

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:	Daniel Hisgett
Organisation:	National Grid NTS
Date of Representation:	12 January 2021
Support or oppose implementation?	Oppose
Relevant Objective:	<p>a) None</p> <p>d) Negative</p> <p>g) Negative</p>
Relevant Charging Methodology Objective:	<p>a) Negative</p> <p>c) Negative</p>

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

While the idea of enabling movement of Capacity away from a donor “Capacity Abandoned ASEP”, that would otherwise be unusable, is positive, we believe there are issues inherent in the proposal which, on balance, do not benefit Network Users overall. The primary reason being the retention of Existing Contract benefits in this scenario, where National Grid believes that price protection should be forfeit due to the change in ASEP when compared with the information held at the time of the booking agreement.

The interpretation of the EU Tariff Code which informed National Grid’s Proposal for UNC Modification 0678, was approved and implemented by Ofgem under Alternative UNC Modification 0678A. This interpretation is compliant with the Tariff Code and is the current status quo.

The changes proposed by this UNC Modification 0737 foresee deviation in the location at which a contract was agreed, variation in the contracted volume due to the exchange rate mechanism, and, to retain the overall liability, a fluctuation in the contracted rates. All of these could be considered as alterations to the contract, all of which would occur post 06 April 2017, the cut-off date prescribed by Article 35, and in our view would no longer entitle the user to the price protection. We accept that the proposer and other workgroup members may have a different interpretation.

Furthermore, this Modification is seeking to facilitate a new process that wasn't possible at the time the Existing Contract was struck. A shipper would not have purchased capacity at the time of the Existing Contract with the knowledge that in the future, if the ASEP became abandoned, the Capacity could be transferred to a new location. Therefore, this Modification would effectively be applying new rules retrospectively by creating a defined set of circumstances where the location of a contract isn't fixed at the time of commitment.

The solution advocated by this Modification provides a benefit to a narrow set of Users, so its application is restricted. We believe that the Proposer and one other user currently in a similar position could enact changes under this proposal. However, the Modification opens an avenue to any other User(s) who may find themselves in a similar position in the future, whether through circumstance or design.

There is also potential for Users at a recipient ASEP to access Capacity, via trade from the applicant User, potentially at a reduced rate once it becomes available. However, any financial benefit to those Users must be recouped in the form of an increase in the Transmission Services Reserve price or introduction of/increase to a Transmission Services Revenue Recovery Charge (TSRRC) dependant on the period in which the capacity is being moved to ensure the same Allowed Revenue is recovered. This uplift is borne by users of Capacity purchased at the floating price, while the User benefiting from the Existing Contract rates is unaffected, increasing the variance in cost and highlighting the "dual regime" ACER expressed concern over in their reportⁱ on implementation of UNC Modification 0678A.

The aim of moving Capacity from an Abandoned ASEP could have a positive effect, but the aim of the Modification is to donate the Capacity to a point where Capacity has not yet sold out. This suggests that there may not be an urgent need for additional capacity at that ASEP.

An additional concern is related to, but not specifically, the Exchange Rate used to move the Capacity. The 3:1 ratio potentially results in a level of Capacity destruction deemed appropriate by the current Entry Capacity Substitution Methodology Statement. However, the added loss of any unsold Capacity previously available at the recipient ASEP, which is to be displaced by the Abandoned Capacity taken from the donor site, in effect leads to an additional loss of available Network Capacity, creating a potentially inappropriate level of Capacity destruction in the process.

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

National Grid agrees that this should not be subject to Self-Governance and should be subject to Authority Direction.

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

The timescales laid out in the solution require initial notice of Capacity Abandonment in each January to enable confirmation of the future capacity movement prior to commencement of price setting for the following October. We would expect the system solution to be in place for that January notice date.

With the ROM provided by Xoserve stating of 32-40 weeks for implementation of Option 1, should this be the preferred system solution we would need a decision late April-2021, to enable implementation the following January, of 2022. Otherwise the first usage of this solution would not be until January of the following or another future year.

Option 2 has a slightly reduced implementation timeline of 30-34 weeks, and so if this is the preferred solution a decision by 01 June should give time to enable implementation and first use in the following January.

Should a decision be received from Ofgem by 01 June 2021, system implementation of Option 2 could potentially be concluded by Jan 2022 in time for a first Capacity Movement in April 2022.

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

National Grid will incur the costs of making the required changes to central systems and processes.

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

National Grid is satisfied that the legal text it has provided will deliver 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.*

National Grid has not identified any such errors or omissions.

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

No additional analysis has been prepared. Should Ofgem require any further information to inform their decision we will arrange for this to be provided.

ⁱ https://acer.europa.eu/Official_documents/Acts_of_the_Agency/Publication/Agency%20report%20-%20analysis%20of%20the%20consultation%20document%20for%20Great%20Britain.pdf