

David O'Neil
Gas Markets and Systems
Office of Gas and Electricity Markets
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19 February 2021

Dear David

Re: UNC728/A/B/C/D ('Introduction of a Conditional Discount for Avoiding Inefficient Bypass of the NTS'): Ofgem minded to decision and impact assessment consultation

Thank you for the opportunity to respond to this consultation. IUK is supportive of Ofgem's minded to position as well as implementation of UNC728D.

IUK believes it would be unreasonable for shippers to pay the full NTS Entry and Exit charges for short distances when an alternative direct connection can be constructed. As well as making a contribution to NTS costs, short haul has proven over a number of years to make a wider contribution to the GB market by encouraging gas to come into the GB market and also support GB exports via the interconnectors.

From the consultation document we understand Ofgem has been provided confidential information indicating there is a credible medium to low risk of bypassing the NTS beyond 18km and that a 28km cap, as outlined in UNC728B, is therefore appropriate. UNC728B therefore appears, relative to the other proposals, to strike a good balance in providing higher discounts for the short distance routes that present a higher risk of bypass and lower discounts for medium and low risk routes.

As Ofgem has noted, UNC728D also has merits and would be a highly targeted approach to high risk of bypass routes. IUK would be supportive of this proposal also if it was deemed more appropriate to only focus on these high risk routes.

Whilst Ofgem consider the discounts proposed under UNC728D to be too generous, we do believe a more cost reflective short haul product should include a non transmission services discount, recognising these costs would also be avoided. For example, for short distance alternative pipelines it is highly unlikely there would need to be compression or gas processing. If UNC728B is approved, we hope industry will consider further modification proposals to apply an additional non transmission service charge discount to short haul in the future.

Our response to your consultation questions is outlined in the Annex. If you have any questions, please do not hesitate to contact me.

We look forward to your decision.

Yours sincerely

Pavanjit Dhesi

Regulatory Affairs Manager

Annex 1: IUK response to Ofgem consultation questions

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.

We agree that UNC728B and UNC728D both better facilitate UNC objective (a) efficient and economic operation of the pipeline system and the charging methodology relevant objective (CMRO) (a) taking account of development in the transport business. UNC728D is a high targeted discount based on high risk of bypass routes whilst the 28km cap under UNC 728B covers a number of medium and low risk of bypass routes. We also agree both modifications further objective (c) efficient discharge of the licensees' obligations and CMRO objective (a) charges which reflect the cost incurred by the licensee in its transportation business.

In terms objective (g) and CMRO objective (e) concerning compliance with the Regulation, we consider UNC728B furthers these objectives. It provides a cost reflective discount which strikes an appropriate non-discriminatory balance in giving higher discounts for the shorter distance routes that present a higher risk of bypass and lower discounts for medium and low risk routes up to 28km. Both UNC728B and UNC728D also constitute a benchmarking adjustment consistent with Article 6(4) of the TAR code.

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.

We agree that the proposed modification proposals constitute a benchmarking adjustment consistent and compliant with Article 6(4) of the TAR code. If bypass is possible the new pipeline would be competing with the NTS. It is appropriate to therefore set the reference price to a competitive level reflecting this.

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

Yes, noting the positive effect for consumers of both UNC728B and UNC728D.

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.

We believe the intent of the proposal was to base the short haul discount on bookings on an eligible route. This is something we agree with in principle as it is more cost reflective. We note that if a bypass pipeline was built its capacity would effectively become a sunk cost with operational costs and commercial decisions determining whether gas flowed or not.

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.

Yes. We note consumer welfare is furthered by UNC728B and UNC728D. It is also noted that all the modification proposals also contributes to less emissions.

Question 6: Do you agree with our minded to decision to approve UNC728B?

Yes. IUK believes it would be unreasonable for shippers to pay the full NTS Entry and Exit charges for short distances when an alternative direct connection can be constructed. From the consultation, we gather there is a credible risk of bypassing the NTS beyond 18km albeit medium/low risk which suggests a 28km cap is therefore more appropriate. A 28km cap avoids the risk of discrimination between routes with the same medium to low risk which happen to be below and above 18km.

UNC728B therefore appears, relative to the other proposals, to strike a good balance in providing higher discounts for the short distance routes that present a higher risk of bypass and lower discounts for medium and low risk routes.

Whilst Ofgem consider the discounts proposed under UNC728D to be too generous, we do believe a more cost reflective short haul product should include a non transmission services discount, recognising these costs would be avoided also. For example, for short distance alternative pipelines it is highly unlikely there would need to be compression or gas processing. If UNC728B is approved, we hope industry will bring forward further modification proposals in the future considering an additional non transmission service charge discount.

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

It is helpful for Ofgem to provide the market an indicated implementation date. Given short haul has historically been a key contributor to summer GB exports via the interconnectors, the proposed implementation past this summer is however unfortunate.

Looking at the obligations of Article 29 and 32 of the TAR network code, it does appear that short haul charges should be published 30 days in advance of the annual CAM auction and implementation of UNC 728B should be from the next gas year. We hope nevertheless a decision by Ofgem is made promptly to provide certainty to the market.

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?