

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:	Scott Keen
Organisation:	Triton Power Ltd
Date of Representation:	26/06/2020
Support or oppose implementation?	<p>0728 - Oppose</p> <p>0728A - Oppose</p> <p>0728B – Support</p> <p>0728C - Oppose</p> <p>0728D - Oppose</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>0728B only</p>
Relevant Objective:	

**Relevant Charging
Methodology
Objectives:**

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

0728, 0728A and 0728C – Discriminatory with weak justification. 0728B less prone to discrimination and fair level of cross subsidy without which the consumer would face higher charges due to parties bypassing the NTS.

The arbitrary limitation of qualifying route distances to 18km is inconstant with the analysis produced by National Grid and represented in UNC 0728B. The ‘Likelihood of bypass’ chart shown on page 10 of UNC 0728B was prepared by National Grid shows that there is a natural cut-off at 28km, beyond which there is a consistently low likelihood of bypass, whereas the probability of bypass for routes between around 15km and 28km is varied and seemingly not linked to distance. In fact four of the six routes with distances between 20km and 28km show a substantially higher probability of bypass (around double) than a number of routes below 20km, two of which are shown at 0km. Beyond 28km, the next viable route is 40km, showing a distinct gap between the concentration of shorter routes and all longer routes.

As highlighted in the “likelihood of bypass” chart, distance is not the only criteria for assessing a party’s probability to build a private pipeline. This is evidenced by the two sites that have a relatively low probability of bypass despite being at 0km from the entry point. Specific users in the band 18km to 28km have higher probability of bypass than some of the much closer routes due to ease of build (crossing agricultural land rather than residential or significant topographical features such as rivers & estuaries), and ease of planning (industrial areas as opposed to residential). Supporting information of a commercially confidential nature will be submitted to Ofgem directly. On the basis of these observations it appears far more credible and less prone to discrimination to set the distance cap at 28km.

Finally, based on the information presented in Appendix 2 of UNC 0678B, the potential for “clustering” cannot be ignored. If the distance cap were to be limited to 18km, it is clear that a number of customers will co-operate to develop private bypass pipelines to share the shorthaul benefit and not make any contribution to NTS revenues.

UNC 0728B has a methodology which results in a fair level of cross subsidisation, thereby limiting the higher impact on customers should parties bypass the NTS entirely and make no contribution at all, and is less prone to discrimination, therefore should be implemented.

0728D - Discriminatory with weak justification.

The same criticisms apply to the proposal as those highlighted above. The additional commodity discount seems overly generous and belies the reality that qualifying offtakes will be able to access gas from any location on the NTS, but only make a very small contribution to the costs of operation. Although we understand the basis for providing a commodity discount it should be more proportionate to the costs of service.

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

Ideally, we would have preferred a sensible lead time of at least 6 months in order to provide a window to arrange shipping contracts which fully reflect the new service, however, the costs of the imminent removal of the shorthaul service mean that there is a compelling need to implement a new service absent of any lead time. An implementation date of 01/10/2020 to coincide with the UNC678A start should be applied, or as soon as possible afterwards.

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 of the proposals are compliant with the EU Tariff Code.

As described in all the proposals it is anticipated that in order to meet the proposed 1 October 2020 implementation date that Revenue Recover Charges are applied to ensure recovery of National Grid's Allowed Revenue. The use of a Revenue Recovery Charge is permitted under Article 17 and Article 4.3, in that it is a capacity-based tariff. There are no pre-conditions as the purpose of the Revenue Recovery Charge beyond those stated in Article 17. To this end the use of this charge is not excluded for the purpose of introducing a "shorthaul" tariff.

Article 32 sets out the notice period for the publication of charges which includes a Revenue Recovery Charge as set out in Article 30. The notice period is no later than 30 days before the respective tariff period. As a general rule we'd expect year on year that National Grid will set the Revenue Recovery Charge with a minimum 30 days' notice and may make additional changes to the rate throughout the Gas Year in accordance with its Licence and in the same manner as it sets the current TO Commodity Charges.

Notwithstanding the above, we believe that there is the ability to alter reserve prices, with the exception of IPs, which are subject to Article 29, up to 30 days before the respective tariff period. This is also permitted in the UNC Transitional Document, as follows:

25.3.2 The Reserve Prices determined for the First New Period shall apply in respect of each Auction and Allocation Process:

(a) which is initiated (by National Grid NTS sending the relevant invitation to Users) on or after the First Publication Date; and

(b) in respect of NTS Capacity to be allocated for a period commencing on or after the Modification Effective Date.

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

See earlier comments, an implementation date of 01/10/2020 to coincide with the UNC678A start should be applied, or as soon as possible afterwards.

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

Supporting information of a commercially confidential nature will be submitted to Ofgem directly.