

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:	Pavanjit Dhesi
Organisation:	Interconnector (UK) Limited
Date of Representation:	26 th June 2020
Support or oppose implementation?	<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 - Support</p> <p>0728D - Support</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>0728D</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) Positive d) Positive</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) 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)

We believe a shorthaul arrangement is necessary to address the real possibility of bypassing the NTS. Bypass of the NTS would lead to a loss of NTS transmission revenues and consequently higher charges for users overall to the detriment of GB consumers. Each of the proposed modifications further the relevant objectives by proposing targeted and proportionate discounts to the genuine risk of bypass. This limits the discount and the cross-subsidy effect on the other NTS charges. The proposals provide a short haul capacity discount in compliance with the European tariff network code.

Overall, we believe UNC 728D is the most targeted and proportionate proposal. It is limited to points that are genuinely at risk, with a 5km cap and consequently simpler discount solution. It also appropriately includes a cost reflective discount from non transmission charges. This rightly reflects the commercial reality that costs to flow gas on a simple short pipeline would not include all the elements included in National Grid's non transmission charges which are required to cover the whole NTS (e.g. operating margins, shrinkage and network balancing costs).

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

IUK supports implementation from 01 October 2020 to ensure a seamless transition between the existing NTS Optional Commodity Rate and the new Conditional Capacity Charge Discount. We hope that Ofgem is able to make a prompt determination on these proposals. Clearly a longer lead time before changes are implemented is preferable as it allows the market time to adjust and optimise to those charges. However, recognising the urgent status of these modifications, and that short haul is a key missing element that should be included in the new regime from October 2020, there should be some flexibility in allowing NG a shorter time frame to publish the consequent changes before implementation. In this context, to avoid uncertainty in the market, it would be preferable to know any revenue recovery charge (RRC) adjustment before the gas year commences rather than have the risk of uncertainty of a potential RRC change in the new gas year hindering shipper activity.

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

No comment

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).

Capacity discounts to avoid bypass of the network have been approved in other European countries after going through the National Regulatory Authority/ACER consultation process e.g. The OCUC¹ in Belgium. The proposals meet the requirement to be cost reflective having been carefully calculated to only provide a discount where there is a genuine the risk of bypass.

We do not see a conflict with the requirements of Article 28-32 of the European Tariff Network Code. We believe the obligations outlined for Article 28 have already been covered in the UNC678 and related consultations. The reserve prices published in accordance with Article 29 linked to Article 32 will also not be changed if the proposals are implemented from October 2020. An adjustment would be made via the revenue recovery charge component which is a “floating” element permitted to be changed with appropriate notice. Article 30 linked with Article 32 furthermore, whilst obliging the publication of a number of elements 30 days before the gas year commences, does not appear to oblige those particular parameters to be locked in for the gas year. The information can be changed with suitable notice.

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

IUK supports implementation from 01 October 2020 to ensure a seamless transition between the existing NTS Optional Commodity Rate and the new Conditional Capacity Charge Discount. There is a risk that bypass plans will be initiated and that without an appropriate short haul tariff the NTS sees less activity which consequently reduces the actual level of NTS revenues received, resulting in higher charges for users overall.

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 comment

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

The proposals address the issue of a significant cross subsidy created by the current optional commodity charge regime.

It should also be recognised that a short haul option has been in place for over 20 years and investments decisions have been taken in that time based on a legitimate expectation that a bypass avoidance tariff will remain. It remains appropriate and fair for “short haul” to continue. As well as making contributions to NTS costs rather than bypassing the network, short haul has proven to make a wider contribution to GB by encouraging gas to come into GB. It has also been a key element in supporting GB gas exports via the interconnectors. There is a risk therefore that without an appropriate short haul tariff the NTS sees less bookings and activity which consequently reduces the actual level of NTS revenues received, resulting in higher charges for users overall.

¹ Operational Capacity Usage Commitment. See Fluxys website for further details: <https://www.fluxys.com/en/products-services/ztp-trans-shorthaul-ocuc>