

Representation - Draft Modification Report UNC 0737 - Transfer of NTS Entry Capacity from a Capacity Abandoned ASEP

Responses invited by: 5pm on 12 January 2021

To: enquiries@gasgovernance.co.uk

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

Representative:	Ricky Hill
Organisation:	Centrica Energy Limited
Date of Representation:	12 th January 2021
Support or oppose implementation?	Support
Relevant Objective:	a) Positive d) Positive
Relevant Charging Methodology Objective:	a) Positive c) Positive

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

CEL has raised this modification to prevent capacity being stranded at an abandoned entry point and overcome an inherent weakness in the current Transfer and Trade rules introduced via UNC169. The weakness is that capacity can only be transferred when all obligated capacity has been sold out at the recipient ASEP. This limitation means that, despite UNC169, capacity is still being left stranded when it could be used elsewhere on the network. UNC737 builds on the points that Ofgem raised in its decision letter on UNC169, that we should “*guard against the risk of capacity being ‘sterilised’ at an entry point where it is not needed and to facilitate access to available network capacity*” and “*that the implementation of capacity transfer and trade should indeed reduce the risk of sterilised capacity in the network, which would be directly in consumers’ interests.*”¹ Where entry capacity is held by Users at capacity abandoned entry points, it results in inefficient outcomes, with Users paying National Grid for capacity which will not be utilised (and thus paying for a service which is not required), cross subsidising other Users and therefore impacting on competition between those Users. The Modification would also prevent a situation whereby, if a User were to default against payments for entry capacity holdings (as has happened previously), the unpaid costs would be socialised across all other Users. It should also be noted that the gas transmission

¹ <https://www.gasgovernance.co.uk/sites/default/files/ggf/UNC156156A169169A.pdf>

network is characterised by having a significant amount of spare capacity, so it makes sense, both in terms of the market, and the efficient use of the network, to permit Users to be able to move capacity around the network, including from abandoned entry points. More efficient use of the network in this way will provide benefits to Users and customers alike.

Self-Governance Statement: *Please provide your views on the self-governance statement.*

As the proposer, our view was that this modification should be considered a material change and not subject to Self-Governance, and therefore we agree with the process that has been followed.

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

We believe that this Modification should be implemented at the earliest opportunity upon the direction of the Authority. Any delay in implementation would mean the benefits of the Modification not being achieved as quickly as they could be. We note that the Rough Order of Magnitude (ROM) from Xoserve stated that a solution would take upwards of 30 weeks to implement from an operational perspective. We believe that this lead time is excessive and implies an overly elaborate solution to implement a relatively simple change. Shippers requesting the changes outlined in the Modification are likely to be an extremely rare event, and as such, a simple offline calculation with an overwrite of the capacity holdings in the system should be straightforward and efficient way of implementing this Modification.

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

The impact on CEL, and the entire market, from this modification will be entirely positive. Any potential investor in upstream projects will benefit from this proposal. The ability to transfer capacity from capacity abandoned entry points would enable Users to acquire capacity in the NTS in the knowledge that it will have value should the project fail to come to market. This may be of relevance as Users enable the growth of low carbon hydrogen highlighted within the 10 Point Plan for a Green Industrial Revolution. Given that entry capacity would no longer be stranded, it would also clearly lead to more efficient use of the transmission network, in line with Relevant Objective a).

The impact on customers would also be immaterial where there is displacement of new capacity bookings due to the transfer of Existing Capacity from the donor point. It is also feasible that the wider market could benefit from a more efficient discovery of the NBP price as a result of this Modification. Entry charges are subsumed into the NBP price and as such changes to entry charges will tend be reflected in the NBP price. As such, were a capacity transfer to result in cheaper entry capacity being accessible at an entry point which provides the marginal supply of gas, the NBP price should be lower which will feed through to customer bills.

We also note that the ROM stated that the ongoing support costs from this modification would be very low – between £0 and £12,000.

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

Yes, we are satisfied that it meets the intent of the Solution.

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

There was a lot of discussion within the Workgroup with regards to compliance of this Modification with regards to Article 35 of NC TAR, however, we believe we have categorically demonstrated that the Modification is compliant with Article 35 and therefore compliance is not an obstacle for approval.

The Centrica legal opinion to assess each element of Article 35 which is covered in pages 11 and 12 of the Modification. For ease, we have replicated the assessment below

Article 35 of NC TAR

1. "This Regulation shall not affect the levels of transmission tariffs resulting from contracts or capacity bookings concluded before 6 April 2017 where such contracts or capacity bookings foresee no change in the levels of the capacity- and/or commodity-based transmission tariffs except for indexation, if any."

This makes clear that any fixed tariffs agreed in contracts concluded before 6 April 2017 will not be affected by NC TAR and does not run counter to anything that UNC737 is proposing.

2. "The contract provisions related to transmission tariffs and capacity bookings referred to in paragraph 1 shall not be renewed, prolonged or rolled over after their expiration date."

UNC737 does not propose to allow capacity holders to renew, prolong or roll over capacity after the expiration date. Therefore, it does not run counter to anything that UNC737 is proposing.

3. "Before 6 May 2017, a transmission system operator shall send the contracts or the information on capacity bookings, if any, referred to in paragraph 1 to the national regulatory authority for information".

This was an obligation on TSOs to provide details of contracts to the National Regulator and not relevant to UNC737

ENTSOG has also published an implementation document that sits alongside NC TAR. It is non-binding and prepared for information and illustrative purposes but does provide some useful contexts in terms of how NC TAR should be implemented. It states that Existing Contracts must satisfy three criteria to qualify for Article 35. We discuss each one in turn.

"Type: only fixed price contracts or capacity bookings under such contracts qualify, not floating price contracts since their signatories foresaw future price changes".

National Grid entry capacity contracts that were concluded before 6 April 2017 meet this definition and does not run counter to anything that UNC737 is proposing.

“Extent: only the transmission tariff level qualifies for exemption. In principle, the TAR NC will apply to fixed price contracts, but not to their transmission tariff level. Article 35 extends both to capacity and to commodity-based transmission tariffs”.

This just makes clear that any fixed tariffs agreed in contracts concluded before 6 April 2017 will not be affected by NC TAR. It therefore does not run counter to anything that UNC737 is proposing.

“Time: the ‘existing’ fixed price contracts must have been concluded before the TAR NC entered into force. Qualifying contracts cannot be renewed or extended after their termination date”.

UNC737 does not propose to allow capacity holders to renew, prolong or roll over capacity after the expiration date. Therefore, this does not run counter to anything that UNC737 is proposing.