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: <u>enquiries@gasgovernance.co.uk</u>

Please note submission of your representation confirms your consent for publication/circulation.

Representative:	Henk Kreuze; European Commercial Manager
Organisation:	Vermilion Energy Ireland Limited ("Vermilion")
Date of Representation:	June 24 th , 2020
Support or oppose implementation?	Support/Oppose/Qualified Support/Comments * delete as appropriate
	0728 – Qualified Support
	0728A – Qualified Support
	0728B – Qualified Support
	0728C – Oppose
	0728D – Qualified Support
Expression of preference:	If either 0728, 0728A, 0728B, 0728C or 0728D were to be implemented, which would be your preference?
	No preference among the ones we provide qualified support (728, 728A, 0728B or 0728D)
Relevant Objective:	0728: c) Positive d) Positive 0728A: c) Positive d) Positive

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

Relevant Charging Methodology Objectives:	0728: a) Positive aa) Positive b) Positive c) Positive e) None
	0728A: a) Positive aa) Positive b) Positive c) Positive e) None
	0728B: a) Positive aa) Positive b) Positive c) Positive e) None
	0728C: a) Negative aa) Negative b) Negative c) Negative e) Negative
	0728D: a) Positive aa) Positive b) Positive c) Positive e) None

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

0728:

Vermilion understands that there is a risk of inefficient NTS bypass pipelines being constructed in cases where larger volumes are transported over shorter distances between entry and exit points if there is no provision of a conditional product that provides a discounted tariff, when compared to the standard tariffs. This modification can be seen as a pragmatic approach to lower the risk of inefficient bypass pipelines being constructed.

0728A

Vermilion understands that there is a risk of inefficient NTS bypass pipelines being constructed in cases where larger volumes are transported over shorter distances between entry and exit points if there is no provision of a conditional product that provides a discounted tariff, when compared to the standard tariffs. This alternative modification can be seen as a pragmatic approach to lower the risk of inefficient bypass pipelines being constructed. In our view the 0728A construct better reflects the alternative choice to build a bypass pipeline compared to 0728, as it provides a discount for the non-transmission charge as well. For this reason we consider 0728A preferential to 0728.

0728B

Vermilion understands that there is a risk of inefficient NTS bypass pipelines being constructed in cases where larger volumes are transported over shorter distances between entry and exit points if there is no provision of a conditional product that provides a discounted tariff, when compared to the standard tariffs. This alternative modification can be seen as a pragmatic approach to lower the risk of inefficient bypass pipelines being constructed. Looking at the entry-exit combinations that fall within the maximum distance cap of 28 km, we consider that the vast majority, if not all combinations, could be seen as candidates for considering a bypass pipeline (or a bypass network for a group of exits) where a conditional product with a discounted tariff is not provided. From this reason we consider 0728B preferential to 0728.

0728C

This alternative modification introduces the possibility that shippers that have booked entry and/or exit capacity at the proposed discounted tariff, that they use this discounted capacity to reach NBP from entry or to source gas from NBP at exit. This would mean that for the <u>same</u> service (entry to NBP or exit from NBP respectively) <u>different</u> tariffs would be applicable. In our view this is not legally compliant. Some calculation examples are provided at the end of this document.

During the recent informal NTS GCD12 consultation we have raised this same concern for the 718C alternative and had suggested to make an amendment in the legal text. We haven't seen such amendment in the legal text for 0728C, therefore our negative scores regarding 0728C. Would there have been such an amendment, we would have provided qualified support to 0728C. Please note that 0728C better reflects the alternative choice to build a bypass than the other four modifications in case of flows through the "bypass pipeline" below maximum capacity.

0728D

Vermilion understands that there is a risk of inefficient NTS bypass pipelines being constructed in cases where larger volumes are transported over shorter distances between entry and exit points if there is no provision of a conditional product that provides a discounted tariff, when compared to the standard tariffs. This alternative modification can be seen as a pragmatic approach to lower the risk of inefficient bypass pipelines being constructed. This alternative modification is quite similar to the so called wheeling charges applicable in other countries.

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

We would suggest a very short lead time (1-2 months) could be managed.

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

Vermilion does not foresee development nor ongoing costs associated with an inefficient by-pass option.

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

No comments on 0728, 0728A, 0728B and 0728D.

With respect to 0728C we see as risk that it introduces the possibility that shippers that have booked entry and/or exit capacity at the proposed discounted tariff, that they use this discounted capacity to reach NBP from entry or to source gas from NBP at exit. This would mean that for the same service (entry to NBP or exit from NBP respectively) different tariffs would be applicable. In our view this is not legally compliant. Some calculation examples are provided at the end of this document.

In case the legal text of 0728C would be updated (compared to the version of June 12th, 2020) in such a way that the discounted product at entry cannot be used to reach NBP from entry and that the discounted product at exit cannot be used to source gas from NBP, then our concern would be sufficiently addressed.

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).

As explained above we do not consider 0728C as legally compliant. We cannot comment on whether the others are fully compliant.

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

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We would suggest implementation as per 1st October 2020. In case this date is not possible, we would suggest implementation as per the first day of a month, as soon as possible after 1st October 2020.

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.

We refer to our statements above regarding 0728C.

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

For 0728C we see as a risk that the discounted product can be used to reach NBP from entry or to source gas from NBP at exit. This is shown in the two following calculation examples.

Example 1:

Assume the capacity bookings are:

- entry booking: 40 units of capacity as shorthaul (with discount) and 10 at standard charge;
- exit booking: 50 as shorthaul (with discount)

If on the day there was 50 units of entry flow and 10 of exit flow, then the flow of 10 can be considered as a shorthaul flow. At exit side no issues, but at entry there is 40 general entry flow (towards NBP), while only 10 units of capacity is available (at the standard charge), so there is a booking shortage of 30 units of entry capacity at the standard tariff.

The current legal text allows this 30 standard entry to use the discounted entry tariff, which should not be the case.

Example 2:

Assume the capacity bookings are:

- entry booking: 40 as shorthaul (with discount) and 10 at standard charge;
- exit booking: 50 as shorthaul (with discount)

If on the day there was 0 entry flow and 15 exit flow, then there is no flow that can be considered as shorthaul. At entry side no issues, but at exit there is 15 general exit flow (from NBP), while no exit capacity at the standard tariff is available.

The current legal text allows this 15 standard exit to use the discounted exit tariff, which should not be the case.

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If MOD 0728C would be implemented it could lead to the following situation. A shipper, who wants to have cheap entry capacity, could nominate an eligible entry-exit combination and book entry and exit at a discount, e.g. 80%, but will not use this exit at all. Using the recently published tariffs (0.0717 p/kWh for entry and 0.0198 p/kWh per exit) this shipper has to pay 20% x (0.0717 + 0.0198) = 0.0183 p/kWh. Compared to the standard tariff of 0.0717 p/kWh for entry, he receives an effective discount of 74%, and he can use this discounted entry capacity to bring gas from this entry to NBP. As a further negative consequence, the firm exit capacity might become sold out. If the customer at this exit (or its shipper) in a later stage would like to nominate the entry-exit combination as "shorthaul route" he might only be able to book interruptible capacity, but interruptible capacity is not eligible for the discount under MOD 0728C.

Vermilion understands that there is a risk of inefficient NTS bypass pipelines being constructed in cases where larger volumes are transported over shorter distances between entry and exit points if there is no provision of a conditional product that provides a discounted tariff, when compared to the standard tariffs.

Ideally such a conditional product would mimic the situation where parties would build their own (bypass) pipeline and would fulfil the following four conditions:

- 1. assuring that this product cannot be used to either directly access the NBP from entry or to directly source gas from NBP to exit;
- 2. being cost reflective i.e. represent the cost (capex and opex) of a bypass pipeline;
- 3. being independent from the actual flow through the bypass pipeline;
- 4. facing fixed yearly costs for multiple years.

All five modifications can be seen as a pragmatic approach to lower the risk of inefficient bypass pipelines being constructed, but none of the five modifications fulfil all the four conditions outlined above. To have a better alignment with these four conditions, we suggest considering future refinements of the conditional product in the near future (e.g. early 2021).