

# Ofgem consultation: RIIO-GD2 NTS Exit Capacity Incentive

**27 March 2020**

## About Energy UK

Energy UK is the trade association for the energy industry with over 100 members spanning every aspect of the energy sector – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

We represent the diverse nature of the UK's energy industry with our members delivering almost all (90%) of both the UK's power generation and energy supply for over 27 million UK homes as well as businesses.

The energy industry invests over £13.1bn annually, delivers around £85.6bn in economic activity through its supply chain and interaction with other sectors, and supports over 764,000 jobs in every corner of the country.

Energy UK welcomes the opportunity to comment on this consultation.

Energy UK agrees with Ofgem's initial view that the incentive should be removed and not form part of RIIO-GD2, some enhanced obligations may be necessary.

Section 2.2 of the CEPA report<sup>1</sup> identifies that the incentive payments to the GDNs of around £91M in the first five years of RIIO-GD1 have exceeded the cost savings to customers by a factor of almost 2. In addition, only part of the savings to customers were through actions by the GDNs the rest arising from changes between forecast volumes and prices, from falling 1 in 20 demand and reduced National Grid gas transmission (NGGT) revenue.

The main GDN action that led to cost savings was moving capacity bookings to NTS offtakes with lower charges, where this was possible. This action is rational so long as the NTS charges efficiently reflect the cost of delivering capacity and gas to that point. The current NTS charging regime may have provided those signals, the problem is that gas transmission revenue is fixed so costs saved by one set of GDN customers will be recovered from other customers.

The review of the gas transmission charging regime being delivered by UNC Mod 0678 will change the pattern of NTS exit capacity charges. Ofgem's minded to decision is in favour of 0678A which provides for the same charge at all NTS exit points (apart from storage offtakes) so any signals over the costs of providing capacity or transporting gas to a particular point are lost. So, it would be illogical to retain an incentive like the current scheme, given the GDNs only action of booking capacity at points with lower charges has no link to possible cost

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<sup>1</sup> <https://www.ofgem.gov.uk/publications-and-updates/riio-2-nts-exit-capacity-incentive-consultation>

savings. This also applies to 0678, as this includes a capacity weighted distance methodology which does not give rise to cost reflective charges.

Obligations may be necessary to ensure GDNs do not overbook capacity to meet its 1 in 20 obligation, also to ensure that GDN capacity bookings do not simply migrate to the points that reduce its operational and maintenance (O&M) costs whilst increasing NGGT O&M costs. Arrangements will need to be considered to manage this between the transmission and distribution networks for the optimal whole system outcome for customers.

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