

CadUCMay21

Date

27 May 2021

Cadent Gas Limited
Brick Kiln Street, Hinckley
Leicestershire LE10 0NA
cadentgas.com

Gurvinder Dosanjh
Mobile: +44 (0)7773 151572
Email:
gurvinder.dosanjh@cadentgas.com

David O'Neill
Head of Gas Markets and Systems
Ofgem
Gas.TransmissionResponse@ofgem.gov.uk



Joint Gas Distribution Network (GDN) response to Ofgem's Informal Consultation on Removing User Commitment for Gas Distribution Networks ("GDNs") booking Exit Capacity up to and including Baseline

Dear David,

This is a joint response from all four Gas Distribution Networks. We welcome the opportunity to respond to the Ofgem informal Consultation on the potential removal of User Commitment for GDNs.

Please see our response below.



Joint GDN response to Ofgem's Informal Consultation on Removing User Commitment for Gas Distribution Networks ("GDNs") booking Exit Capacity up to and including Baseline



WALES&WEST
UTILITIES



SGN
Your gas. Our network.

Northern
Gas Networks

Cadent
Your Gas Network

User Commitment

We welcome and support the proposed removal of User Commitment (UC) for GDNs booking capacity up to and including Baseline. This will provide greater flexibility for GDNs, who will have the ability to reduce capacity holdings sooner, and release capacity for other Users to make use of what would otherwise become sterilised. This will ultimately benefit the customer as it supports a more efficient use of the whole system.

Following the introduction of **Standard Special Condition A57: Exit Capacity Planning** and the Exit Capacity Planning Guidance (ECPG) under RIIO2, all GDNs are now obliged to more closely align the capacity bookings to the 1-in-20 Peak Day demand forecast. This is the case for not only the forthcoming winter, but also for the entire period out to Year 6 of the forecast. The one thing that could frustrate this outcome would be User Commitment, especially in a declining demand scenario. Given the long-term demand forecast can go up as well as down, the requirements to increase Enduring levels of NTS Exit (Flat) Capacity remain, but the ability to subsequently reduce in line with the demand forecast would still be constrained.

At a recent UNC0705R Capacity Access workgroup, National Grid (NG) expressed concern that removing User Commitment altogether could result in greater uncertainty with levels of capacity bookings. Whilst we appreciate these concerns, we believe they have been addressed through recent developments:

- With the implementation of UNC0678A, all offtakes now have the same uniform charge, thus removing any price signals that had previously been in place. Capacity bookings will now be based upon the most efficient whole system configuration for GDNs, taking into account NTS preferences that once in place, should result in little need for movement of capacity between offtakes;
- The ECPG requires all Licensees to engage, publish and consult on matters relating to the Exit Capacity Planning processes. This includes the sharing of, and discussion on long-term demand forecasts. The increased levels of engagement and transparency, therefore, should result in booking levels being more in line with expectations with few or no surprises.

Another significant change impacting the GDNs is the removal of the Capacity Outputs Incentive that existed prior to the start of RIIO2. Under this regime, GDNs were incentivised to book capacity in the most efficient manner and were rewarded (or penalised) depending on their performance against the targets set at the start of each Price Control. The removal of this incentive together with the move to uniform exit capacity charges, contributes to greater stability in exit capacity booking behaviour as GDNs will no longer look to adjust capacity bookings in response to changes in relative prices at offtakes.

Whilst the incentive was in place, if NG removed the UC for the GDNs, it believed it could be construed as providing the GDNs with an unfair commercial advantage over other Users and therefore, potentially non-compliant with **Standard Special Condition A6: Conduct of Transportation Business** (which applies to all Gas Transporters):

...obtains any unfair commercial advantage including, in particular, any such advantage from a preferential or discriminatory arrangement, being, in the case of such an advantage accruing to the licensee, one in connection with a business other than its

Cadent Gas Limited

Registered Office Ashbrook Court, Prologis Park
Central Boulevard, Coventry CV7 8PE
Registered in England and Wales No.10080864

National Gas Emergency Service

0800 111 999* (24hrs)

*Calls will be recorded and may be monitored

5000419 (01/13)

Page 2 of 3



transportation business.

The removal of the Capacity Outputs Incentive, coupled with the fact that all NTS Exit Transportation Charges are pass-through (meaning the cost of which is entirely passed through to the customer), effectively results in GDNs gaining no commercial advantage (unfair or otherwise) in respect to the booking of Exit Capacity (the only driver(s) being the relevant Licence Conditions).

Therefore, by removing User Commitment for GDNs booking Exit Capacity up to and including Baseline, NG would remain in compliance with their Licence.

In conclusion, the removal of User Commitment would allow the GDNs to bring Enduring levels of NTS Exit (Flat) Capacity in line with the long-term demand forecast, safe in the knowledge that capacity could be reduced when needed. Thus, resulting in the improved ability to minimise sterilised capacity and the most efficient whole system outcome.

We appreciate the engagement to date with Ofgem and the wider industry, and hope that our feedback adds value to future discussions on this matter.

This response is made on behalf of all four Gas Distribution Networks and can be published by Ofgem. If you have any further questions, please do not hesitate to contact me using the details at the top of this letter.

Yours sincerely
By email

Gurvinder Dosanjh
Industry Codes Manager