Representation - Draft Modification Report UNC 0823

Amendment to the Allocation of Entry Capacity and Flow Quantities to Qualifying CNCCD Routes

Responses invited by: 5pm on 17 January 2023

To: enquiries@gasgovernance.co.uk

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

Representative:	Daniel Hisgett
Organisation:	National Grid Gas
Date of Representation:	17 January 2023
Support or oppose implementation?	Oppose
Relevant Objective:	**a)** None **d)** Negative
Relevant Charging Methodology Objective:	Not Applicable

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

The principle of the Conditional NTS Capacity Charge discount (CNCCD or “short-haul”) discount is to minimise the risk of a User opting to physically build a bypass pipeline by providing a discount proportionate to the likelihood of bypass.

Based on Distance, pipeline costs were estimated, compared with system usage costs, and a likelihood of bypass was forecast route by route. The resulting relationship between distance and likelihood of bypass is the basis of the Discount levels available.

In a scenario where there are two or more active “short-haul” routes which share a single, Entry location, apportionment of Entry Capacity and Flows between routes is based on the way in which Shippers book their Capacity and Flow at each Exit Point. The efficiency with which they book Capacity in relation to their Flows can impact the proportions each route receives.

UNC0823 introduces a form of flexibility, similar to clustering or aggregation, to the “short-haul” calculation. By using the lesser of Capacity and Flow to apportion, the efficiency with which a User books Capacity at Exit is no longer relevant. In effect, allowing a Shipper who has two active routes, equivalent to laying two bypass pipelines, to flex the size and associated cost of each of the two pipelines according to their on-the-day flow requirements, rather than needing to have constructed both to their individual flow peaks.

National Grid believe that this proposal undermines the current design of the "short-haul" discount. This change would require a review of the existing discount structure, potentially requiring a new discount method to be proposed which includes the concept of clustering into the likelihood of bypass calculation. As discussions during the UNC0670R review group suggested, the concept and likelihood of clustering is difficult to quantify and becomes problematic for a number of reasons:

- an appointed arbiter is required to assess each instance of clustering
- approval or rejection of each clustering request becomes subjective
- there is a lack of transparency and an inability for Users to replicate decisions

This Modification creates a new opportunity for multi-route "short-haul" Shippers which isn't available to single route "short-haul" Shippers, potentially introducing discrimination.

Any additional benefit made available to multi-route "short-haul" Shippers must be paid for elsewhere on the Network by all other Users via an increase in Reserve Prices and so even a small positive to multi-route "short-haul" Shippers would result in a negative impact against Relevant Objective d).

Self-Governance Statement: *Please provide your views on the self-governance statement.*

The change introduces a short-term benefit to some, and a long-term opportunity to any User who can avail themselves of the CNCCD at multiple Exit points when located within the maximum distance of a single, Entry Point. Available data suggests that this is limited to a very small number of Users, with only two active instances of this combination currently noted across the Network.

Any additional benefit made available to parties must be paid for elsewhere on the Network by all other Users (i.e. by having higher Reserve Prices). While the changes proposed by this modification, when calculating impacts using the data available at the time of raising, may not appear to be that material monetarily, it nevertheless would impact Reserve Prices as they would adjust to compensate for any additional discount over the existing CNCCD use. It has the potential to change from the initial assessment made on existing data as it has the potential to be greater or lower depending on Shipper behaviours.

There is no value set in the Self Governance criteria for what constitutes a material impact, and while this change could result in just a low level of additional costs for many, any further discount available to any party above the status quo would mean others would need to pay more via the Reserve Prices. Therefore, with this impact, we believe that due to it impacting reserve prices of all those would pay them, it warrants authority direction over self-governance.

In addition to this, the changes proposed in the modification would also materially change an Authority approved mechanism for providing discounts to Users at risk of Inefficient Bypass (The Conditional NTS Charging Capacity Discount or CNCCD), potentially making the existing structure more generous by altering the way in which quantities are apportioned. Implementation of this change would conflict with the decision made by Ofgem when choosing to implement UNC0728B and the more recent decision to reject 0779/A:

> *"as stated in our UNC678A and UNC728B decisions, the principle of a short-haul discount should be to "reduce the number of routes which continue to present a credible bypass risk, while minimising the amount of discount that is provided to achieve this". When we approved UNC728B, we found that the CNCCD would be effective in disincentivising bypass for the vast majority of routes that we considered to be at risk of bypass without a short-haul discount."*

For these reasons we believe that the Authority should be asked to decide on implementation of this proposed change as the level of change to the product and its calculation, including the impact to other Shippers, should be considered material and therefore subject to Authority Direction rather than Self Governance.

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

Time would be required to assess the impacts of the changes on pricing for future years. Assessing long term bookings, historic flows and active CNCCD nominations are all part of the existing Price Setting processes, and these can be amended in line with the proposed modification but would need to be done so on or before the May deadline for setting of Prices for the following October.

A decision on or before the Price Setting deadline for any Gas Year would also give an appropriate length of time for the system changes to be implemented, prior to the prices coming into effect on 01 October, in line with the 13-15 week timescale suggested in the ROM.

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

We do not expect there to be an ongoing cost associated with this change.

The required changes to the system are expected to be in the region of £102,000 - £132,000.

Adjustments will also need to be made to the Price Setting process in the first year, but these will become embedded in the process for future years with no additional costs.

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

Yes, the legal text delivers the intent of the Modification.

Modification Panel Members have requested that the following questions are addressed:

Q1: Does this Modification meet the Self Governance criteria?

No, as highlighted under the Self-Governance statement above, we believe there would be a material impact to the CNCCD product in the way in which the quantities available for the CNCCD discount are determined. We also consider that, whilst potentially relatively small based on current calculations, there is an impact to other Shippers which needs to be reviewed by the Authority. This Modification would, based on current assessments, increase costs for many and potentially conflict with previous Authority decisions, and so National Grid believe it should be passed to the Authority for Direction.

Q2: Do you have any views regarding risk of bypass?

We note that in previous Ofgem decisions relating to "short-haul" they highlight the need to demonstrate a credible risk of bypass. There is an opportunity as part of this consultation, should any party wish to, to provide this directly and confidentially to Ofgem for their consideration. However, at this time, we do not believe that any credible evidence of an increased risk of bypass has been provided.

The proposer suggests that a bypass pipeline could be built for one specific route, and the cost recovered in approximately 3 to 4 years based on the potential impact figure of £1.6m calculated for the current Gas Year, 2022/23.

However, National Grid has demonstrated that in the previous Gas Year the impact would have been limited to a maximum of around £186k, with an actual calculated figure for the five months analysed (i.e. all the data available at the time which already accounted for the impacts of UNC0785) of only £10k.

It would suggest that implementing a booking strategy more closely aligned with GY 2021/22 than with GY 2022/23 would, at face value, appear to be a much more cost effective and efficient way of managing the impacts when compared against the time, costs and environmental impacts associated with constructing a new pipeline to bypass the NTS.

Q3: Do you have views regarding the analysis provided in the DMR?

We believe some key points which were raised and discussed in the workgroups haven't been fully expressed in the workgroup report. Whilst these updates do not add anything "new" to the discussion, we believe it helpful to include when reviewing the analysis and responses. Below are some suggested comments, taken from Workgroup discussion material previously provided, which we believe would more accurately reflect the discussions held and give Panel a more complete picture than is currently presented in the Draft Modification Report (DMR).

The DMR response to Panel Question 2 states:

> *"The Proposer observed that the analysis provided by National Grid shows that the materiality of implementing this Proposal is approximately £1.6m based on capacity holdings and flows for the current gas year."*

While we do not disagree with that statement, we wish to ensure that our counterpoint is included in response to this question and so would ask that a version of the following text, which is paraphrased from the analysis previously presented in WG2 on 01/11/2022 and at WG3 on 06/12/2022, is included in the Final Modification Report:

> *Due to the changes implemented via UNC0785 the number of potential multi routes decreases to single figures with effect from 1st March 2022.*
>
> *By aggregating the two Bacton IP Exit points much of the benefit that UNC0823 could have granted to beneficiaries of the CNCCD may have already been realised in existing routes for that period.*
>
> *In addition to the figure produced for Gas Year 2022/23, National Grid analysis also demonstrated that in GY 2021/22, the impact of UNC0823 would have been approximately*

£10k across the five months calculated post-UNC0785 implementation with a worst-case scenario value of £186k forecast across the whole of Gas Year 2021/22.

Impacts for years beyond GY 2022/23 are difficult to calculate at this time as there are no known long-term bookings in place for future Gas Years.

We believe some supporting analysis, which was discussed in the work group and provides context to the analysis which has been included, has been missed out of the DMR. On page 10 of the report a slide which National Grid produced has been recreated. The slide details the impacts of both UNC0785 and UNC0823 in combination. In the pack initially presented, the slide prior to this one detailed the impacts of UNC0785 alone.

The intent of these two slides in combination was to highlight the marginal difference that UNC0823 would have if overlaid onto UNC0785, which has already been approved and implemented. Without the context of the previous slide, it could be assumed that UNC0823 has more of an effect than the analysis which has been included would suggest.

Are there any errors or omissions in this Modification Report that you think should be taken into account? *Include details of any impacts/costs to your organisation that are directly related to this.*

There are no errors, but we believe there are some omissions which we have highlighted above.

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

National Grid believe that all required analysis has been provided in the Workgroup material, and in addition to the points mentioned in this note, nothing additional should be required.