

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

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

Representative:	Alastair Tolley
Organisation:	EP UK Investments
Date of Representation:	26 June 2020
Support or oppose implementation?	<p>Support/Oppose/Qualified Support/Comments * <i>delete as appropriate</i></p> <p>0728 - Qualified Support</p> <p>0728A – Support</p> <p>0728B - Qualified Support</p> <p>0728C - Qualified Support</p> <p>0728D – Oppose</p>
Expression of preference:	<p><i>If either 0728, 0728A, 0728B, 0728C or 0728D were to be implemented, which would be your preference?</i></p> <p>0728A</p>
Relevant Objective:	<p>0728:</p> <p>c) Positive</p> <p>d) Positive</p>

	<p>0728A: c) Positive d) Positive</p> <p>0728B: c) Positive d) Positive</p> <p>0728C: c) Positive d) Positive</p> <p>0728D: c) Negative d) Negative</p>
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<p>Relevant Charging Methodology Objectives:</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) None aa) Negative b) None c) Negative e) Positive</p>
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Reason for support/opposition: Please summarise (in one paragraph) the key reason(s)

0728:

We consider it essential that there is a discount in place to discourage inefficient bypass of the NTS. EPUKI is aware of offtakes up to 18 km away from an entry point which pose a credible risk of system bypass. While 0728 would provide a discount to capacity charges for such offtakes, we consider that any Conditional Discount should take into account the overall scale of transmission charges faced by users as this is what will determine whether they seek to bypass the NTS or not. 0728 does not provide a discount to the General Non-Transmission Services Charge and it is therefore likely that, even with a capacity discount, users would continue to face disproportionately high costs for using the gas transmission network compared to building a private pipeline, which would increase the likelihood of them seeking to bypass the NTS.

0728A

We consider it essential that there is a discount in place to discourage inefficient bypass of the NTS. EPUKI is aware of offtakes up to 18 km away from an entry point which pose a credible risk of system bypass. We consider that any Conditional Product should take into account the overall scale of transmission charges faced by network users as this is what will determine whether they seek to bypass the NTS or not. The General Non-Transmission Services Charge is designed to recover SO allowed revenue. However, most of the costs associated with operating the NTS would not be incurred by operators of a private pipeline. If no discount is applied to the General Non-Transmission Services Charge then users would continue to face disproportionately high costs for using the gas transmission network compared to building a private pipeline, which would increase the likelihood of them seeking to bypass the NTS. As 0728A provides a discount to the General Non-Transmission Services Charge, we consider it to be the most effective solution to discourage inefficient bypass of the NTS and it is our preferred option.

0728B

We consider it essential that there is a discount in place to discourage inefficient bypass of the NTS. We accept that offtakes located as far away as 28 km from an entry point could present a credible risk of system bypass, especially where they could share the costs of bypass infrastructure with other nearby offtakes. We therefore consider that there is merit in the higher distance cap proposed under 0728B and that this could further reduce the risk of inefficient network bypass. However, we consider that any Conditional Discount should take into account the overall scale of transmission charges faced by users as this is what will determine whether they seek to bypass the NTS or not. 0728B does not provide a discount to the General Non-Transmission Services Charge and it is therefore likely that, even with a capacity discount, users would continue to face disproportionately high costs for using the gas transmission network compared to building a private pipeline, which would increase the likelihood of them seeking to bypass the NTS.

0728C

We consider it essential that there is a discount in place to discourage inefficient bypass of the NTS. EPUKI is aware of offtakes up to 18 km away from an entry point which pose a credible risk of system bypass. While 0728C would provide a discount to capacity charges for such offtakes, we consider that any Conditional Discount should take into account the overall scale of transmission charges faced by users as this is what will determine whether they seek to bypass the NTS or not. 0728C does not provide a discount to the General Non-Transmission Services Charge and it is therefore likely that, even with a capacity discount, users would continue to face disproportionately high costs for using the gas transmission network compared to building a private pipeline, which would increase the likelihood of them seeking to bypass the NTS.

0728D

The proposed distance cap of 5 km under 0728D would prevent a large number of offtakes which present a credible risk of system bypass from accessing the Conditional Discount. EPUKI is aware of offtakes up to 18 km away from an entry point for which bypassing the NTS would be an economic option if they cannot access an appropriate Conditional Discount. As these offtakes would not be captured by 0728D, this proposal does not significantly reduce the risk of users building bypass pipelines and the possibility of associated increases in network charges for other NTS users. Furthermore, offering a Conditional Discount to some but not all sites which pose a credible risk of system bypass is discriminatory and would be detrimental to competition between shippers. For these reasons, we oppose 0728D.

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

We consider it essential that the Conditional Discount is implemented at the same time as the gas charging reforms under UNC0678 on 1 October 2020. Without the Conditional Discount in place, some users currently benefiting from the Optional Commodity Charge will see large increases in their network charges and will start investing to bypass the NTS at the earliest opportunity.

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

The implementation of the Conditional Discount may require users to renegotiate agreements with counterparties and update internal analysis. However, in the absence of a Conditional Discount then there would be larger costs incurred in the development of bypass pipelines. Without a Conditional Discount, companies may also need to reconsider previous long-term investment decisions, update internal modelling and review the implications of higher gas charges on the viability of their assets and business models going forward.

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).

We consider all the proposals to be compliant with the Tariff Network Code and other relevant legislation.

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

We consider it essential that the Conditional Discount is implemented at the same time as the gas charging reforms under UNC0678 on 1 October 2020. Without the Conditional Discount in place, some users currently benefiting from the Optional Commodity Charge will see large increases in their network charges and will start investing to bypass the NTS at the earliest opportunity.

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

EPUKI supports the introduction of a Conditional Discount to discourage inefficient bypass of the NTS. We consider that without a Conditional Discount, there is a strong possibility that some power stations and industrial sites may build private bypass pipelines or may face significant unrecoverable costs that could impact their lifetime and operations, reducing overall flows on the NTS and increasing costs for other network users.

The economics and method of system bypass will be determined by site-specific factors, but EPUKI is aware of sites located 18 km away from an entry point which would present a credible risk of system bypass given the large increase in network charges that they face from 1 October 2020. We therefore consider that any distance cap on eligibility for the Conditional Discount must be set at least at 18 km. However, we accept that offtakes located as far away as 28 km from an entry point could present a credible risk of system bypass, especially where they could share the costs of bypass infrastructure with other nearby offtakes.

We consider that any Conditional Discount should take into account the overall scale of transmission charges faced by users as this is what will determine whether they seek to bypass the NTS or not. For this reason, our preferred solution is 0728A as it includes a discount to the General Non-Transmission Services Charge. The Non-Transmission Service Charge is designed to recover SO allowed revenue. However, most of the costs associated with operating the NTS would not be incurred by operators of a private pipeline. If no discount is applied to the General Non-Transmission Services Charge then users would continue to face disproportionately high costs for using the gas transmission network compared to building a private pipeline, which would increase the likelihood of

them seeking to bypass the NTS and lead to an underutilised transmission network with higher charges for all users.