

## 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>                   | Paul Youngman                                                                                                                          |
| <b>Organisation:</b>                     | Drax                                                                                                                                   |
| <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>         | <p><i>If either 0728, 0728A, 0728B, 0728C or 0728D were to be implemented, which would be your preference?</i></p> <p><b>0728C</b></p> |
| <b>Relevant Objective:</b>               | <p><b>0728:</b></p> <p><b>a)</b> None</p> <p><b>b)</b> None</p>                                                                        |

- c) Positive
- d) Positive
- e) None
- f) None
- g) None

**0728A:**

- a) None
- b) None
- c) Positive
- d) Positive
- e) None
- f) None
- g) None

**0728B:**

- a) None
- b) None
- c) Positive
- d) Positive
- e) None
- f) None
- g) None

**0728C:**

- a) None
- b) None
- c) Positive
- d) Positive
- e) None
- f) None
- g) None

**0728D:**

- a) None
- b) None
- c) Positive
- d) Positive
- e) None
- f) None
- g) None

**Relevant Charging  
Methodology  
Objectives:**

- 0728:**  
a) Positive  
aa) Positive  
b) Positive  
c) Positive  
d) None  
e) Neutral

- 0728A:**  
a) Positive  
aa) Positive  
b) Positive  
c) Positive  
d) None  
e) Neutral

- 0728B:**  
a) Positive  
aa) Positive  
b) Positive  
c) Positive  
d) None  
e) Neutral

- 0728C:**  
a) Positive  
aa) Positive  
b) Positive  
c) Positive  
d) None  
e) Positive

- 0728D:**  
a) Positive  
aa) Positive  
b) Positive  
c) Positive  
d) None  
e) Neutral

**Reason for support/opposition: Please summarise (in one paragraph) the key reason(s)**

We are **supportive** of all the modification options as they all introduce arrangements that make it more probable that current and new assets located close to entry points will remain connected to the transmission system, thereby sharing the overall costs of the transmission system to the benefit of all users. This outcome would be positive against Relevant Objective (RO) (C) - *Efficient discharge of the licensee's obligations* - compared to the baseline arrangements following UNC678A which introduces a postage stamp capacity charge and removes the current NTS optional charging arrangements. Without a more cost reflective charging option, we agree with the proposers that there is

a high probability that customers with exit connections close to entry points will invest in point-to-point pipelines and bypass the NTS. Such bypass of the system is an inefficient outcome for all customers as transmission tariffs would need to increase to replace the revenue lost by the disconnecting parties who will no longer contribute to transmission revenue. The purpose of all these modifications is to ensure charges for all parties are minimised by avoiding bypass of the NTS by current or future exit sites located close to entry points. In doing so each of the modifications is positive against RO (D) *securing effective competition* when compared to the baseline arrangements.

We also agree with each proposer's positive assessment against the Relevant Charging Objectives (CO) compared with the baseline arrangements following the introduction of UNC678A. The only exception to this is our assessment of CO (E) - *Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators*. In our view, **only modification 0728C is positive against this CO** and other proposals are neutral. Specifically, 0728C applies the charges against all capacity purchased at an exit point not a subset of capacity. In our view this meets the intent of the TAR network code and the criteria of Art 4 3 of EU 2017/460<sup>1</sup>, which states, '*The transmission services revenue shall be recovered by capacity-based transmission tariffs*'.

All other modifications are neutral against this objective as the method used to apply any discount is not related to the full capacity purchased at the exit point but a subset of that purchased capacity. The method used in 0728, 0728A, 0728B and 0728D, may come under the exception identified in Art 4 3 (a) of the TAR network code due to the way the optional charge is applied.

Where we have preferences between the proposals, we have outlined this in the relevant individual assessments below.

### 0728:

We support all proposals as they introduce arrangements that are positive in relation to the UNC relevant objectives, compared to the baseline. We note for 0728 that the methodology used to apply any discount, and relative complexity of the reconciliation mechanism may limit the incentive to stay connected to the NTS. Therefore, although positive when compared to the baseline, this option carries a **higher risk of bypass** that could detrimentally effect consumers compared to other proposals.

### 0728A

We support all proposals as they introduce arrangements that are positive in relation to the UNC relevant objectives, compared to the baseline. We believe that this option would provide proportionate and cost reflective charges that may incentivise parties to retain their NTS connection and not build their own pipelines therefore by-passing the system. We note that the application of 0728A shares a similar level of complexity as 0728.

### 0728B

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<sup>1</sup> COMMISSION REGULATION (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32017R0460&from=EN>

We support all proposals as they introduce arrangements that are positive in relation to the UNC relevant objectives, compared to the baseline. Initial analysis conducted for the workgroup by National Grid indicated that a distance of 28km should be applied based on the CEER costing paper. This distance was not included in National Grid's final 0728 proposal. Our understanding is this methodology supports and maintains that initial analysis, thereby providing an incentive for current and future sites that may otherwise disconnect from the network, or in the case of new build options, not use the NTS by design.

### 0728C

**This is our favoured option** as we believe it is clearly compliant with the intent of the TAR network code, and particularly the provisions related to charging based on capacity at Art 4. This proposal properly applies a more cost reflective charge to parties based on their purchased capacity and ensures that the incentive to maintain a connection to the NTS is proportionate.

### 0728D

We support all proposals as they introduce arrangements that are positive in relation to the UNC relevant objectives, compared to baseline. However, we are mindful that the limited distance of application of this method may create unintended consequences and the potential for unduly distortive 'cliff edges' that may lead to parties by-passing the NTS or the perception of a disproportionate benefit.

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

The implementation should be aligned with the implementation of UNC0678A. This is currently set for 1 October 2020. If that is not possible, then it should be implemented as soon as possible thereafter.

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

Without a suitable cost reflective method of charging that reduces the incentive to build bypass pipelines, we believe it is highly likely that parties will disconnect from the NTS. This will increase charges on an *enduring* basis for the remaining NTS connected parties, and perversely increase the likelihood of system bypass as fewer parties are exposed to increasing tariffs.

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

We have reviewed the legal text and believe that it reflects the intent of each of the respective proposals.

#### **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).*

Having reviewed the TAR provisions, we believe that all proposals are compliant. As highlighted above, we also believe that UNC0728C is positive against CO (E) and other proposals are neutral.

Looking specifically at articles 28-32 of the TAR, we have noted no conflict with the modifications proposed in terms of enabling any of the proposals to be implemented, including any necessary within year adjustment of Revenue Recovery Charges (RRC).

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

The implementation should be aligned with the implementation of UNC0678A. This is currently set for 1 October 2020. If that is not possible, then it should be implemented as soon as possible thereafter.

**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.*

We do not believe there are any errors or omissions.

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

No further information.