

Representation - Draft Modification Report UNC 0738

Incremental NTS Entry Capacity Surrender

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:	Alex Nield
Organisation:	Storengy UK Limited
Date of Representation:	12/01/21
Support or oppose implementation?	Support
Relevant Objective:	d) Positive

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

Storengy UK supports the implementation of this proposal, and believes that this will have a positive impact on the securing of effective competition.

Currently the treatment of capacity allocations made in the April 2017 to September 2020 auctions is causing **distortion of the competitive environment**, charging **far higher prices for the allocated capacity than when it was originally allocated**, and therefore heavily impacting the level of competitiveness of those parties who were allocated capacity in these auctions.

We believe that the fairest way to address these issues is to allow those parties to re-assess their decisions and their capacity requirements, and allow an opportunity for parties to effectively withdraw their bids and subsequent allocations, by creating a window for surrender of this capacity.

Storengy UK believes that this proposal provides a solution to many of the problems caused by allocating capacity in these auctions based on very different prices to those currently being charged.

Storengy UK also provided an initial representation for this proposal with further information relating the above issues and solution (<https://www.gasgovernance.co.uk/0738>).

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

Further to the UNC Panel recommendation, Storengy accepts that this proposal may have a material effect on NTS revenues collected on long-term contracts over the life-time of the allocations and hence be subject to Authority Direction procedures, although we believe that the impact of these proposals will have little effect on prices within year.

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

With the change in costs of the relevant Incremental NTS Entry Capacity having taken effect from the 1st October 2020, this is already impacting some of the capacity investments made during the April 2017 to September 2020 QSEC Auctions. Therefore we believe that this proposal should be implemented as soon as possible after any decision has been made to approve it.

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

Capacity was allocated in the April 2017 to September 2020 auctions at specific prices at the time of the auctions, with bidding parties making investment decisions based on these prices. As prices for this capacity increased substantially since these auctions (**250 to 600 times the original price**), both the **criteria for allocating the capacity and the original basis for investment decisions may now be completely invalidated**. If the current prices had been known at the time of the auction then bidding strategies, allocations, and long-term investment decisions may have been very different.

As per National Grids analysis in the Workgroup report, the potential impact of surrendering all capacities is a maximum of **£34m over the next 12 years**. This equates to **£2.8m per year** if all of the relevant capacity is surrendered, and not replaced by bookings in shorter term auctions.

This value of £2.8m represents around 0.3% of total yearly allowed NTS revenues for National Grid, around **0.6% of the NTS Entry Capacity revenues**. Therefore if all of the capacity were surrendered then there would be a negligible effect on prices for other NTS users, and it is likely that some of these bookings will be made in shorter term auctions by the parties surrendering the capacity.

The loss of these revenues would be expected to have little effect on the wider industry, but for the parties who booked these capacities this represents a huge unforeseen increase in costs, that both jeopardise competitiveness and potentially their ongoing investment and operation.

Please note that further analysis is provided in **Storengy UK' initial representation** for these Modification proposals (<https://www.gasgovernance.co.uk/0738>).

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

Storengy believes that the legal text should deliver the intent of the Solution if taken in good faith. However, we have concerns that there is no requirement on National Grid to confirm that applications have been completed correctly with regards to the specifications in 1.1.11(b) prior to the closing of the application window, with no opportunity to correct applications after this point should any of the specifications required not be filled in correctly or information missed out.

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.*

Section 6 (Impacts & Other Considerations) appears to suggest that not all incremental NTS entry capacity allocated in these auctions would be considered, with capacity allocated as a result of substitution not included in the surrender process. This potentially presents a further distortion of pricing and the competitive environment, as decisions on capacity allocated via substitution would have been made under the same NPV requirements (and therefore bidding strategies) as capacity allocated via non-substitution. We believe capacity allocated as a result of substitution should be included in the surrender process.

The yearly breakdown table also suggests that capacity allocated via substitution is obligated, where as it is our understanding that all incremental capacity allocated at QSEC auctions remains non-obligated for a long period after the initial allocation.

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

In other EU markets, such as the German Gas market, specific provisions have been introduced to protect capacity holders against excessive increases in the underlying price of the capacity product. In such cases the capacity holder is permitted to hand-back all or some of its capacity.

The relevant process is defined in the so called "Kooperationsvereinbarung der Netzbetreiber" (cooperation agreement of grid operators) which German Transmission System Operators / Distribution System Operators (TSOs/DSOs) must develop in order to ensure an efficient access to the gas grid. The process is described as follows:

"In case of increased charges, Shipper shall be entitled to terminate the contract in writing in full or in part, depending on the amount of the capacity booking, with a notice period of 10 working days from the effective date of the change".

This shows a hand-back "surrender" process being applied in a similar market under EU TAR legislation.