

# Ofgem Consultation: RII02 Exit Capacity Planning Guidance

28 January 2021

## 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 over 80% of both the UK's power generation and energy supply for the 28 million UK homes as well as businesses.

The energy industry invests £13bn annually, delivers £31bn in gross value added on top of the £95bn in economic activity through its supply chain and interaction with other sectors, and supports 738,000 jobs in every corner of the country.

Energy UK welcomes the opportunity to comment on this consultation. We supported the removal of the GDN Exit Capacity Incentive which was a feature of the RII01 arrangements when this was consulted upon in March last year and agree that obligations are required to ensure that bookings of NTS exit capacity are at an efficient level. This is important for two reasons:

- The costs of these bookings are passed onto DN connected customers
- DN bookings may impact the availability of capacity and flexibility for NTS connected customers. This would have negative impacts on both gas and electricity end consumers, for example if it were to impact gas-fired generators or large NTS-connected industrial customers.

We agree with the purpose of the guidance, and have initial concerns about the absence of any mention of:

- The balance between long term and short term bookings,
- Considerations around User Commitment,
- Ofgem oversight in the process for the first year of RII02
- Ofgem oversight in general as arbiter of disputes and to ensure the most appropriate outcomes on behalf of network customers and consumers in general.

We provide further comment in response to the questions below.

## Methodology

*1. Do you agree that the items listed in paragraphs 3.1 and 3.17 should be produced as part of the methodology?*

Yes.

*2. Do you have any comments on the methodology requirements set out in paragraphs 3.2 to 3.16 and 3.18 to 3.23?*

Methodology Statements are by their nature detailed documents which require extensive data input and analysis. They are not likely to be very accessible to other industry stakeholders. However, we think they could be improved by:

- Ensuring the methodologies across the GDNs are aligned with the outputs of the methodology varying according to input data rather than methodology differences. If there is a strong justification of why the methodology should vary for a particular network that should be clearly explained, with Ofgem commentary provided.
- Including consideration of the balance between short and long-term bookings, as this will have direct cost impacts on consumers. Absent any financial incentive GDNs could decide to book all 1 in 20 requirements on a long term basis, this would be at a higher cost to customers than a balance of long term and short term bookings, whilst the availability of short term capacity may be considered more risky, this should be considered explicitly.
- Considering how the GDNs should include existing User Commitment impacts in the analysis. Paragraph 2.3 sets an expectation that bookings will be reduced when the forecast reduces, without making any comment on User Commitment.
- Providing assurance that GDN assessment of risks and uncertainties in 3.3, including the risk of substitution, only uses information available to all other NTS connected parties.
- 3.18 seems to place the requirement on NTS to reconcile its 1 in 20 forecasts with GDN 1 in 20 forecasts. It would seem more appropriate for this to form part of the common methodology obligations, to ensure a whole system approach is taken.

*3. What would be a suitable deadline for publication or provision of the methodologies and forecast information? Please respond both in terms of any internal constraints on providing the information, and in terms of when the information provided by other parties must be received to be of use in the following year's booking cycle.*

The document includes [March] for this, we are not in a position to comment on how this fits with transporter processes, but think consideration should be given to National Grid's (NG) charging cycle and whether relevant data can be provided prior to charge setting at the beginning of June. If it can then this could provide for improved Forecasted Contracted Capacity (FCC) values as an input to NG's charge setting, and as such provide a particular benefit of this process.

### **Engagement**

*4. Do you think that the proposed engagement obligations are appropriate to ensure that both parties have sufficient input into the final booking decisions? If not, what other provisions could be included?*

The Networks are best placed to comment on this, but we would expect more than one meeting per year to ensure collaborative working. We note that Ofgem may attend and would like to understand what process are in place to ensure Ofgem is informed if it does not attend. We consider Ofgem has an oversight role here on behalf of the industry and customers, so perhaps the default should be attendance.

We would also like to understand if these meetings will seek to address where it is most efficient to invest to provide capacity, flexibility or pressure needs. Eg NTS investment vs DN investment for a particular requirement. Also how this would then link into the RII02 co-ordinated adjustment mechanism (CAM) arrangements, including the reopener window in May.

Engagement should also mean that views of consultees and customers are properly taken into account and responded to accordingly, rather than ignored. Engagement is only effective if the networks demonstrate they are listening through their actions, rather than just “ticking the box”.

## **Reporting**

*5. Do you agree with the proposal for GDNs to produce a joint report?*

Potentially yes, or at least a report in the same format following an agreed template. Consideration should be given to providing an accessible summary in addition to the large amount of data and analysis that it will contain and that it demonstrates a clear customer focus rather than simply meeting minimum licence obligations

*6. Do you agree with the proposed contents of the reports?*

Yes as proposed, but there should also be a summary that looks at incremental changes up and down from the previous year, including the rationale for this.

We challenge what ‘*NGGT will retain an ongoing duty to inform GDNs, as soon as possible, of potential substitutions following PARCA application*’ in 3.42 actually means? Where is the current duty defined? National Grid publishes notices according to the UNC, do GDNs receive prior notification ahead of other NTS connected parties? If so, where is this described?

*7. Do you agree with the proposed deadline for the reports? If not, what would be the most suitable date?*

The networks are best placed to comment on how any date best fits with their planning cycle. However, if the date is 31 July as suggested, this is a significant change from the current arrangements. The guidelines suggest that at the time of the report, allocation has already taken place, which does not normally occur until late September. Currently most assessments of DN capacity requests are made after the July window in parallel with all other NTS exit capacity requests, to ensure all NTS offtakes / customers are treated fairly and consistently. It is unfortunate that the implications for these processes are not further explored in this document, other than a simple reference to potential for change in paragraph 3.35.

There could be benefits in reviewing the timing of exit capacity application and allocation for all NTS connected parties but this should be carried out in a co-ordinated, open and transparent manner via the Transmission Workgroup.

## **General**

*8. Are there any further obligations that should be included (either in terms of information produced or actions to be taken)?*

See comments above

*9. Any there any obstacles that would prevent licensees from fulfilling the proposed obligations?*

Careful consideration needs to be given to non-discrimination conditions with respect to information disclosure from NGGT to GDNs and other parties connected to the NTS.

*10. In relation to exit capacity products, who should be responsible for making decisions that affect the whole system?*

Ideally the networks should be able to arrive at positions that are the most efficient for the whole system, but we see that Ofgem should have a role here to ensure decisions are in the best interests of all customers particularly if the networks do not agree. Ofgem should provide additional guidance or arbitrate in customers' interests.

In addition, we also consider it would be appropriate for Ofgem to provide a commentary on the reports to give industry confidence in this process from a whole system and customer perspective.

*11. How should the obligations in this Guidance be aligned with other publications produced by the GDNs and NGGT, such as the Long Term Demand Statements or the Annual Network Capability Assessment Report?*

It seems there may be some potential for overlap

### **Implementation**

*12. On the assumption that this Guidance will be published in March 2021, which obligations would not be possible to implement for the first year of RIIO-2? Do you have any suggestions on how best to allow for this?*

It is important that there are some obligations in the first year of RIIO2, particularly as it will be the first exit capacity booking cycle under a postage stamp methodology, with no GDN exit capacity incentive and where the GDNs will have full pass through of NTS charges to Shipper/Suppliers and therefore end customers

It is for the GDNs and NGGT to propose what they believe is achievable. A fallback position maybe that GDNs start discussions with NGGT before exit charges are set in June but participate in the allocations processes in July as now, with allocations being finalised in September with this being the time when the reports are published. A particular focus this year, should be amendments to current bookings to ensure that capacity is not moved from locations that were incentivised under RIIO1 (and therefore deemed efficient) to other locations without good reason and appropriate Ofgem oversight

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