Centrica plc
Millstream
Maidenhead Road
Windsor
SL4 5GD
www.centrica.com

National Gas Transmission

23rd June 2023

Sent by email to: box.gsoconsultations@nationalgrid.com

Dear Sir or Madam

NTS Gas Charging Discussion Document NTS GCD 13 – Impacts of Existing Contracts on Transmission Services Charges

Thank you for the opportunity to respond to the above consultation. This is a non-confidential response on behalf of Centrica plc.

- We strongly favour a 'do-nothing' approach. Indeed, we are disappointed that National Gas has chosen to reopen the discussion again given the negative impacts on regulatory certainty and security of supply.
- We believe that none of the other options set out in the consultation would be workable or compliant with the TAR NC.
- Should any option be taken forward, it should be rigorously assessed for compliance with the TAR NC, as well as any wider market impacts and unintended consequences that could arise.

We look forward to future engagement with you and other industry parties. We have provided answers to the specific consultation questions in the annex below.

I hope you find these comments helpful but please contact me if you have any questions.

Yours faithfully,

Dr Kiara Zennaro

Regulatory Affairs Manager

Centrica

Responses to consultation questions

When considering the impacts of ECs:

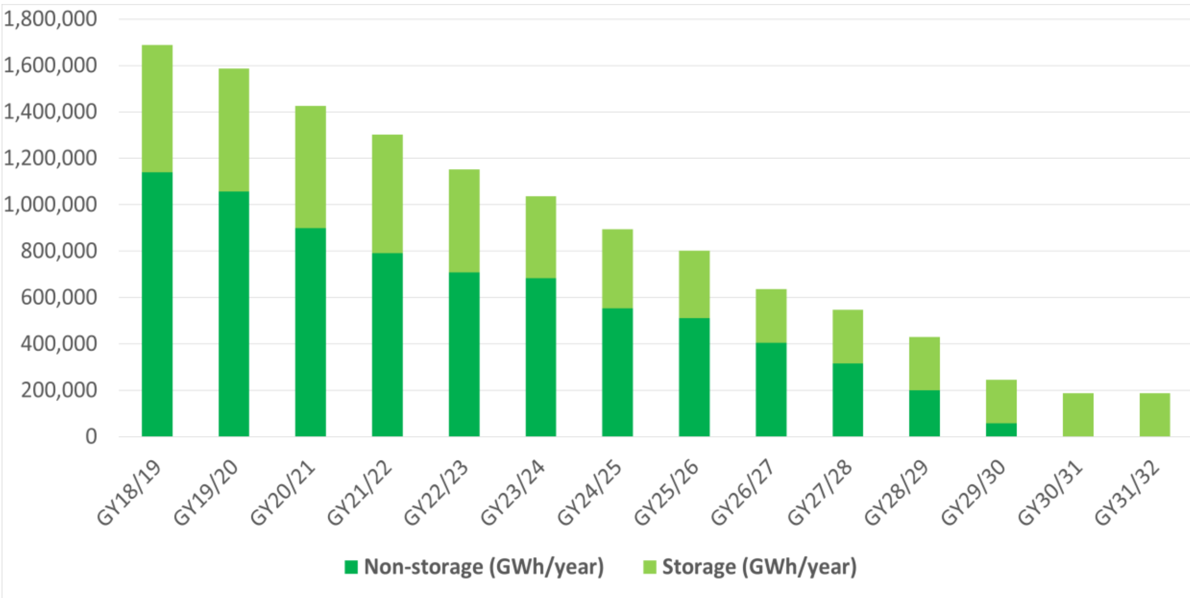
1. Do you agree that Existing Contracts are having a significant impact to Transmission Services Entry Reserve Prices?

It is undeniable from the analysis undertaken by National Gas Transmission, set out in the discussion document, that there is currently significant price disparity between Existing Contracts and Transmission Services Entry Reserve Prices.

However, it is also evident from the data available on current and future volumes of Existing Contract Capacity for the whole industry, shown in Chart 1 below, that the impact of these contracts on the floating prices are naturally decreasing as Existing Contract Volumes reduce over time. The chart shows the total Industry's Existing Holdings from Gas Year 2018/19 to Gas Year 2031/32 and confirms a steep decline in these contracts over the next few years. By the time any option is implemented (end of 2024 at the earliest or, quite possibly end of 2025), the issue of price disparity will have already been significantly reduced. Therefore, we believe the significant resources that would be required from National Grid, Ofgem and industry to take forward one of the proposed options in the discussion paper would be misplaced.

An additional concern is that any flow-based Entry NTS Transmission Services Commodity Charge would feed directly through to the NBP price, potentially increasing it proportionately and negatively impacting consumers and security of supply.

Chart 1: Industry Wide - Existing Contract Volumes for storage and non-storage sites in GWh/year (Source: National Gas Transmission, Long Term Summary Report 01052017)



2. Do you believe there should be some remedy to limit/reduce/remove their influence?

No. We don't believe there is a strong enough justification for introducing any of the options set out in the consultation. According to the implementation timeframes set out by National Gas Transmission, any changes would be implemented from the end of 2024 at best, and more likely from the end of 2025 - based on our experience on how lengthy these types of processes can be.

Any influence of existing contracts on the price disparity will have been significantly reduced, given the natural decline in the Existing Capacity Contract Volumes over time.

3. Should there be any treatment, different to the status quo, for ECs and how they are accommodated and charged in the Charging Methodology?

No.

We believe the status quo should be maintained. Existing Contracts were bought in good faith based on the conditions that were in force at the time of purchase. We believe the legal status of existing capacity contracts should be protected as intended under English law. Any change to this would undermine Shipper's confidence in the UNC where contracts which were entered into in good faith could be then altered in the future.

On the options that focus on TS Entry alone:

4. Do you think any of these options provide a more suitable approach to Transmission Services Charging achieving an objective of more competitive TS Entry charges? If so, please include why this would be beneficial to competition.

As highlighted above, we believe the status quo should be maintained for Existing Contracts.

We have set out below our views on the other options set out in the consultation.

Option 1 – a new commodity charge based on utilisation of Existing Contracts

We do not support the implementation of this option for the broad reasons previously stated. However, in addition, there are inconsistencies between the text and the modelling, and we believe there are fundamental flaws in the logic of the proposals that make it inappropriate for consideration.

For example, paragraph 6.1 in the discussion document states that this option would '*Apply overall Existing Contract Capacity held at the specific Aggregate system Entry Point excerpt those at [Storage Connection Points / Interconnectors/ LNG Terminals]*'. However, we understand from bi-lateral communications with NGT that exempting LNG terminals is not actually the intention and is not included in the analysis. As a point of principle, we believe LNG Terminals should be treated in the same way as interconnectors given that they play the same role. Treating them differently would distort competition between them.

We also believe this option is not compliant with the TAR NC as Article 4(3) is explicit in its intent that capacity charges should be employed to recover Transmission Services Revenue, with commodity charges only applicable in the event of a strictly defined under-recovery. The application of commodity charges on Existing Contracts would not be consistent with these requirements.

We are also concerned with the use of historical TO Commodity Charges to support the analysis undertaken for this and other options. We believe more up to date figures should be considered in the analysis.

We are also concerned that according to NGT's analysis, the use of the forecast method would result in unreasonably high charges for Existing Contracts. If it was decided to use this option, then there would need to be a cap placed e.g. at Postage Stamp levels. The forecast scenario also assumes that the historical TO Commodity Charges would have continued to increase in a linear way, which is a simplistic assumption. More up to date and robust should be used to inform the setting of an applicable commodity rate.

Also problematic is that the proposal is a blanket fixed additional charge that could result in an unjustifiably different impact on different entities which bought Existing Capacity at different rates. Let's take for example Party A and B:

a. Fixed Additional Commodity charge of 0.0400 p/kwh
b. Party A paid 0.0001 p/kWh so it would now pay 0.0401 p/kWh
c. Party B paid 0.0200 p/kWh so it would now pay 0.0600 p/kWh

Under the proposal, Party A and Party B would not pay the same total charge and Party B may be paying more than the applicable Postage Stamp price. This is not reasonable especially given both were purchased in a legitimate forward contract.

Options 2 to 5

In our view, options 2 (commodity charge applied to all entry flows), and 5 (commodity charge applied to all flows) are not compliant with NC TAR and therefore not worth considering for the purpose of resolving the influence of Existing Contracts. As set out by National Gas Transmission, Options 2 and 5 would risk turning the regime from a capacity-based to a commodity-based regime, which is not compliant with the TAR NC, given that Article 4(3) of UK TAR NC states that "the transmission services revenue shall be recovered by capacity-based transmission tariffs." The code sets specific exceptions under which a part of the transmission services revenue, subject to the approval of the national regulatory authority may be recovered by commodity charges but it does not appear that either option 2 or option 5 fulfil the required criteria to be compliant.

Option 3 (review of existing contracts, their flexibility and use) would undermine the basis on which Existing Capacity was acquired and we would be very concerned that it sets a precedent for making changes to contractual provisions that could potentially be replicated by Ofgem in other situations.

Option 4 (change to entry/exit split) would represent a major change to the current charging regime that would require longer to address, and an impact assessment would need to be undertaken to understand potential unintended consequences on downstream businesses. A useful parallel would be the reform to BSUoS charging arrangements implemented in April-23 which moved BSUoS recovery fully onto demand. That BSUoS reform was the output of two industry Task Forces that ran between Jan-2019 and Sep-2020. The Task Forces comprised of generators, suppliers, Ofgem, the ESO and consumer representatives and they performed a large amount of wider industry engagement to inform views. The Task Force ultimately recommended that BSUoS should be a demand only charge, but also that there should be at least two years' notice from the point of Ofgem's response to its report. Ofgem agreed with this and proposed an April 2023 implementation when it responded to the second Task Force report in December 2020. We believe a similar process and implementation timescales would be required in any review of the entry/exit split.

5. Are there any other options or refinements / amendments / specific treatment within these options that should be considered and why?

We do not have any comments to this question.

6. Should there be any additional things to consider (e.g. capacity hand-backs)?

We do not have any comments to this question.

On the broader approach to managing TS Entry charging as part of a bigger objective (e.g. making the UK more attractive to land Gas)

7. Are there merits in reviewing Transmission Services Charging on a broader perspective, recognising that this would encompass Entry and Exit?

No, we don't believe there is any merit in reviewing Transmission Services Charging on a broader perspective as we are satisfied with the current methodology. We recognise, however, that the methodology is due to be reviewed in 2024 under the EU TAR NC.

8. What, if any, objective could this aim to achieve?

We do not have any comments to this question.

9. Should a discussion and review of, for example, a change to the 50/50 split be a deliverable for any such review?

As previously highlighted, such a change would represent a major change to the current charging regime that would probably require longer to address and would require an impact assessment to understand potential unintended consequences on downstream businesses.

Overall questions

10. Assuming an initial conclusion is something that should be progressed (subject to views) should this be:

a) Transmission Services Entry only focused?

b) A wider scope i.e. Transmission Services as a whole?

We do not believe this should be progressed.

11. Is there anything not covered in this initial review that would be beneficial to take into consideration to facilitate advancing discussions on optioneering selection / direction / development for 2024 and beyond?

Overall, we believe that National Gas Transmission's analysis is too simplistic, in that it doesn't consider how Existing Contracts are currently used: Existing Contracts capacity is often being traded in the market and the associated benefits being shared across market participants. In addition, the analysis does not consider the impact a new commodity charge on Existing Contracts would have on shorthauls routes. Currently, Existing Contracts are used to shorthaul gas and do not qualify for the shorthaul discount. The introduction of additional charges on Existing Contracts (in particular, commodity charges) will reduce the use of Existing Contracts while increasing the total volume of discounted entry capacity to satisfy shorthaul volumes, this in turn will impact the revenue recovered from the sale of entry capacity.