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:	Jeff Chandler
Organisation:	SSE
Date of Representation:	24 June
Support or oppose implementation?	Support all modifications
Expression of preference:	*If either 0728, 0728A, 0728B, 0728C or 0728D were to be implemented, which would be your preference?* 0728C
Relevant Objective:	All mods positive for all RO.

Relevant Charging Methodology Objectives:	*All mods positive for all RO.*

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

0728:

A capacity and non-transmission discount that provides an option to those more likely to consider a bypass of the NTS provides a Charging Framework that is to the benefit of all Users.

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 large and with payback periods of less than 1 year. 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 is not an efficient outcome nor in the interests of customers.

A decision is required quickly to avoid users building their own pipelines. To do this a discount to the standard charges that is sufficient to incentivise them to remain connected to the network and continue to make a contribution is required.

0728A

As 728

0728B

As 728

0728C

As 728 and

The EU Tariff Code does not set out specific arrangements that addresses the issues associated with the potential risk of inefficient bypass. However it facilitates the introduction of capacity discounts in manner that is compatible with Article 4(2) which requires that "Transmission tariffs may be set in a manner as to take into account the conditions for firm capacity products and Article 4(3) "The transmission services revenue shall be recovered by capacity-based transmission tariffs."

A bypass pipeline creates an option for users to source gas from a local entry point or from the NTS (subject to maintaining a connection to the NTS). Once built the pipeline is a sunk cost but is subject to operating costs. Users with a bypass pipeline and ongoing connection with the NTS will be able to exercise the option whenever it is cheaper to source gas from an entry point rather than the NTS (taking into account the avoided NTS transmission cost). In these circumstances there is no obligation for users to flow using a bypass pipeline.

This modification will introduce a capacity discount for all firm bookings by a shipper at both entry and exit for eligible routes. The discount is on the full firm capacity (irrespective of the flow) subject to the exclusion of existing contracts. This more closely resembles the option created by a bypass pipeline. Users will retain a liability for at least 10% of NTS charges.

This modification is compliant with EU Tariff Code Article 4 (2) which states “Transmission tariffs may be set in a manner as to take into account the conditions for firm capacity products.”. This capacity discount relates to a Transmission Services. The capacity discount is on firm capacity only and does not have any dependence on flows at the eligible entry and eligible exit points for an eligible route. Non-firm capacity is ineligible for a discount with respect to an eligible route. The proposal does not create any undue cross subsidy for other Users with the use of limiting factors such as the accessibility and eligibility of the capacity.

0728D

As 728.

We note however that a 5 km distance threshold is low. SSE owns and operates private pipelines for four of its NTS connected CCGTs at Peterhead, Marchwood, Seabank 1 and Seabank 2 with distances up to 18 Km.

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

To be in place as soon as possible on or after the changes introduced from UNC0678A, which becomes effective from 01 October 2020 to avoid additional costs on users. Reference prices have been published and Revenue Recovery Charges (RRC) can be implemented with 2 months notice in the event that NG forecast a change in allowed revenue recovery. Hence, there is no reason why this incremental change cannot be implemented at any time, just as capacity can stop being booked at any time once the NTS is bypassed.

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

None.

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

N/A

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).

This modification is compliant with EU TAR. Consultations in accordance with article 28 and Reference prices have been published in accordance with articles 29 & 32, there is no mention of Revenue Recovery Charge (RRC in these articles). If a subsequent change is made i.e. shorthaul or storage discount then a RRC can be utilised.

Revenue Recovery Charges can be implemented with 2 months notice in the event that NG forecast a change in allowed revenue recovery. Hence, there is no reason why the incremental changes from mod 727 or 728 cannot be implemented at any time, just as capacity can stop being booked at any time by users once an offtake is curtailed. The latter impact will result in a larger RRC change as NTS bypass or storage closure will provide no revenue to NG but theses 728 mods will provide some. Hence, if no storage discount or shorthaul is available NG will require a larger RRC.

Articles 30 & 31 will be met by publishing 30 days before the start of the respective tariff period on 30th September. The data published by NG will be made on the basis of best forecast, but will likely be imperfect. This is because the data to calculate the FCC will likely change regardless of if there is shorthaul or a storage mod discount.

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

To be implemented as close to the start of the charging year to avoid excess costs on users and subsequent risk of bypass for the reasons explained above. Reference prices have been published in accordance with articles 29 & 32. Revenue Recovery Charges can be implemented with 2 months notice in the event that NG forecast a change in allowed revenue recovery. Hence, there is no reason why this incremental change cannot be implemented at any time, just as capacity can stop being booked at any time by users once the NTS is bypassed.

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.*

N/A

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

SSE has two CCGTs at Peterhead and Medway that can bypass the NTS with pipes of 0.1 and 1 km length to St Fergus and Grain respectively. Given the high costs of capacity on 76 GWh/d of potential combined capacity bookings at both Entry and Exit, material savings can be made by building bypass pipelines . Therefore, unless one of the above modifications is implemented imminently, bypass will progress and NG will lose up to £25 million/yr revenue from these sites, and costs to remaining NTS customers will increase.