calendar year 2020 and so will result in reduced charges for those end consumers that have reduced consumption during calendar year 2020.