

Initial Representation – UNC0860S

Clarify impact of exit capacity holdings on offtake rights

Representative:	Phil Lucas
Organisation:	National Gas Transmission
Date of Representation:	9 th November 2023
Relevant Objective:	Negative for Relevant Objectives a), c) and d) Negative for Charging Relevant Objective c)
Relevant Charging Methodology Objective:	Not Applicable

Reason for support/opposition:

Since its inception in March 1996 the Network Code, latterly the Uniform Network Code, has incorporated the ‘ticket-to-ride’ principle, this being the incentivisation of Users of the system to procure rights to flow gas in those systems (i.e. capacity rights) in order to obtain certainty that it can flow gas volumes up to the levels of capacity procured.

Existing provisions in TPD Sections J3.8.4, J3.9.3 and J3.10.5 limit the extent of Transporters’ obligations to make gas available for offtake to the levels of capacity held by Users, thereby appropriately setting a limit on the overarching obligations on Transporters to make gas available for offtake pursuant to TPD Section J3.2.1. These arrangements are key facilitators of the ticket-to-ride principle. We believe that the measures advocated by this Proposal (in both TPD Sections and Q), resulting in removal of the aforementioned limitation on Transporters’ obligations, run contrary to the ticket-to-ride principle which underpins the current capacity regime.

The existing provisions do not prevent the Transporter from physically allowing flows in excess of capacity holdings (a daily value), it simply has no UNC *obligation* to do so. In a similar vein, the terms of TPD Sections J3.10.1 and 3.10.2 reflect that the User is not ‘entitled’ to offtake gas at a rate (an hourly value) in excess of the maximum permitted rate. Again, this does not prevent the Transporter from physically allowing this, there is simply no UNC *contractual entitlement* for the User to do so.

We believe that weakening the ticket-to-ride principle within the UNC could result in a reduced incentive for Users to procure Exit Capacity, which in turn could impact the following areas. Consequently, we urge the Workgroup to consider these factors:

- **Gas Transmission Charging Regime (Transmission Services)**

The implementation of UNC Modification 0678 from 1st October 2020 altered the basis upon which the majority of NGT's allowed revenue is recovered. Prior to implementation, such revenue was recovered via a combination of flow-based ('commodity') and capacity charging (each recovering a material proportion of allowed revenue). The new arrangements from October 2020 moved to 100% revenue recovery of allowed revenue via capacity charges. The levels of capacity forecasted to be held by Users therefore has a direct impact on the apportionment of Transmission Services costs between Users.

Underpinning the determination of capacity charges is the need to forecast capacity bookings. The more uncertain capacity bookings might be, e.g. by removing some of the incentives to book capacity, could impact the calculation of capacity charges and recovery of the Transmission Revenues, depending on the scale of any unpredictable change in behaviours.

We therefore have a concern that reduction of the incentive for Users to hold capacity sufficient for their flows, this could impact NGT's ability to effectively and equitably apportion Transmission Services costs between Users.

Where the behavioural changes could lead to more uncertainty around capacity bookings to be matched to flows, especially if there were a material change in scale, it has the potential to impact the ways in which revenue is recovered and could necessitate reviewing elements of the charging process.

- **Constraint Management and Network Gas Supply Emergency (NGSE)**

If Users offtake gas without holding capacity and continue to do so when NGT is taking commercial actions to manage a capacity constraint, it is expected that the costs incurred in managing a constraint could be significantly higher if this Modification was implemented. There is also an increased likelihood of the situation escalating to a Network Gas Supply Emergency (NGSE) due to the inability of commercial actions to alleviate the constraint.

By way of explaining this point further, a reduced level of capacity holdings reduces the physical impact we can achieve by scaling back or buying back that capacity, and a reduced pool of possible respondents and likely volume. We would also expect that reduced options available to manage a constraint could increase prices, leading to greater premiums applied in response to Locational Action requests (the only alternative tool available).

As a responsible System Operator we are therefore unable to support a change which we believe increases the likelihood and costs of constraint management, and the likelihood of an NGSE situation

Overall, we believe that implementation of this proposal could negatively impact achievement of the following Relevant Objectives:

- **(a) Efficient and economic operation of the pipe-line system;**

The principles set out in, and expressed subsequent to, the December Exit Webinar reflect operational practice in the context of current use of the system. However, this operational practice may need to be reviewed in the event that use of the system changes (e.g. erosion of the ticket-to-ride principle). On this basis we believe that the removal of the current contractual limitation of Transporters' obligations is inappropriate to remove. Implementation could negatively impact the efficient operation of the pipeline and indeed our ability to support the level of flexibility currently afforded to Users.

In the same Webinar we explained, and responded to questions on, how we manage constraints in a way that mitigates NGSE events and supports efficient constraint management to reduce costs to consumers. We believe this proposal could negatively impact our ability to mitigate and alleviate constraints efficiently, with the current suite of commercial tools available.

- **(c) Efficient discharge of the licensee's obligations.**

Standard Special Condition A6(1) of our licence states "*The licensee shall conduct its transportation business in the manner best calculated to secure that neither - (b) any gas shipper or gas supplier;..., obtains any unfair commercial advantage*"

Given the potential, depending on scale and unpredictability, as outlined above with regards to capacity charging and recovery of revenues via capacity, this has the potential to negatively impact the ability of NGT to discharge this Licence obligation where there is any consequential reduced incentive to procure capacity.

This could also negatively impact Relevant objective (d) **Securing of effective competition: (i) between relevant shippers** and Relevant Charging Methodology Objective (c) **compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers.**

Self-governance statement *Please provide your views on the self-governance statement or reasons why Authority Direction should apply.*

NGT does not concur with the views of the Proposer that the proposed change is not sufficiently material such as to require Authority Direction. Specifically, the proposer suggests that the Modification would "*have no impact on the intended UNC party's rights, obligations or liabilities*".

As set out in the solution, it is proposed that "*relevant sections of the text in Section J, which state Transporters are not obligated to make gas available if a User does not hold Registered Exit Capacity, are removed*" therefore, contrary to the Proposer's assessment, this does indeed propose an explicit and clear change to the obligations of a UNC party (i.e. Transporters).

In terms of the materiality of the proposed change to Transporters' obligations, as set out above, we believe that implementation would weaken the contractual incentives for Users to procure capacity which could have material implications for both the appropriate recovery of Allowed Revenue for Transmission Services, and the management of Transportation Constraints.

Given the above, and what appears to be a departure from the fundamental ticket-to-ride principle, we believe Workgroup discussion is necessary regarding whether the proposed application of self-governance procedures is appropriate.

Impacts and Costs: *Please provide a view on the impacts and costs you would face.*

We may wish to include further information in our consultation response.

Additional information for consideration by the Workgroup: *Please provide any additional information for Workgroup consideration.*

The aspects we believe the Workgroup should consider are set out above.

Analysis: *Please provide any additional analysis for Workgroup consideration.*

We will provide any such analysis (as required) at an appropriate point in Workgroup discussions.

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

We will comment in our consultation response.