The voice of the energy industry

Energy UK response to Ofgem consultation on a Review of the Fleetwood Entry Point in Gas Transmission

24 May 2017

About Energy UK

Energy UK is the trade association for the GB energy industry with a membership of over 90 suppliers, generators, and stakeholders with a business interest in the production and supply of electricity and gas for domestic and business consumers. Our membership encompasses the truly diverse nature of the UK's energy industry – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

Our members turn renewable energy sources as well as nuclear, gas and coal into electricity for over 26 million homes and every business in Britain. Over 619,000 people in every corner of the country rely on the sector for their jobs with many of our members providing lifelong employment as well as quality apprenticeships and training for those starting their careers. The energy industry adds £83bn to the British economy, equivalent to 5% of GDP, and pays over £6bn in tax annually to HMT.

Energy UK Views

Energy UK welcomes the opportunity to provide comments to this consultation. We recognise the circumstances surrounding this entry point are unique and were not considered in the development of the long term entry auction processes, but that Ofgem did identify uncertainty over whether the funding provided at the last price control settlement would actually be needed.

Since NGGT reports no expenditure to-date, nor any planned over the remainder of the price control period, we agree that a review of this funding is appropriate at this time to ensure customers do not bear costs unrelated to expenditure and capacity provision.

Energy UK agrees that funding and the capacity obligation should be considered together. To this end we support option 2 for both; removing the capacity obligation at Fleetwood now and truing up the price control allowances. We consider making these adjustments now rather than after the end of the current price control is appropriate as this is consistent with known expenditure, delivers a fair outcome and benefits to customers in a timely manner, which is consistent with protecting the interests of consumers.

With respect to the single quarter capacity booking in 2025 we agree this does not represent sufficient user commitment and that an option 3 approach of reducing the obligation to 350 GWh/day potentially provides opportunities to purchase capacity for other periods without providing a full user commitment. This also creates risks and uncertainties for National Grid. We agree it is appropriate to consider provision of this capacity as part of constraint management under RIIO-T2.

Additional Comments

Whilst these circumstances are unique, Ofgem should consider whether such a scenario can be repeated. We consider the PARCA arrangements and requirements for demonstration information which if not provided can lead to termination are likely to be sufficient. It would be helpful for Ofgem to confirm if it shares this view.

The impact assessment is disappointing in that it does not quantify the magnitude of revenue adjustments arising from additions to RAV not being made, although we now have an understanding about this through separate correspondence.

It is also the case that charges for the current year already include the RAV addition from April 2017 which it is proposed will be netted off from April 2018 if option 2 is adopted. This will exacerbate the 'see-saw' effect on exit capacity charges, so it is important that the outcome of this process is known as soon as possible. It is therefore disappointing that this consultation was not initiated earlier, given that Ofgem understood the project was uncertain and that there had been no expenditure since 2010. This could have avoided the addition to RAV from April 2017 and hence revenue being unnecessarily recovered from customers. .

Also NTS exit charges have already been set for a year from October 17, before the outcome of this process is known, and therefore can only have been set on the status quo of the allowances for 2017/18 and 2018/19 including the anticipated RAV additions.

NGGT prepares and publishes revenue forecasts in May and November each year, clearly the outcome of this process will not be known for the May forecast. We note that Ofgem has recently published the financial model including the outcome of the mid period review concerning the Avonmouth pipeline project[1]. We welcome this and would encourage Ofgem to have further dialogue with National Grid over how it may present the possible outcomes of this process in its revenue forecasts (prior to November) and indicative charges in a timely manner to enable these to be appropriately reflected in tariffs.

The consultation does not mention any SO incentive revenue that NGGT has already received in respect of the Fleetwood entry point, we consider Ofgem should have included this in Chapter 1 *How the Fleetwood issue arose*, even if changes to this are not proposed so that stakeholders have a full understanding.

Finally we note Ofgem mentions at 1.12 in the consultation document a similar funding structure in RIIO-T1 for exit capacity needs in the South West Quadrant with an expectation of reviewing this in coming years or at the end of RIIO-T1. We would encourage Ofgem to review this prior to the end of the price control if it is clear investment is no longer required and there is no planned expenditure. This will avoid further revenues being unnecessarily recovered from customers.

[1] https://www.ofgem.gov.uk/system/files/docs/2017/02/mid-period_review_decision.pdf