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Dear David, Alsarif & Thomas,

**RE: Consultation on UNC728/A/B/C/D ('Introduction of a Conditional Discount for Avoiding Inefficient Bypass of the NTS'): minded to decision and impact assessment**

We welcome the opportunity to respond to Ofgem's Impact Assessment on the proposed Modification: UNC0728 Introduction of a Conditional Discount for Avoiding Inefficient Bypass of the NTS and its Alternatives. This response is provided on behalf of National Grid Gas plc ('NGG') which owns and operates the gas National Transmission System.

NGG supports the minded-to-decision to implement UNC0728B and a 01 October 2021 implementation date. In order to achieve an October implementation, we would welcome a final decision at the earliest opportunity to allow this to be incorporated into the calculation and publication of October 2021 Transmission Services Entry and Exit Capacity Reserve Prices due to be published at the end of May 2021. A timely decision would avoid the need for an immediate adjustment to the Transmission Services Revenue Recovery Charges for Gas Year 2021/22 or a "k" adjustment to the 2022/23 Reference Prices. This would allow time for the right parameters to be included into the price setting calculation, for example the level of revenue adjustment which will need to be input.

**Question 1: Do you agree with our assessment of the modification options against the applicable UNC objectives? If you disagree, please provide a fully reasoned explanation.**

Yes, we broadly agree with your assessments. There is strong justification for the distance cap at 28km and the discount levels proposed accurately reflect the risk of bypass for a range of Users.

The reasoning behind rejection of those proposals using an 18km distance is logical, however, it would follow that a 5km discount also excludes medium and lower bypass risks entirely, and so while providing a targeted solution it would not appear to be an appropriate one given that it excludes a number of sites which both NGG and Ofgem have suggested may be in a position to bypass and would be more likely to do so without an alternative product to assess their decision against.

We also agree that the discount offered by UNC0728D goes beyond that which could be considered reasonable. This is because we do not believe that the discount to General Non-Transmission Services (GNTS) charges is reflective of costs associated with bypass of the network.

General Non-Transmission Services Charges need to be cost reflective and non-discriminatory to be consistent with the requirements with the EU Tariff Code. The permitted volumes, over which the General Non-Transmission Services discount could be afforded under Modification UNC0728D, could be higher than the Entry or Exit Eligible Quantities used in the Transmission Services discount calculation. This means that the Eligible Quantities for the Transmission Services and General Non-Transmission Services could be different which we believe, reduces the cost reflectivity and fairness of applying General Non-Transmission Services Charges.

As the proposer of UNC0728, we believed the General Non-Transmission Services Charges would act as a proxy for the costs associated with maintaining a bypass pipeline and a discount on the level provided by UNC0728D is disproportionate, leaving a remaining GNTS charge which is not reflective of the likely costs of maintenance and upkeep of a bypass pipeline, this provides a competitive advantage over others which is unwarranted.

**Question 2: What are your views on our conclusion that the proposed modification proposals constitute a ‘benchmarking’ adjustment to the application of the reference price methodology (Article 6(4) TAR NC)? If you disagree, please provide a fully reasoned explanation.**

National Grid agrees with this assessment. The discount structure used in UNC0728B was designed with the intent to reflect the potential cost of bypass in the discounts calculated, and so we are comfortable with the assessment made and agree that of the options presented the 28km distance limitation provides discount levels which more accurately track the estimated costs of bypass.

**Question 3: Do you agree with our assessment of the quantitative analysis? If you disagree, please provide a fully reasoned explanation.**

Overall, the quantitative analysis is thorough and robust and we have nothing further to add.

**Question 4: Do you agree with our assessment that UNC728C is discriminatory because of the risk that the discount may be used for a route other than a qualifying nominated route? If you disagree, please provide a fully reasoned explanation.**

Yes, as outlined in our initial response, by disregarding flow in the Eligible Quantity calculation capacity charges would be in receipt of a discount regardless of whether the capacity is utilised. It is our view that the implemented solution should ensure that only “Utilised Capacity” attracts the discount to capacity charges associated with “Inefficient Bypass” or the market could be in a position where discounts are applied to capacity in cases where it is not used for the expected purpose. Those discounts would be undeserved and discriminatory.

**Question 5: Do you agree with our assessment of the modification options against our statutory duties? If you disagree, please provide a fully reasoned explanation.**

We agree that your statutory duties are met based on the analysis undertaken.

**Question 6: Do you agree with our minded to decision to approve UNC728B? We would expect any stakeholders alleging a risk of bypass to provide robust evidence demonstrating that risk, including any confidential commercial information (for instance, specific capital and operational costs required for the construction and operation of a bypass pipeline as well as – where possible – a structural representation of any bypass pipeline(s) they are considering).**

Yes, we agree with the decision to implement UNC0728B.

**Question 7: What are your views on our minded-to decision that implementation of UNC728B should take place from 1 October 2021?**

We support the decision to implement from 1 October 2021.

The implementation will add another behavioural factor to be assessed and incorporated into the Price Setting process and so we would encourage a final decision at the earliest possible opportunity to give time for the impacts to be fully assessed and for the expected impacts to be mitigated when setting prices of Gas Year 2021/22, avoiding the need for the effects of this Modification to be managed through the Transmission Services Revenue Recovery Charges.

If this timeline is met it would also give NGG the time required to implement the required system changes.

**Question 8: Are there any other matters, whether or not addressed in our analysis or minded-to findings, which you think we should take into account in reaching our final determination?**

There is nothing further we wish to address at this time beyond the desire for a final decision to be made in time to enable NGG to address the impacts in the price setting process. We hope to be in a position to provide Users with advance notice and as much certainty on future pricing as is possible, preferably before the Interconnection Point Annual Yearly Capacity Auctions in July 2021 to give bidders the utmost confidence on cost implication.

If you have any further questions in respect of this response, please contact Colin Williams or Daniel Hisgett at National Grid.

Yours sincerely,

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