

## Representation – Modification

### UNC 0728/A/B/C/D (Urgent)

#### Introduction of a Conditional Discount for Avoiding Inefficient Bypass of the NTS

0728	Introduction of a Conditional Discount for Avoiding Inefficient Bypass of the NTS
0728A	Introduction of Conditional Discounts for Avoiding Inefficient Bypass of the NTS
0728B	Introduction of Conditional Discount for Avoiding Inefficient Bypass of the NTS with 28km distance cap
0728C	Introduction of a Capacity Discount to Avoid Inefficient Bypass of the NTS
0728D	Introduction of Conditional Discounts for Avoiding Inefficient Bypass of the NTS

**Responses invited by: 5pm on 26 June 2020**

**To:** [enquiries@gasgovernance.co.uk](mailto:enquiries@gasgovernance.co.uk)

*Please note submission of your representation confirms your consent for publication/circulation.*

<b>Representative:</b>	Riccardo Rossi
<b>Organisation:</b>	Centrica
<b>Date of Representation:</b>	26 June 2020
<b>Support or oppose implementation?</b>	<p>0728 - Support</p> <p>0728A - Support</p> <p>0728B - Support</p> <p>0728C – Support</p> <p>0728D – Support</p>
<b>Expression of preference:</b>	0728B or 0728D
<b>Relevant Objective:</b>	<p>0728:</p> <p><b>c)</b> Positive</p> <p><b>d)</b> Positive</p> <p>0728A:</p> <p><b>c)</b> Positive</p> <p><b>d)</b> Positive</p> <p>0728B:</p> <p><b>c)</b> Positive</p> <p><b>d)</b> Positive</p> <p>0728C:</p>

	<p>c) Positive d) Positive</p> <p>0728D: c) Positive d) Positive</p>
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<p><b>Relevant Charging Methodology Objectives:</b></p>	<p>0728: a) Positive aa) Positive b) Positive c) Positive e) Positive</p> <p>0728A: a) Positive aa) Positive b) Positive c) Positive e) Positive</p> <p>0728B: a) Positive aa) Positive b) Positive c) Positive e) Positive</p> <p>0728C: a) Positive aa) Positive b) Positive c) Positive e) Positive</p> <p>0728D: a) Positive aa) Positive b) Positive c) Positive e) Positive</p>
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**Reason for support/opposition: Please summarise (in one paragraph) the key reason(s)**

The proposal is to (re)introduce a Conditional Discount for Avoiding Inefficient Bypass of the NTS (shorthaul tariff). This is necessary to avoid that considerable flows of natural gas will avoid the NTS. This outcome would mean that other consumers connected to the gas network will have to contribute to the shortfall in revenues of the gas transporter. This would be against consumers interest.

The solutions proposed, although not perfect and lacking ambition, are positive in so that they introduce a discount to standard NTS tariffs to incentivise especially large offtakes to remain connected to the NTS and continue to contribute to the allowed revenue of the gas transporter. Overall NTS costs for other customers would be lower with a shorthaul tariff than under the scenario with bypasses of the network being built.

In practical terms, the limitation to secondary traded capacity not being able to attract the shorthaul tariff is a considerable drawback, therefore we recommend National Grid to overcome this issue as soon as possible.

In any case, it is preferable that the shorthaul tariff modification is implemented from 1 October 2020 or as soon as possible thereafter.

**Implementation:** *What lead-time do you wish to see prior to implementation and why?*

We recognise that the issue needs to be dealt with at speed. Therefore, we support a pragmatic approach for implementation recommending a prompt decision by Ofgem.

In case of implementation by the 1 October 2020, we urge the gas transporter to provide clarity on the cumulative impact on Revenue Recovery Charges (RRC) as soon as possible and at the very least providing the notice required by the UNC before the implementation date.

**Impacts and Costs:** *What analysis, development and ongoing costs would you face?*

Negligible system implementation cost

**Legal Text:** *Are you satisfied that the legal text will deliver the intent of the Solution?*

Yes.

**Respondents are requested to provide views on the following points:**

*Q1: Respondents are requested to provide a view as to whether the solution provided within the Modification(s) is fully compliant with the relevant legislation (including, but not limited to, Articles 28-32 of the Tariff Network Code).*

Centrica believes that all the proposals are fully compliant with relevant legislation.

In particular:

- Article 28: the relevant part of the legislation on consulting about discounts is undergoing with the 728 Modification process.
- Article 29: identifies information that must be published before the annual yearly capacity auction, including reserve prices: we understand that the potential impact on forecasted revenues of shorthaul tariffs will not impact the reserve prices published by the gas transporter on the 5 June 2020.
- Article 30: identifies information that must be published before the tariff period.

- Article 31 relates to the form of publication.
- Article 32 requires information referred to in Article 29 to be published no later than 30 days before the annual yearly capacity auction. The timescale for Article 30 information is no later than 30 days before the tariff period.

None of the Modifications under consideration include proposals that are in violation with provisions in Articles 30 to 32.

We acknowledge that if the impact of shorthaul tariffs on transmission revenues is substantial, this may lead to the need to increase the capacity-based RRC either before or within the gas year. However, we note that according to the estimates National Grid shared recently<sup>1</sup>, the potential level of socialisation – transmission and general non-transmission – may vary substantially (between £18 and £181 million/year depending on the solution and uptake). Therefore, an increase of the RRC may not be needed in case the impact is minimal and/or offset by other changes.

The possibility to increase/decrease the RRC is embedded in the legal text of the UNC. The legal text in Section Y, A-I, paragraph 3 provides for the RRC to be set before the annual auctions<sup>2</sup>. It also provides the possibility for subsequent revisions where forecast revenues deviate from allowed revenues. Two months' notice is required, and this could take place also within the gas year.

This is part of the reference price methodology as just recently approved by Ofgem under UNC678A. Therefore, this must be compliant with NC TAR, otherwise Ofgem would have rejected the modification as non-compliant. The compliance of the RRC methodology with NC TAR should be valid regardless of the origin of the potential under or over recovery of the gas transporter.

For instance, if the new charging methodology would have been in place at the time of the current pandemic, it most likely would have required an increase of the RRC during the gas year because of the impact on forecasted revenues of the gas transporter.

Therefore, we do not see any compliance limitation with relevant legislation.

*Q2: Respondents are requested to provide views on the proposed implementation date(s).*

Implementation should align with the implementation of UNC MOD 0678A i.e. 1 October 2020. Otherwise as soon as possible afterwards. A revision of the RRC, if and when needed based on the gas transporter forecasts, will need to be issued providing for 2 months' notice.

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<sup>1</sup> See here: [UNC 0728/A/B/C/D: Managing Inefficient bypass in Charging UNC 0728/A/B/C/D: 24/06/2020](#)

<sup>2</sup>See here: [Modification 0678A ANNEX B, SECTION Y – CHARGING METHODOLOGIES, PART A – NTS CHARGING METHODOLOGIES, A-I – NTS TRANSPORTATION CHARGING METHODOLOGY](#)

**Are there any errors or omissions in this Modification that you think should be taken into account?** *Include details of any impacts/costs to your organisation that are directly related to this.*

No

**Please provide below any additional analysis or information to support your representation**

No further comment.