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:	Christiane Sykes
Organisation:	Shell Energy Europe Limited (SEEL)
Date of Representation:	26 June 2020
Support or oppose implementation?	0728 - Support 0728A - Support 0728B - Support 0728C – Support 0728D – Support
Expression of preference:	In order of preference: 0728D; 0728A; 0728C; 0728B; 0728.
Relevant Objective:	0728: **c)** Positive **d)** Positive 0728A: **c)** Positive

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

Relevant Charging Methodology Objectives:	0728: **a)** Positive **aa)** Positive **b)** Positive **c)** Positive **e)** Positive 0728A: **a)** Positive **aa)** Positive **b)** Positive **c)** Positive **e)** Positive 0728B: **a)** Positive **aa)** Positive **b)** Positive **c)** Positive **e)** Positive 0728C: **a)** Positive **aa)** Positive **b)** Positive **c)** Positive **e)** Positive 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 0728A 0728B 0728C 0728D

SEEL supports all of the proposals because each proposal serves to avoid inefficient bypass of the NTS, thereby avoiding lost revenues for National Grid with an associated upward impact on network user tariffs.

Not only is there is a credible risk of bypassing the NTS by constructing new pipelines but also the risk of shippers utilising existing pipelines, the latter potentially being feasible before this October. This risk would be mitigated by an October 2020 implementation.

Ensuring continued utilisation of the NTS will further support the transition to net zero as any associated investment in the gas transmission system to meet continued demand for natural gas serves to ensure the system is adaptable and available for future use for decarbonised gases.

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

SEEL welcomes Ofgem's decision to grant urgent status for these proposals on the basis that they are 'linked to an imminent issue that if not urgently addressed may cause a significant commercial impact on certain users'. To avoid a significant commercial impact on network users, we trust that Ofgem will make a timely decision to facilitate an October 2020 implementation.

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

SEEL has previously shared commercially sensitive information on costs with Ofgem in response to a Call for Evidence as the debate on avoiding inefficient bypass of the NTS has been ongoing for well over a year and subject to extensive discussion and analysis, building stakeholder understanding of the benefits and risks associated with fundamental changes to the UK charging regime, which should be sufficiently robust and transparent yet flexible to adjusting tariffs where effective pipeline-to-pipeline competition has been demonstrated, which would otherwise lead to inefficient bypass of the NTS.

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

SEEL has not had the opportunity to review the legal text.

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).

In SEEL's view, all proposals are compliant with relevant legislation, including the EU Tariff Network Code (NC TAR). Similar concepts already exist, and have been approved

by ACER. For example, benchmarking is allowed at specific locations in Germany where, 'absent benchmarking, a pipeline with direct access would have been built'.

In ACER's report on 'The internal gas market in Europe: The role of transmission tariffs'[i], the Agency notes that 'if effective pipeline-to-pipeline competition exists, the benchmarking of tariffs by the regulatory authorities will be a relevant consideration'. Each proposal has demonstrated that effective pipeline-to-pipeline competition exists through identifying specific eligible routes where the construction of a bypass pipeline implies a real choice for the user, when compared to the associated costs of utilisation of the Gas Transmission System, which is in line with the Agency's recommendation in their report of the role of transmission tariffs.

The two proposals, which also include a discount on the non-transmission services charge, achieve a greater level of cost-reflectivity by better reflecting the level of costs associated with operating competing pipelines.

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

To align with implementation on the UNC proposal 0678A and on the basis of comments already made in this response, SEEL urges for an October 2020 implementation date.

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.*

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

[i] https://www.acer.europa.eu/Official_documents/Acts_of_the_Agency/Publication/The%20internal%20gas%20market%20in%20Europe_The%20role%20of%20transmission%20tariffs.pdf