

Representation - Draft Modification Report UNC 0667

Inclusion and Amendment of Entry Incremental Capacity Release NPV test in UNC

Responses invited by: 5pm on 21 May 2019

To: enquiries@gasgovernance.co.uk

Representative:	Christiane Sykes
Organisation:	Shell Energy Europe Ltd
Date of Representation:	21 May 2019
Support or oppose implementation?	Support
Relevant Objective:	<p>a) Positive</p> <p>d) Positive</p>

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

This proposal has brought attention to some significant shortcomings embedded in the current PARCA process. The current process leads to a disproportionately high user commitment to signal incremental entry capacity, to the extent that the User requesting the capacity could have to incur costs, which far exceed the Estimated Project Value. This could act as a barrier to entry and disincentivise new sources of supply and undermine the efficient and economic operation of the pipeline system.

In addition, the current NPV test could require the shipper wishing to trigger incremental capacity to book more capacity than it can physically use. This risks stranding existing assets by preventing shippers at the same entry point from being able to access sufficient transportation capacity to meet their needs, undermining existing investments and exposing captive customers to the risk of investment in incremental capacity. This would have a detrimental impact on securing effective competition between relevant shippers.

Once the NC TAR is implemented and the UK moves from a fixed to a floating capacity tariff regime, meeting the NPV test will be subject to further uncertainty. Moreover, there is a lack of clarity with respect to the impact on existing Users of moving to reference prices set on the basis of Forecasted Contracted Capacity (FCC) instead of the LRMC and the consequential exposure to Users booking capacity at the same entry point, should the FCC increase to reflect investment in incremental capacity.

Incorporating the NPV test in the UNC will ensure sufficient flexibility to enable Network Users to amend the NPV test as appropriate in a rapidly evolving regulatory framework. Should there be any unintended consequences resulting from, for example, implementation of the NC TAR, including the NPV test in the UNC will facilitate a timely

resolution to ensure existing Network Users are not unduly discriminated against by requests for incremental capacity.

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

Self-governance would be inappropriate given the potential impact this proposal has on Network Users and on the efficient and economic operation of the pipeline system.

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

To ensure the risks identified in this response and in the Draft Modification Report are resolved as soon as practicable, we support timely implementation of this proposal. Should further limitations of the current NPV test be identified, using the existing code governance process to facilitate changes to the NPV test as part of the UNC will ensure proposals can be put forward in a transparent and timely manner.

For the reasons set out by the Proposer, we do not consider a Licence change is required to implement this proposal.

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

Should the current NPV test lead to artificially constraining capacity availability at a given network point, this could result in a substantial impact on existing Network Users as access to capacity could be severely limited. This could undermine existing investment decisions and have a consequential impact on security of supply during peak periods by artificially constraining access to the gas network. We recognise that the capacity could be made available in the short-term but the lead times may not be sufficient to enable this.

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

Yes.

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.*

We are not aware of any.

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