

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:	Helen Nicklin
Organisation:	Lucite International UK Ltd
Date of Representation:	26 June 2020
Support or oppose implementation?	<p>0728 - Oppose</p> <p>0728A - Oppose</p> <p>0728B – Oppose</p> <p>0728C - Oppose</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>0728D:</p> <p>c) Positive</p> <p>d) Positive</p>

Relevant Charging Methodology Objectives:

- 0728D:
a) Positive
aa) Positive
b) Positive
c) Positive
e) Positive

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

0728:

The exclusion of any discount to Non-Transmission Services Commodity Charges will increase the likelihood of offtakes bypassing the NTS in instances where it would be disadvantageous to UK customers in general (via overall increases in Transmission and Non-Transmission Charges). The proposal also fails to reflect the reality of “project clustering”, instead employing a strict point to point relative cost assessment resulting in NTS Charges which are significantly higher than the costs of bypass. Again, this will result in sub-optimal outcomes for UK customers.

0728A

The proposal fails to reflect the reality of “project clustering”, instead employing a strict point to point relative cost assessment resulting in NTS Charges which are significantly higher than the costs of bypass. The inclusion of a discount for Non-Transmission Services does go some way to more accurately reflect the costs of bypass that 0728/B/C neglect, however the outcome of this proposal will not fully deter inefficient bypass of the NTS. Again, this will result in sub-optimal outcomes for UK customers.

0728B

The proposal sets an unrealistic distance cap, overestimating the probability of bypass for those offtakes located further from the relevant entry points; including some with significant geographical challenges. The exclusion of any discount to Non-Transmission Services Commodity Charges will increase the likelihood of offtakes bypassing the NTS in instances where it would be disadvantageous to UK customers in general (via overall increases in Transmission and Non-Transmission Charges). The proposal also fails to reflect the reality of “project clustering”, instead employing a strict point to point relative cost assessment resulting in NTS Charges which are significantly higher than the costs of bypass. Again, this will result in sub-optimal outcomes for UK customers.

0728C

The exclusion of any discount to Non-Transmission Services Commodity Charges will increase the likelihood of offtakes bypassing the NTS in instances where it would be disadvantageous to UK customers in general (via overall increases in Transmission and Non-Transmission Charges). The proposal also fails to reflect the reality of “project clustering”, instead employing a strict point to point relative cost assessment resulting in NTS Charges which are significantly higher than the costs of bypass. Again, this will result in sub-optimal outcomes for UK customers

0728D

The proposal takes a more realistic stance on the probability and cost of bypass. The likelihood of bypass is far greater over relatively short distances, as geological and commercial obstacles will be minimised. When assessing the costs of bypass, it is evident that where there are two or more offtakes in relatively close proximity, parties will share infrastructure, thereby minimising individual costs. A methodology which assumes that all bypasses will be point to point will, by its very nature, overestimate actual costs where customers cooperate to develop common pipeline solutions. It is essential that any “discount” to standard NTS charges is based on the total cost of shipping and as a result must incorporate Transmission and Non-Transmission Charges. It is folly to assume that a customer such as ourselves will only consider Transmission Charges when assessing the potential to bypass and as such any methodology which excludes Non-Transmission discounts will result in sub-optimal outcomes for all GB customers.

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

We are aware that Xoserve systems have been developed to support implementation of any of the proposals. Given that any delay to the introduction of an Optional Charge will a) impose significant, unwarranted and artificial costs on potential OCC customers and b) a number of potential OCC customers will implement plans to bypass the network, the result will be damaging to UK industry and inefficient for all GB customers.

We believe it will be in the best interests of all GB customers to implement an Optional Charge on 1st Oct 2020.

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

Negligible

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).

All solutions are compliant with the EU Tariff Code.

Capacity charges were published by National Grid on 5th June. The Modifications propose discounts to the reserve prices based on an ex-post assessment of the eligible amounts i.e. the discounts are applied to the standard reserve prices.

In the case of Modifications 0728A/D it is proposed that an additional discount is provided to eligible amounts from the standard Non-Transmission Services Commodity Charges. These charges are required to be set no later than 30 days before the respective tariff period.

Art 4.2 permits the setting of tariffs to take into account conditions for firm tariffs, which captures the application of Optional Charges.

In the case of Transmission revenue under-recovery caused by the implementation of a Optional Charge Art 17 requires that such revenue should be minimised, recovered in a timely manner and that differences in tariff levels across two consecutive periods should be minimised. This implies that a RRC should be applied, in particular during the transition phase if implementation is to be permitted on 1st October 2020. The RRC is consistent with Art 4.3 in that the RRC is a capacity-based tariff.

We note that there is explicit reference to the provision of information related to transmission and non-transmission tariffs in Art 30.1.(c) which sets out those tariffs which can be published up to 30 days prior to the tariff period. A discount applied to Non-Commodity charges as set out in 0728A/D is consistent with this Article and can be published in time to enable a 1st Oct 2020 implementation. In addition, as the RRC is not required to be published in accordance with Art. 29, by extension it is relevant charge for the purposes of Art. 30.

In the case of Art.29 the provisions are particular to Interconnection Points and Points subject to the CAM Code (which is not the case at non-IP points in GB) and as such generally is only relevant where changes to the reserve prices at IPs is required. This is not the case with any of the 0728 Proposals.

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

Please refer to earlier answer

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.*

Given the varying levels of discount offered by each of these proposals the impact on Lucite International could be within a wide range. The current system without an Optional Charge will leave us facing transmissions charges of £3.3m per annum. Of the variants of modification 0728 only 0728D will reduce our charge to a realistic level given that the length of NTS we are using is 4.4km. 0728/A/B/C will leave us with costs of between £1.4-£1.8m per annum.

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

We understand that the timetable set out in each of the proposals is aggressive, recommending implementation on 1st October 2020. It is unfortunate that the proposals had to be raised so close to this date, but the timing of the Ofgem decision on UNC 0678A restricted the ability for industry to put forward “shorthaul” products until now. Nevertheless, it is critical that Ofgem works to this accelerate timetable to ensure that customers located close the entry terminals do not seek to bypass the NTS in the very short term. Without the introduction of an Optional Charge that is commensurate with our use of the NTS, we will enter into partnership with companies that are located nearby (within 1km) to extend a gas supply network from our sites to the closest entry terminals.

This network will potentially use existing pipeline assets that are currently mothballed and could be returned to service quite quickly. Due to the combined financial impact between our companies, the work required to establish this network will payback within the year and will remove our gas demand from the NTS permanently. We are already in a commercial arrangement with this neighbouring company for other materials and have a long history of working together to achieve mutually beneficial goals; the addition of this bypass project to our relationship will take little time or effort.

We see little justification for Ofgem to carry out an Impact Assessment which will necessarily defer implementation until a date after 1st October 2020.

Firstly, CEPA carried out analysis on the impact of all of the 0678 modifications, including the two principle shorthaul methodologies; NOC1 and NOC2. The impacts on individual tariffs at entry and exit can be easily replicated given the levels of cross-subsidies set out in each of the 0728 proposals. Likewise, the take-up of shorthaul can be modelled as in each case a distance cap has been provided, along with those routes which would be eligible. In terms of the wholesale price impacts, we expect the impacts of these proposals to be insignificant and given the number of eligible routes compared to those identified in NOC1 and NOC2 less than those modelled by CEPA. We would note, however, that the figures provide in the CEPA report in table 4.4 are curiously low. The observation that only 3 routes present a credible risk of bypass is unquestionably inaccurate and brings into question the assumptions made by CEPA in its assessment of bypass costs compared to NTS charges.

Secondly, Ofgem's IA Guidance is flexible to enable it to determine that in this instance an IA is not required. Para 15 of the Guidance states:

"Once we receive a modification for a decision, we may carry out an IA to consider the impact of accepting or rejecting it"

Further in para 16 it states:

"...if we consider that the industry has conducted a suitable consultation (or assessment of impacts) and that a further IA by us would not add value, we are unlikely to repeat this exercise and carry out an IA ourselves. By 'suitable consultation', we mean one that would take into account the same considerations as we would as part of an IA, where proportionate to the issue at hand."

We believe that as Ofgem carried out an IA in respect of UNC 0678 and its alternatives and that National Grid has carried out a separate consultation on four of the five proposals through GCD12 and that significant analysis has been provided in the proposals themselves that Ofgem can reasonably justify not undertaking a further IA.

Finally, para 22 of the Guidance states:

"Circumstances where we would not expect to produce IAs include:

- the urgency of the matter makes it impractical or inappropriate; and*
- publishing proposals which draw together a range of options which have been subject to separate IAs"*

Given the urgent nature of these proposals, which has been endorsed by Ofgem's decision to grant them Urgent status and that work has already been undertaken to assess the impacts of more "extensive and universally accessible" shorthaul proposals via the UNC 0678 IA, it is clear that Ofgem is not required, nor will it be expected to carry out an IA in respect of the 0728 proposals.