



UNC823S

**Amendment to the Allocation of Entry Capacity & Flow
Quantities to Qualifying CNCCD (Shorthaul) Routes**

NTSCMF

6 December 2022

Shippers operating one shorthaul route each with a common entry point can currently get a larger discount for their customers than a single Shipper operating two routes

(Capacity in millions kwh/day)

Shippers operate a route each 1 Shipper operates 2 out of 3 routes

	Route 1	Route 2	Route 3	Route 1&2	Route 3
Entry Capacity	0	20	20	20	20
Entry Flow	0	20	20	20	20
Entry Capacity Apportionment				10	10
Entry Flow Apportionment				10	10
Exit Flow	0	20	20	0	20
Exit Capacity	20	20	20	20	20
Eligible Quantity (Entry & Exit)	0	20	20	0	10
Daily Cost of Capacity @ Reserve Price	£4,360	£21,380	£21,380	£4,360	£21,380
Daily Discount (Eligible Quantity @ 90%)	£0	-£19,242	-£19,242	£0	-£9,621
Daily Cost of Capacity After Discount	£4,360	£2,138	£2,138	£4,360	£11,759

There are sound reasons why Users will sometimes be holding unused Exit Capacity which is higher than their Entry Capacity

- Booking exit capacity gives users the right, but not the obligation, to flow gas
- For Users managing capacity for customers with intermittent, variable or uncertain offtake, there is a trade off to be made in the decision to either:
 - buy flat annual capacity to peak requirements (knowing that some will not be needed) to mitigate the risk that NTS capacity is not made available day ahead (e.g. Exit Capacity in pre-emergency stages); or
 - buy capacity at the day ahead stage to more closely match actual flows and minimise the cost of unused capacity
- These alternative decisions have different costs and risks at Entry and Exit.
- We think that at most locations, variable Users are much more likely to buy annual flat NTS Exit Capacity than annual flat Entry Capacity, so UNC823 allocates the proportions of Entry Capacity in the same way as two different shippers operating two routes would because they would typically procure Entry Capacity day ahead to match offtake flows, not Exit Capacity
- Where there is only one customer at an Exit point, otherwise unused capacity cannot be sold

Multi-route Users and their Customers are at a competitive disadvantage to those with Single Routes

- Shorthaul benefits are often passed through to I&C customers
- Therefore, where Shipper/Suppliers already have customers with a nominated shorthaul route and are likely to have some unused Exit Capacity, they cannot be as competitive in bidding to supply another nearby customer, because the shorthaul eligibility is likely to be lower with a multi-route than for a Shipper/Supplier who doesn't already have a shorthaul route at that location.
- Competition is therefore reduced, and those without existing customers nearby are at a significant advantage
- The current arrangements mean the operations of one customer can reduce the discount of another customer. If a Shipper/Supplier takes on an additional customer, the first customer could be unexpectedly impacted with capacity costs much higher than they anticipated or planned for. Their competitiveness is also reduced