

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:	Adam Bates
Organisation:	South Hook Gas Company Ltd. (SHG)
Date of Representation:	26 th June 2020
Support or oppose implementation?	<p>0728 - Qualified Support</p> <p>0728A - Support</p> <p>0728B - Qualified Support</p> <p>0728C - Comments</p> <p>0728D - Support</p>
Expression of preference:	0728A / 0728D
Relevant Objective:	<p>0728:</p> <p>c) Positive</p> <p>d) Positive</p> <p>0728A:</p> <p>c) Positive</p>

	<p>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)

0728:

SHG cannot offer full support for Modification 0728 on the basis that it does not offer a discount to the Non-Transmission Services Commodity Charge. Non-Transmission Services Commodity Charges are set to recover the revenues assigned to National Grid Gas to operate the NTS and these Allowed Revenues are specific to the wider NTS and not relevant for private infrastructure, which would avoid a significant proportion of these costs. Without a discount to Non-Transmission Services Commodity Charges, a significant incentive to bypass the NTS still exists which may encourage Users to build private pipelines and inefficiently bypass the NTS. It is worth noting that as part of the UNC 0621 development process, Waters Wye Associates published a paper justifying the application of the then proposed OCC charge to Non-Transmission Services Commodity Charges¹. Following this publication, National Grid amended their own UNC 0621 Modification to allow the Option Charge to incorporate a discount to Non-Transmission Services Commodity Charges. Modification 0728 reverses the inclusion of a discount to Non-Transmission Services Commodity Charges, however, given one of the ambitions of the 0728 Modification is to replicate the cost of building and operating private pipelines, SHG would expect to see the Non-Transmission Service Commodity Charge discounted. As a result of the above, SHG believes Modification 0728 is incomplete as it does not sufficiently mitigate against the risk of users inefficiently bypassing the NTS.

However, SHG offers qualified support for this modification on the basis that it provides an appropriate discount to the Transmission Services Capacity Reserve Prices. Whilst this discount in isolation (i.e. without a Non-Transmission Services Commodity Charge discount) does not provide a complete solution, SHG believes the methodology and eligibility criteria for the discount is suitable and results in a more cost reflective charging arrangement versus Modification 0678A.

0728A

As proposer, SHG supports the implementation of Modification 0728A and the full justification for the solution can be found within the Modification. To summarise, the modification includes the same methodology and eligibility criteria for the Transmission Services Capacity Reserve Prices as Modification 0728, which SHG believes reflect the genuine risk of bypass.

In addition, the Modification includes a discount to the Non-Transmission Services Commodity Charge which is calculated by allocating costs from the System Operator Base Revenues based on the maximum distance applicable under eligibility criteria. This approach to Non-Transmission Services builds on the distance-based methodology of the Transmission Services discount and looks to link National Grid costs to the operational elements of the NTS.

¹<https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/book/2018-02/SO%20derivationv3%20NW.pdf>

The inclusion of a discount to both Transmission Services Capacity Charges and Non-Transmission Services Commodity Charges results in a complete product which better reflects the costs incurred by Users that may seek to inefficiently bypass the NTS, versus a solution which only includes a discount to one of the charges or which does not address the issue at all.

0728B

As per Modification 0728 above, SHG cannot offer full support for Modification 0728B on the basis that it does not offer a discount to the Non-Transmission Services Commodity Charge. Non-Transmission Services Commodity Charges are set to recover the revenues assigned to National Grid Gas to operate the NTS and these Allowed Revenues are specific to the wider NTS and not relevant for private infrastructure, which would avoid a significant proportion of these costs. Without a discount to Non-Transmission Services Commodity Charges, a significant incentive to bypass the NTS still exists which may encourage Users to build private pipelines and inefficiently bypass the NTS. Therefore, SHG believes Modification 0728B is incomplete as it does not sufficiently mitigate against the risk of users inefficiently bypassing the NTS.

However, SHG offers qualified support for this modification on the basis that it provides an appropriate discount to the Transmission Services Capacity Reserve Prices. Whilst this discount in isolation (i.e. without a Non-Transmission Services Commodity Charges discount) does not provide a complete solution, SHG believes the methodology and eligibility criteria for the discount is suitable and results in a more cost reflective charging arrangement versus Modification 0678A.

0728C

Similar to Modifications 0728 and 0728B, SHG cannot offer full support for Modification 0728C on the basis that it does not offer a discount to the Non-Transmission Services Commodity Charge and is therefore incomplete.

In addition, Modification 0728C does not include flows within the Initial Eligibility Quantity calculation and therefore allows a discount to all capacity booked, rather than just utilised capacity, which results in a higher potential socialisation number² compared to the other proposed 0728 Modifications. There is no analysis contained within the Modification which assesses the impacts this socialisation has on wider Transmission Services Capacity Charges and therefore SHG can only offer comments on Modification 0728C.

0728D

As per Modification 0728A, SHG offers full support for Modification 0728D on the basis that it provided a discount to both the Transmission and Non-Transmission elements. The inclusion of a discount to both Transmission Services Capacity Charges and Non-Transmission Services Commodity Charges results in a complete product which better reflects the costs incurred by Users that may seek to inefficiently bypass the NTS, versus a solution which only includes to a discount to one of the charges or which does not address the issue at all.

² <https://www.nationalgrid.com/uk/gas-transmission/document/131136/download>

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

SHG believes implementation should take effect alongside the implementation of UNC Modification 0678A (i.e. 1st October 2020) to ensure there is no window in which there is an incentive for NTS users to inefficiently bypass the NTS.

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

While SHG feels the priority should be for a Modification to be implemented alongside Modification 0678A on 1st October 2020, the proposed solutions would ultimately impact the NTS charges for 2020/21 gas year, therefore as much notice as reasonably possible should be given to allow for parties to respond appropriately to these changes.

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

SHG has not completed its full legal review of the legal text for all proposals but is reviewing this in parallel with this consultation

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).

SHG believes that all Modifications under UNC 0728 are compliant with EU TAR.

Article 4(2) of EU TAR states “Transmission Tariffs may be set in a manner as to take into account the conditions for firm capacity products” which captures the solutions contained within the suite of 0728 Modifications. The solutions apply a conditional discount only on utilised firm capacity within the eligibility criteria, therefore complying with Article 4(2).

National Grid published the Transmission Services Capacity Reserve Prices for all NTS Points on the 5th June, in line with the rules set out in EU TAR NC. None of the UNC 0728 solutions propose to amend the Transmission Services Capacity Reserve Prices outside of the consultation and publication timelines stated in EU TAR, thereby complying.

Should a UNC 0728 solution be implemented for 1st October 2020 then the under-recovery from such product should be recovered through a Revenue Recovery Charge. This is consistent with EU TAR Article 17 which states that under or over-recovery should be minimised and that significant differences between transmission tariffs for two consecutive tariff periods should be avoided where possible. Therefore, using the RRC mechanism to recover any under-recovery from the Conditional Discounts prescribed in these solutions is both pragmatic and compliant. It should also be noted that the RRC is a capacity-based tariff and therefore compliant with EU TAR. Neither Conditional Discounts nor Transmission Services RRC are specified within Article 29, meaning Articles 30-32 applies which state that the information should be published no later than thirty days prior to the tariff period (i.e. Gas Year).

In relation to UNC 0728A and 0728D, which contain discounts to Non-Transmission Services Commodity Charges, these are compliant with Articles 30-32 of EU TAR, which state that non-transmission tariffs for non-transmissions services should be published at least 30 days prior to the relevant tariff period (i.e. Gas Year).

Therefore, the implementation of the UNC 0728 Modifications on 1st October 2020, as per the timetables prescribed within the modifications, using the mechanisms specified above, is compliant with EU TAR.

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

As described in the Implementation section above, SHG believes implementation should take place on 1st October 2020 alongside Modification 0678A to ensure the Charging Arrangement include a product which seeks to avoid users inefficiently bypassing the NTS.

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.*

It should be noted that none of the 0728 Modifications allow for a discount to be applied to capacity that has been traded or transferred (i.e. Secondary Capacity) which may disincentivise Users from using the secondary market and result in inefficient bookings. National Grid have advised industry that the system changes required to allow secondary capacity to access Conditional Discounts for Transmission Services are not achievable for 1st October 2020 implementation. Therefore, SHG believes that the priority should be to implement a solution to avoid inefficient bypass of the NTS alongside the implementation of Modification 0678A on 1st October 2020, with the implementation of a solution to address Secondary Capacity as soon as reasonably practical afterwards.

In addition, the solution needs to allow Users to identify and select which capacity holdings are being transferred out of their portfolios. The current proposal that capacity under Existing Contracts is utilised first is not appropriate (if it holds both types of capacity in its portfolio, a User should be entitled to transfer either capacity under Existing Contracts or prevailing capacity or a combination thereof, according to its own portfolio management strategy) and should prevailing capacity be transferred, then this should be able to access the Conditional Discount.

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

SHG does not believe an Ofgem Impact Assessment (IA) is required for any of the proposed UNC 0728 Modifications for two key reasons.

Firstly, the UNC 0678 IA, which was carried out by CEPA, included proposals which contained solutions to avoid inefficient bypass of the NTS. Given that the Modification 0728 proposals (except for Modification 0728C) contain more stringent eligibility criteria than the 0678 proposal, we see no benefit in re-doing an IA.

Secondly, Ofgem's IA Guidance³ states in Paragraph 22 that Ofgem may decide not to conduct an IA where "the urgency of the matter makes it impractical or inappropriate". SHG does not believe an IA is appropriate, given the significant commercial impact of not implementing these Modifications alongside UNC 0678A, which is further evidenced by Ofgem's decision to grant UNC 0728 Modifications Urgent Status which states "*it is linked to an imminent issue that if not urgently addressed may cause a significant commercial impact on certain users*".

³ https://www.ofgem.gov.uk/system/files/docs/2020/05/impact_assessment_guidance_1.pdf