

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:	Julie Cox
Organisation:	Energy UK
Date of Representation:	25 June 2020
Support or oppose implementation?	0728 - Support 0728A - Support 0728B - Support 0728C – Support 0728D – Support
Expression of preference:	Any of 0728 / 0728A / 0728B / 0728C / 0728D
Relevant Objective:	0728: c) Positive d) Positive 0728A: c) Positive d) Positive 0728B: c) Positive d) Positive

	<p>0728C: c) Positive d) Positive</p> <p>0728D: c) Positive d) Positive</p>
<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) Positive aa) Positive b) Positive c) Positive e) Positive</p>

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

0728 0728A 0728B 0728C 0728D

These proposals all seek to avoid the inefficient bypass of the NTS, the parameters within them vary depending on the proposers' views. These variations reflect:

- the distance over which bypass may be considered 'efficient'
- whether discounts should apply to transmission services charges or both transmission services and non-transmission services charges
- eligibility for the discount relates to the capacity of the 'virtual pipeline' or the use of that 'virtual pipeline'

Members will have different views on these aspects, so Energy UK will not express a preference for one proposal over another.

However, it is agreed that a short haul solution needs to be put in place to avoid parties disconnecting from the network and building their own private pipelines to nearby entry points. In some locations the incentives to bypass the system are very strong and payback periods short. This would then mean they make no contribution to allowed revenue and costs to all other customers that remain connected to the network would rise to make up for this shortfall.

This would not be in customers interests.

Rather a solution needs to be found where sites that may seek to build their own pipelines are given a discount to the standard charges which incentivises them to remain connected to the network and continue to make a contribution, albeit reduced, to allowed revenue. As a result of the discount provided, customers costs would rise but not as significantly as if sites chose to disconnect from the network.

It is in the best interests of customers that a shorthaul solution is implemented with effect from 1 October 2020 or as soon as possible thereafter.

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

Ofgem accepted the request by the proposers for urgency on the basis that they are *'linked to an imminent issue that if not urgently addressed may cause a significant commercial impact on certain users'*.

This suggests that a pragmatic approach to implementation lead times needs to be taken, whilst providing notice of revised charges if and when needed before the implementation date.

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

As a trade association none

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

Energy UK has not reviewed the legal text

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).

Energy UK believes that all the proposals are compliant with TAR NC and other EU legislation. The revenue impact of implementation of any 0728 variant will not impact reserve / reference prices which have already been set for Gas Year 2020. However, it is acknowledged that, if substantial, National Grid may need to revise the capacity based RRC either before or within the gas year.

Article 28 relates to the consultation on discounts, multipliers and seasonal factors – this consultation has already been completed

Article 29 identifies information that must be published before the annual yearly capacity auction – this does not mention the RRC

Article 30 identifies information that must be published before the tariff period, 1 (C)(iii) refers to information relating to reference prices and other prices. This could include RRC prices

Article 31 relates to the form of publication

Article 32 Publication notice period, 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.

Article 20 Reconciliation of the regulatory account may also be relevant. It requires reconciliation to be carried out in accordance with the applied reference price methodology.

This has been approved by Ofgem, therefore it must have been already considered as compliant with TAR NC. The legal text¹ in Section 3 provides for RRC to be set and revised prior to and during the gas year where forecast revenues deviate from allowed revenues. 2 months' notice is required which exceeds that required by TAR NC. This would provide for an implementation date within the gas year. Compliance of the RRC methodology with TAR NC should be valid regardless of the origin of the potential under or over recovery.

To summarise, TAR NC provides a limited point of reference for RRC charges other than to say 'other charges' should be published no later than 30 days before the tariff period. Rather the reference price methodology as approved defines the requirements for RRC which allow for RRC charges to be set where forecast revenues deviate from allowed

¹ https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/book/2019-05/Modification%200678A%20-%20Annex%20B%20Draft%20Legal%20Text%20-%20TPD%20Y%20Part%20I-A%20-%202015.05.2019%2864273200_3%29.pdf

revenues. Therefore, it seems to be complaint to allow RRC to be used for any forecast under recovery arising from the implementation of any of the 0728 UNC modification proposals.

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

Energy UK considers implementation should align with the implementation of UNC MOD 0678A and therefore ideally be with effect from 1 October 2020, but otherwise as soon as possible afterwards.

A decision will need to be issued in time to provide for 2 months' notice of the revenue recovery charge.

Given Ofgem's acceptance of the request for urgency, it suggests that if none of the proposals are implemented on 1 October 2020 there may be a significant commercial impact on certain users. The implementation date should be set to minimise this, including within the gas year.

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 impact on Energy UK as a Trade Association

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