

## 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>	Chris Wright
<b>Organisation:</b>	ExxonMobil Gas Marketing Europe Limited
<b>Date of Representation:</b>	26 June 2020
<b>Support or oppose implementation?</b>	<p>Support/Oppose/Qualified Support/Comments* <i>delete as appropriate</i></p> <p>0728 – Support</p> <p>0728A – Support</p> <p>0728B – Support</p> <p>0728C - Comments</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>0728A</p>
<b>Relevant Objective:</b>	<p>0728:</p> <p><b>c)</b> Positive</p> <p><b>d)</b> Positive</p>

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

**0728/0728A/0728B/0728D - Support**

ExxonMobil Gas Marketing Europe Limited believes that use of the current shorthaul product has become somewhat excessive, with a number of current shorthaul routes not presenting a credible risk of NTS by-pass. The undue transportation discounts being provided in these cases result in a shortfall in NTS allowed revenues, which are then socialised between system users. This represents an inappropriate cross subsidy between competing gas shippers. End user customers who do not benefit from shorthaul arrangements will ultimately be penalised where these costs are passed on.

However, while the current shorthaul regime is due to end from 1 October 2020, we also agree with the analysis of review group UNC 0670R, which concludes that the threat of system by-pass remains genuine and credible in a number of cases. We believe it is appropriate to incentivise customers on these routes to remain as users of the NTS, since in doing so they will continue to contribute to overall NTS costs. Where these users do continue to use the NTS but without an appropriate shorthaul discount, they could be overpaying, effectively reversing the direction of the current cross-subsidy. However, where these users choose to by-pass the NTS, losing the level of demand represented by these routes to competing pipelines would be a significantly inefficient outcome.

It is impossible to determine exactly which routes and end users are at risk of by-passing the NTS. In any event this picture will change over time as customers' businesses evolve.

In our view all of these four proposals present compliant and workable solutions, and any one of them would be better than having no shorthaul product.

Of the four we support, we are most supportive of 0728A, as we consider that this proposal best captures the economics of the system by-pass threat with a cap at 18km, a diminishing Transmission Services capacity discount up to a cap and collar set at 90% and 10% respectively, and a reasonable but not excessive Non-Transmission Services commodity discount. This combination probably best replicates the economics of building and operating a by-pass pipeline.

**0728C - Comments**

This proposal shares many of the positive attributes that we see in the other four, however we are unable to offer outright support. This is because analysis provided alongside the proposal suggests a significant level of cross subsidy could result, which may be deemed excessive. This would appear to be as a result of Transmission Services capacity discounts being allowed on all eligible capacity irrespective of utilisation.

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

We do not require a minimum lead time.

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

We face no material, additional costs ahead of or upon implementation of any one of our supported proposals. Conversely, we will face analytical and possibly capital costs from assessment and potential development of by-pass pipelines where no shorthaul discounts are available.

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

Yes, for all of the proposals that we support.

**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).*

Yes.

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

The selected proposal should be implemented and become effective as soon as possible. We have a very strong preference for a date of 1 October 2020 in order to overlap with the removal of the current OCC regime, however if this date is not achievable then it should become effective as soon as possible thereafter, during gas year '20-21.

**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 note that all secondary capacity – i.e. that which has been traded/transferred between users – is excluded from benefitting from a shorthaul discount under any of these proposals. We understand that this is not necessarily due to the wishes of the proposers, but rather due to limitations within central capacity registration systems.

This does appear to be an undue limitation, which we believe needs tackling as a matter of urgency.

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

We do not consider it necessary for Ofgem to undertake an Impact Assessment prior to taking a decision on implementation. Primarily, we understand that undertaking an IA would deny any possibility of a new shorthaul product taking effect from 1 October 2020. Network users and end consumers would therefore face additional uncertainty and

disruption as a result of moving from the current OCC, to a world with no shorthaul, and then having to adapt to a new product as and when one became available.

Further, analysis provided alongside these proposals suggests that any of them, with the possible exception of 0728C, would result in lower cross-subsidies than the prevailing OCC methodology.