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:	Colin Williams
Organisation:	National Grid NTS
Date of Representation:	26 June 2020
Support or oppose implementation?	0728 - Support 0728A - Oppose 0728B - Qualified Support 0728C - Oppose 0728D - Oppose
Expression of preference:	*If either 0728, 0728A, 0728B, 0728C or 0728D were to be implemented, which would be your preference?* 0728
Relevant Objective:	0728: **c)** Positive **d)** Positive 0728A: **c)** Positive **d)** Negative 0728B: **c)** Positive **d)** Positive

	0728C: **c)** Positive **d)** Negative 0728D: **c)** Positive **d)** Negative

Relevant Charging Methodology Objectives:	0728: **a)** Positive **aa)** Positive **b)** Positive **c)** Positive **e)** Positive 0728A: **a)** Negative **aa)** Negative **b)** Positive **c)** Negative **e)** None 0728B: **a)** Positive **aa)** Positive **b)** Positive **c)** Positive **e)** Positive 0728C: **a)** Negative **aa)** Negative **b)** Positive **c)** Negative **e)** Positive 0728D: **a)** Negative **aa)** Negative **b)** Positive **c)** Negative **e)** None

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

0728:

As Proposer, National Grid NTS (‘National Grid’) supports implementation of this version of the Modification. We believe that this Modification would enhance the cost reflectivity of the charging arrangements and thereby enhance competition between shippers by addition of a charging mechanism that better reflects the nature and circumstances of a specified sub-set of connected consumers.

The application of a Conditional Discount seeks to minimise the risk of an inefficient bypass of the NTS by building and operating a dedicated independent pipeline between specific Entry and Exit points. This outcome would have the effect of removing demand from the NTS thereby necessitating increased Transmission Services and General Non-Transmission Services charges, as required, at points and Users remaining connected to the system.

The proposed qualification criteria to access the conditional discount to Transmission Services Entry and Exit Capacity reserve prices limits the distance, combined with the likelihood of bypass, limits access to Shippers and to Entry Point and Exit Point combinations that are considered more likely to bypass the NTS. Application of a generic methodology is not able to take account of bespoke commercial conditions faced by individual customers therefore there is use of an ‘objective’ distance limitation that does not create any barriers to access to the conditional product for qualifying Entry and Exit point combinations.

The design and application of the product aims to minimise redistribution of costs to a level which could be considered “due” under EU Tariff Code, ensuring compliance even when assuming the potential maximum take-up given the distance limitation.

It is worthy of note that 0728, 0728A, 0728B, and 0728C all adopt the approach of a reducing the Transmission Services discount level as the distance increases between the entry and exit points up to the respective limits within the proposals. We believe this is entirely appropriate as the likely build and maintenance cost of a bypass pipeline will increase as the distance increases. Therefore, a variable discount, informed by the costs of pipeline construction (as advocated by all Proposals except 0728D), can be seen as more cost reflective than a ‘static’ discount (as proposed in 0728D) which disregards distance within the discount determination.

Underpinning the determination of the Transmission Services Entry and Exit Reserve Price discount for all variations is a formula for pipeline costs published by CEER (Pan-European cost-efficiency benchmark for gas TSOs - Appendix[1]) and applied this to the Entry and Exit combinations on the NTS. This is further highlighted in the Modifications and Appendices of the respective Modification Proposals.

[1] https://www.ceer.eu/1767

The determination of quantities eligible for the Conditional Discount, our view is this seeks to ensure that only ‘utilised’ capacity attracts the discounted capacity charge. The alternative approach of disregarding flow in the eligible quantity determination (as proposed in 0728C) means that capacity charges would be discounted regardless of whether the capacity is utilised.

General Non-Transmission Service Charges are spread across all flows on the network (except for storage). Spreading the Non-Transmission cost in this way (as proposed in 0728 and 0728B and 0728C), across all flows on the network, ensures all users pay a fair contribution towards operation costs. We believe the charge also acts as a reasonable approximation for the operation costs of a private pipeline.

The permitted volumes, over which the percentage discount (80% in 0728A and 94% in 0728D) to General Non-Transmission Services charges could be afforded, could be higher than the Entry or Exit Eligible Quantities used in the Transmission Services discount calculation. This, in our view, reduces the cost reflectivity and fairness of the charging approach for all parties. On balance, all parties who flow gas on the NTS benefit from the service offered which is available irrespective of distance and therefore a service better suited to all parties paying the same rate for.

0728 and 0728B differ only in the distance limitation (18km under 0728 and 28km under 0728B). Whilst we recognise that the increase in scale of socialisation of charges, given the additional distance under 0728B, may not be considered that material, we note that it nonetheless introduces five additional route combinations which could potentially increase the likelihood of capturing routes that are potentially less likely to consider bypass.

The initial analysis presented suggested a maximum socialisation figure, due to the implementation of 0728, of around 7.2% (£83.5m) of total Maximum Allowed Revenue (MAR) which covers Transmission Services and Non-Transmission Services revenues. However, when modelling the interaction with Existing Contracts we believe the impact will be more likely to be in the range of 1.6% of MAR (£18.1m) to 5.7% of MAR (£66.6m) depending on the use of primary and secondary capacity in order to receive the conditional discount. This analysis is available on the National Grid website (https://www.nationalgrid.com/uk/gas-transmission/charging/gas-charging-discussion-gcd-papers) within the file “UNC0728/A/B/C/D Presentation Material 24.06.20”.

We believe this furthers Relevant Objectives (c) and (d) and Relevant Charging Objectives (a), (aa), (b), (c) and (e) as outlined in the Modification Proposal and the Draft Modification Report.

Therefore, we believe 0728 offers the most suitable approach considering all the factors above.

0728A

National Grid does not support implementation of this Proposal as we do not believe that affording a discount to General Non-Transmission Services charges is justified given that the relevant customers would retain access to the wider benefits of remaining connected to the NTS. All parties who flow gas on the NTS benefit from the same level of service, regardless of the distance, and so National Grid believes it to be fairer that all Users contribute in the same way paying the same rate for Non-Transmission Services.

General Non-Transmission Services Charges need to be cost reflective and non-discriminatory, consistent with the requirements with the EU Tariff Code. The permitted volumes, over which the 80% General Non-Transmission Services discount could be afforded, could be higher than the Entry or Exit Eligible Quantities used in the Transmission Services discount calculation. This means that the Eligible Quantities for the Transmission Services and General Non-Transmission Services could be different which we believe, reduces the cost reflectivity and fairness of applying General Non-Transmission Services Charges.

We believe the discount should only be applied in respect of capacity that is utilised (i.e. gas that is flowed against an appropriate capacity entitlement) which better reflects how a potential bypass would be operated considering both capacity and utilisation.

Based on the above concerns, we do not believe that implementation would better facilitate relevant objective d) and charging methodology objective c) – the securing of effective competition. Equally, given our concerns with the provision of a General Non-Transmission Services Discount, we do not believe that implementation would better facilitate charging methodology objective a) – charges being reflective of costs incurred.

0728B

National Grid offers qualified support for this Proposal.

We note this is the same in all respects as 0728 except for a longer distance limit of 28km instead of 18km. A distance limit of 28km includes routes potentially less likely to consider bypassing the NTS however we recognise depending on circumstances may be feasible.

The initial analysis presented suggested a maximum socialisation figure, due to the implementation of 0728B, of around 7.8% (£90.2m) of total Maximum Allowed Revenue (MAR) which covers Transmission Services and Non-Transmission Services revenues. However, when modelling the interaction with Existing Contracts we believe the impact will be more likely to be in the range of 1.7% of MAR (£19.6m) to 6.3% of MAR (£73.0m) depending on the use of primary and secondary capacity in order to receive the conditional discount. This analysis is available on the National Grid website (https://www.nationalgrid.com/uk/gas-transmission/charging/gas-charging-discussion-gcd-papers) within the file "UNC0728/A/B/C/D Presentation Material 24.06.20".

We offer qualified support for implementation of this modification as it would better facilitate relevant objective d) and charging methodology objective c) – the securing of effective competition as it would, on balance, include those routes most likely to consider a bypass. Recognising the potential additional routes this would include, even with the potential additional socialisation impact, we believe that implementation would overall better facilitate charging methodology objective a) and aa) – charges being reflective of costs incurred when judged against scenarios where no product is implemented.

0728C

National Grid does not support implementation of this Proposal as the determination of quantities eligible for the Conditional Discount disregards flow in the Eligible Quantity calculation, meaning that capacity charges would be discounted regardless of whether the capacity is utilised. We believe determination of quantities eligible for the Conditional

Discount should ensure that only ‘utilised’ capacity attracts the discounted capacity charge.

Were this to be implemented it would necessitate close monitoring to ensure that the routes used for the discounted product were not enabling the use of capacity from or to locations other than the route nominated. As the proposal for the calculation of quantities eligible for the discount to Transmission Services Reserve prices under 0728C has no capacity limitation, beyond being the lower of Entry/Exit capacity, it does not mirror the commercials of building and utilising a bypass. Any bypass, to be commercially viable, would be built to optimise the access and use.

On the basis of the above concerns, we do not believe that implementation would better facilitate relevant objective d) and charging methodology objective c) – the securing of effective competition. Equally, given our concerns with provision of a discount for un-utilised capacity, we do not believe that implementation would better facilitate charging methodology objective a) and aa) – charges being reflective of costs incurred.

0728D

National Grid does not support implementation of this Proposal. As explained above, we do not believe a discount to General Non-Transmission Services charges is justified given that the relevant customers would retain access to the wider benefits of remaining connected to the NTS. All parties who flow gas on the NTS benefit from the same level of service, regardless of the distance, and so National Grid believes it to be fairer that all Users contribute in the same way paying the same rate for General Non-Transmission Services.

General Non-Transmission Services Charges need to be cost reflective and non-discriminatory, consistent with the requirements with the EU Tariff Code. The permitted volumes, over which the 94% General Non-Transmission Services discount could be afforded, could be higher than the Entry or Exit Eligible Quantities used in the Transmission Services discount calculation. This means that the Eligible Quantities for the Transmission Services and General Non-Transmission Services could be different which we believe, reduces the cost reflectivity and fairness of applying General Non-Transmission Services Charges.

We believe the discount should only be applied in respect of capacity that is utilised (i.e. gas that is flowed against an appropriate capacity entitlement) which better reflects how a potential bypass would be operated considering both capacity and utilisation.

In respect of the proposed discount for Transmission Services Reserve prices we believe that a variable discount that reduces as the distance between the nominated entry and exit point increases is more cost reflective than a ‘static’ discount which disregards distance.

Based on the above concerns, we do not believe that implementation would better facilitate relevant objective d) and charging methodology objective c) – the securing of effective competition. Equally, given our concerns with the provision of a General Non-Transmission Services Discount and a ‘fixed’ Transmission Services discount, we do not believe that implementation would better facilitate charging methodology objective a) and aa) – charges being reflective of costs incurred.

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

National Grid's preferred implementation date is 1 October 2020 in order to coincide with implementation of new charging methodology implemented under 0678A and would ensure continuity of a dis-incentive to bypass the NTS given that the NTS Optional Commodity Rate will cease from 30 September 2020. Alternatively, we can implement from the 1st day of a subsequent month in line with a decision.

From a charging perspective, under "Standard Special Condition A4. Charging – General" of National Grid's Licence, the minimum notice that can be given to Ofgem for National Grid to notify of a change to Transportation Charges, is one month that would cover changes to the Transmission Services Entry and Exit Revenue Recovery Charges and General Non-Transmission Entry and Exit Charges, where appropriate to update .

This timescale should also provide adequate notice for implementation from a systems perspective.

We are confident that changes to the central systems can be made in time for an 01 October 2020 implementation but note that there will be impacts to user systems.

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

National Grid will incur the costs of making the required changes to central systems and processes.

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

National Grid is satisfied that the legal text it has provided will deliver the intent of each respective solution.

Subject to one minor revision to the legal text for 0728C (published by the Joint Office of Gas Transporters on 17th June), the legal text for each Proposal was verified by the relevant Proposer as matching the content and intent of their respective Proposals.

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).

National Grid is of the view that the proposed conditional discount and the implementation of this product as proposed in 0728 is compliant with the Tariff Network Code.

We provide some additional commentary with reference to the relevant articles for 0728. We note that these can also provide relevance to aspects of 0728A, 0728B, 0728C and 0728D.

In calculating the discounted prices applicable, a discount factor is applied to the applicable Reserve Price (so that any premium is not discounted).

The Reserve Prices for the relevant NTS Entry and Exit Points are therefore unchanged for the purposes of auctions or other allocations. The 0728 discount and the resulting payable price:

- Is only applicable where a User elects it for a nominated Entry / Exit combination and where the eligible criteria are satisfied;
- Can be elected at any time (with some restrictions);
- Applies to a Day for specific quantities which depends on the variables for that day.

For these reasons, in our view the discount under 0728 is not a discount (or multiplier) of the kind referred to in the EU Tariff Code and does not vary reserve prices for the purposes of Article 12 of EU Tariff Code.

The conditional discount proposed in 0728 is not a parameter of the kind referred to in Article 12 or Article 29 (e.g. multiplier, interruptible). We do not believe this undermines or modifies auction information / reserve prices for the purposes for which they are published.

Article 28

The discount proposed under 0728 to the Reserve Prices is not a discount that falls within Article 28 of EU Tariff Code. The specific elements to be consulted on under Article 28 are parameters used to derive reserve prices. An election for the conditional discount product does not vary or adjust reserve prices.

Election for the conditional discount is made by specifying a nominated route so there is no discount to consult on. The discounts do not exist until and unless a User made a specific nomination.

Article 29

As with Article 28, the 0728 discount to the Reserve Prices for a particular NTS Entry or Exit Point does not alter reserve prices (and is not a multiplier or other factor) for the purposes of Article 29 of TAR.

Article 30

This covers the “Information to be published before the tariff period”. Information required under Article 30 does not cover specifically the availability of the 0728 discount or a capacity-based transmission services revenue recovery charge such as was approved under 0678A.

Article 30 does not seem to preclude a within-year variation of anything consulted on (unless prohibited by or in consequence of Article 12). We note that 0678A allows within year updates of the TSRRCs.

Article 31

This article covers the format of publication only of details required under Articles 29 and 30 and set out in line with Article 32.

Article 32

Article 32 "Publication notice period" provides scope to update the report should any details, as necessary be updated. 0678A has charges introduced that can be updated within year.

Use of Revenue Recovery Charges

The principle of capacity-based TSRRCs for the Gas Year (based on forecast over/under recovery of Transmission Services revenue in that Gas Year), and the ability to adjust these within-year, was approved in UNC0678A. This fulfils the obligation in Article 17 of the Tariff Code which manages revenue recovery to minimise under / over recovery and to recover in a timely manner.

The proposal under UNC0728 does not alter this.

Irrespective of implementation date, there are multiple scenarios that could give rise to a need to introduce or vary the TSRRCs for the Gas Year.

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

Implementation from 1 October 2020 is preferable in order to ensure continuity of a dis-incentive to bypass the NTS given that the NTS Optional Commodity Rate will be discontinued from 1st October 2020. National Grid is confident Central systems to support this can be in place by this date or the first day of any subsequent month. An extended implementation notice period may increase the implementation resource and support costs borne by National Grid.

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.*

National Grid has not identified any such errors or omissions.

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

To support the expedited consultation period, National Grid ran an informal consultation including additional analysis under the banner of Gas Charging Discussion 12 (GCD12).

In addition to this we produced an updated version of the analysis which was presented and published during an online session hosted by National Grid on 24 June 2020.

The material discussed was published and is available to view on the National Grid Gas Charging pages.

https://www.nationalgrid.com/uk/gas-transmission/charging/gas-charging-discussion-gcd-papers