

2014/15 Permits arrangements (varying lead-times for incremental obligated capacity) – Notice under section 23(2) of the Gas Act 1986 – modifications to the special licence conditions of the gas transporter licence held by National Grid Gas plc

Consultation Response

Energy UK is the Trade Association for the energy industry. Energy UK has over 70 companies as members that together cover the broad range of energy providers and suppliers and include companies of all sizes working in all forms of gas and electricity supply and energy networks. Energy UK members generate more than 90% of UK electricity, provide light and heat to some 26million homes and last year invested over £10billion in the British economy.

Energy UK welcomes the opportunity to provide comments on this proposed licence change. However we are disappointed that it is necessary to consider extending the permit arrangements, rather it would have been better for Ofgem to focus on its internal processes for approval of UNC Modification 452 or 465 and associated licence changes in time for implementation in April 2014. This had been the anticipated delivery date which had been widely discussed at Workstream meetings during 2013 with Ofgem in attendance. We acknowledge that there was a delay of a month in submission of the Final Modification Report to Ofgem but during this time the changes were minor such that this should not have materially extended Ofgem's timescales for consideration of the proposals. It is also the case that Ofgem has exceeded its 5 week KPI for modification decisions in this case and the industry has no certainty on when a decision will be made. Given that we are now in March it seems inevitable that if Ofgem were to approve either Modification 452 or 465 there are likely to be interactions with the July Application window creating further uncertainty. This uncertainty may well impact on new gas-fired generation projects ability to participate in any capacity mechanism process later this year since existing processes do not have defined timelines, nor do they allow for the reservation of capacity. We urge Ofgem to provide the industry with some clarity over the likely timescale for decisions in this regard.

With respect to the permit arrangements, Energy UK recognises the need for a mechanism to adjust lead times for the delivery of incremental capacity when reinforcement is required due to the requirements of the Planning Act . However we are not convinced that a financial incentive needs to be part of this, we previously commented on this in November 2012¹. The main reason for this is that National Grid receives a windfall of £19M rising to £32.4M under these proposals if permits are not required, essentially National Grid receives this revenue for doing nothing beyond what it is currently required to do; meeting reasonable demands for gas and applying the substitution methodologies where appropriate.

Energy UK also considers that the permits scheme is flawed, since the quantities are insufficient for National Grid to use this regime to manage potential requests for entry capacity at Isle of Grain and

¹ <https://www.ofgem.gov.uk/ofgem-publications/53609/energyukresponsecapacityandconstraintmanagement14012.pdf>

Milford Haven as demonstrated by the Ofgem letter of 30 January 2014². Whilst we would not wish for there to be larger permit allowances, given the potential costs to industry and ultimately customers, we consider this shows that the scheme is not fit for purpose. Rather we consider a scheme without a financial component would be more appropriate.

If this proposal to establish permit arrangements for 2014/15 does proceed it is not entirely clear how this would work:

Further detail is required on when Ofgem will judge that new commercial arrangements will not be in place *in time*. What does *in time* mean? Does this refer to the Mod decision, licence changes or methodology statements; some of these are under Ofgem's control. Given that the dates for issuing notices for the July Application window is fixed presumably Ofgem could be more specific about the date on which it will make its decision over whether the permit arrangements will need to be extended.

It is not clear what date the arrangements will be effective from; the statutory consultation says 1 May 2014, the covering letter 5 May 2014, whilst the licence drafting mentions 1 April 2014. Is the intention that the permit allowance could be used in April 2014 retrospectively or is there potentially a gap, such that any adhoc applications received in April 2014 would not be subject to these arrangements.

There also seems to be no mention of switching off the allowance during the year once the new arrangements are in place, does this imply Ofgem considers April 2015 to be the likely implementation date for Modification 452 or 465 if approved? Surely it would be in the interests of consumers if the allowance were curtailed in some way if the permit arrangements were not needed for the full regulatory year?

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² <https://www.ofgem.gov.uk/publications-and-updates/lead-times-contractual-delivery-incremental-obligated-entry-capacity-march-2014-quarterly-system-entry-capacity-qsec-auction>