

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:	Iwan Hughes
Organisation:	VPI Immingham LLP
Date of Representation:	26/06/20
Support or oppose implementation?	<p>Support/Oppose/Qualified Support/Comments * delete as appropriate</p> <p>0728 - Support/Oppose/Qualified Support/Comments * delete as appropriate</p> <p>0728A - Support/Oppose/Qualified Support/Comments * delete as appropriate</p> <p>0728B - Support/Oppose/Qualified Support/Comments * delete as appropriate</p> <p>0728C - Support/Oppose/Qualified Support/Comments * delete as appropriate</p> <p>0728D - Support/Oppose/Qualified Support/Comments * delete as appropriate</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>0728 / 0728A / 0728B / 0728C / 0728D * delete as appropriate</p>
Relevant Objective:	<p>0728:</p> <p>c) Positive/Negative/None * delete as appropriate</p> <p>d) Positive/Negative/None * delete as appropriate</p>

0728A:

c) Positive/Negative/None * *delete as appropriate*

d) Positive/Negative/None * *delete as appropriate*

0728B:

c) Positive/Negative/None * *delete as appropriate*

d) Positive/Negative/None * *delete as appropriate*

0728C:

c) Positive/Negative/None * *delete as appropriate*

d) Positive/Negative/None * *delete as appropriate*

0728D:

c) Positive/Negative/None * *delete as appropriate*

d) Positive/Negative/None * *delete as appropriate*

Relevant Charging Methodology Objectives:

- 0728:
- a) Positive/Negative/None * delete as appropriate
 - aa) Positive/Negative/None * delete as appropriate
 - b) Positive/Negative/None * delete as appropriate
 - c) Positive/Negative/None * delete as appropriate
 - e) Positive/Negative/None * delete as appropriate
- 0728A:
- a) Positive/Negative/None * delete as appropriate
 - aa) Positive/Negative/None * delete as appropriate
 - b) Positive/Negative/None * delete as appropriate
 - c) Positive/Negative/None * delete as appropriate
 - e) Positive/Negative/None * delete as appropriate
- 0728B:
- a) Positive/Negative/None * delete as appropriate
 - aa) Positive/Negative/None * delete as appropriate
 - b) Positive/Negative/None * delete as appropriate
 - c) Positive/Negative/None * delete as appropriate
 - e) Positive/Negative/None * delete as appropriate
- 0728C:
- a) Positive/Negative/None * delete as appropriate
 - aa) Positive/Negative/None * delete as appropriate
 - b) Positive/Negative/None * delete as appropriate
 - c) Positive/Negative/None * delete as appropriate
 - e) Positive/Negative/None * delete as appropriate
- 0728D:
- a) Positive/Negative/None * delete as appropriate
 - aa) Positive/Negative/None * delete as appropriate
 - b) Positive/Negative/None * delete as appropriate
 - c) Positive/Negative/None * delete as appropriate
 - e) Positive/Negative/None * delete as appropriate

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

0728:

OPPOSE – 728 applies an 18km distance cap which VPI believes is incorrect. An 18km cap results in two sites located adjacent to each other with similar risks of bypass being charged different tariffs (i.e. one site with an exit point 17.7km from entry is considered at risk of bypass, however another site with private infrastructure to an exit point inland at 27.2km is not). The assessment of risk of bypass is therefore driven by a gas user's connection point rather than its physical location. Increasing the distance cap to 28km (as 728B) includes, what is in reality, only three additional routes and has a very limited impact on GB consumers. An 18km distance cap also creates inefficient investment signals to non-eligible users. For example, VPI is incentivised to either bypass the NTS entirely or simply redirect its private infrastructure 7 miles to an eligible exit point. VPI

also believe the level of cross subsidisation between 18km and 28km may have been overstated due to assumed booked capacity at exit.

0728A

OPPOSE – 728A applies an 18km distance cap and commodity based non-transmission services discount.

0728B

SUPPORT – 728B applies a 28km distance cap. The proposal is the same as 728 in all other respects including furthering of the relevant objectives. 728B however better reflects all sites at risk of inefficient bypass, including those located adjacent to sites considered eligible in 728. 728B also prevents inefficient investment signals to sites above 18km to either bypass the NTS entirely, or redirect private infrastructure to an eligible exit point. Based on the proposer's analysis, the total additional cross subsidy (728 vs 728B) is £4.4m. VPI however knows of at least one site where assumed booked capacity is too high, suggesting the level of cross subsidy is overstated.

0728C

OPPOSE – 728C applies an 18km distance cap.

0728D

OPPOSE – 728D applies an 5km distance cap and commodity based non-transmission services discount.

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

On balance, although the Authority may not believe perfect solutions have been put forward, it is in the interests of GB consumers that a new short haul product in implemented as close to the 1st October 2020 (as possible). The level of uncertainty around the future of gas transmission charging arrangements, as well as short haul regime, has already significantly undermined investor confidence. For some businesses, a one-year tariff hike would be enough to justify by-passing the NTS, which if done will simply increase the overall burden on all other users. It however remains unclear whether an imperfect solution would be successful in incentivising users not to build private gas infrastructure (i.e. the level of discount awarded is sufficient to deter bypassing the network).

In an ideal scenario, the Authority would complete further impact analysis after the July capacity auctions to better understand the levels of cross-subsidisation (i.e. once capacity bookings are optimised in response to 678A).

Each proposal has also introduced interesting considerations which now cannot be explored in detail due to the timescales available. In particular, 728D introduces the concept of clustering. This is also relevant to 728B which highlights the different treatment of users with similar risks of bypass.

More generally, commercial confidentiality has prevented a lot of key issues being discussed openly which has impacted the process.

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

The new 678A charging regime has significantly impacted sites which were previously in floor price areas, and is being implemented without a transition period. If 728 was taken forward, this would also mean that the 18km distance cap excluded Immingham CHP from utilising the short haul product. The proposer's analysis suggests this would impact the business by an equivalent 11% discount to exit capacity charges, along with a small revenue loss (i.e. shared shipper savings between entry and exit).

The true impact on the business however, which feeds into investment signals, would be the loss of short haul combined with the move to a 678A postage stamp regime (i.e. >17,000% increase in capacity charges, >60% increase in commodity charges).

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

VPI has no comments on the legal text of 728 versus 728B as they are consistent.

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).

VPI believes that 728 and 728B are compliant with TAR NC and other legislation.

VPI notes the interaction between the timing of new tariffs and Articles 28-32. We therefore believe that 728 analysis and alternatives would improve after the July capacity window (i.e. where there could be changes to capacity bookings in response to 678A). Although exit charges have been fixed for October 2020, there is obviously still a high level of uncertainty around the new revenue recovery charge which could significantly impact users (potentially within year).

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

As stated, it is in the interest of all users that a new short haul product is implemented as close to the 1st October 2020 as possible. It does however remain unclear whether an imperfect solution could be implemented which fails to prevent users building private infrastructure (i.e. the level of discount awarded is not sufficient to deter to the economic signal to bypass the network). For some users, this would also alleviate any further regulatory risk around future changes in the gas transmission charging regime.

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.*

VPI believes the level of cross subsidy between 728 and 728B may be overstated due to assumed levels of capacity booking at exit points. This will become apparent once gas capacity booking strategies become clearer after the July window.

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

728 states clearly that sites using exit points at 17.7km are at risk of inefficient bypass. The premise of 728B is that a 28km distance cap better reflects the risk of inefficient bypass.

Risk of bypass and treatment of adjacent sites:

Short haul charges are calculated on a straight-line basis from entry point to exit point. Therefore, the shape of the NTS and location of exit points, is the determinant of the level of discount received. In fig1 below, the proximity of Humber 400kV (aka Immingham CHP) to two exit points can be seen. Stallingborough, to the south, is around 7 miles across largely open or industrial land. Immingham CHP was however historically connected further inland, via a private pipe at Thornton Curtis.

As stated earlier in this response, an 18km distance cap results in two sites closely located on the south bank of the Humber Estuary being charged differently. This is because one site is located next to Stallingborough, whilst the other had to historically connect inland.

728 accepts that the site at 17.7km is at risk of bypass. However, Immingham CHP, located closely by on the same coastline is not. This is despite the same geographical challenges of crossing the Humber Estuary, and sub-sea infrastructure being over a shorter distance. Not only does this unfairly penalise one site versus a similar site nearby, but is also sends inefficient investment signals to redirect private pipelines to an eligible exit point only 7 miles away (i.e. which is geographically closer to the entry point as the crow flies).

VPI agrees that the site at 17.7km is at risk of bypass but importantly also has the same CAPEX alternatives available to it as Immingham CHP (e.g. direct bypass, new types of gas storage and supply, as well as repurposing existing infrastructure). Fig 2. below, provided by the proposer, also recognises these risks by demonstrating sites with exit points at 27.2km are considered to be more at risk than some sites less than 18km. This analysis is therefore at odds with the proposer's recommendation to exclude sites at 27.2km from a future short haul product.

Fig 1.

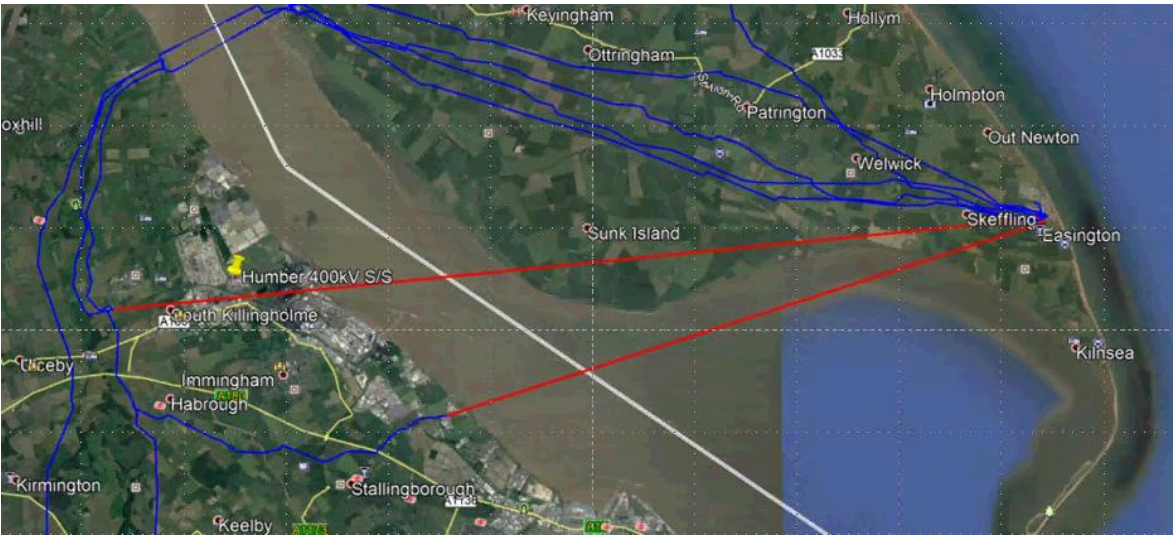


Fig 2.

