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

Dear David,

RWE welcomes the opportunity to respond to the Ofgem 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" published on 22nd January 2021 (the Minded to Decision). We are responding on behalf of RWE Supply and Trading GmbH, RWE Generation plc and RWE Renewables GmbH (RWE).

RWE supports the "minded to" decision to implement UNC728B. It is important that measures are put in place to dis-incentivise inefficient bypass of the National Transmission System. UNC728B is a pragmatic approach to solving this problem by offering a limited number of users the opportunity to manage efficiently their NTS entry and exit capacity holdings in a manner that reduces the incentive to build direct pipelines between entry and exit points.

If you have any comments or wish to discuss the issues raised in this letter then please do not hesitate to contact me.

Yours sincerely,

By email

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Annex 1: Response to the specific 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 with the assessment of the modification options against the applicable UNC objectives.

We note the concerns expressed by Ofgem in relation to UNC728C. We believe that these concerns are overstated. There are strong commercial incentives for users to optimise capacity holdings, even at sites with significant discounts. We think that a capacity based solution represents a reasonable approach to ensuring that users at qualifying sites do not construct bypass pipelines.

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 support Ofgem’s conclusion that the proposed modifications constitute a “benchmarking” adjustment in relation to the application of the reference price methodology under Article 6(4) of the TAR NC.

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

We agree with Ofgem’s assessment of the quantitative analysis and support Ofgem’s conclusion that UNC728B will better meet the UNC objectives.

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 note that Ofgem considers that UNC728C is discriminatory because of the risk that the discount may be used for a route other than a qualifying nominated route.

UNC728C adopts a different approach to the discount arrangements from the other modifications. The discount is not related to the flow of gas between an entry and exit point (a qualifying route). Rather it is based on the combination of capacity held at those entry and exit points where it is feasible and commercially attractive for users to construct a bypass pipeline (the qualifying entry and exit points) defined by the capacity bookings and the 18km limit. These qualifying entry and exit points will receive the discount even if the gas does not flow between the entry and exit points in order to ensure that users do not construct a bypass pipeline. The modification recognises that a bypass pipeline offers the option for users to bypass the NTS when it is commercially attractive for them to do so. The rationale for UNC728C is that a capacity based discount under UNC728C removes any incentive for users to construct a bypass pipeline where that incentive is not related to the flow but related to the cost of capacity.

We note that Ofgem have concerns about the approach towards the 18km limit that has been applied in the UNC728C solution and that this may give rise to discriminatory treatment of users. In this context we support implementation of UNC728B which addresses these concerns.



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 with Ofgem's assessment of the modification options against Ofgem's statutory duties.

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).

We agree with Ofgem's minded to decision to approve UNC728B. Note that we will provide separately a confidential response with respect to evidence demonstrating the risk of bypass.

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

We agree that the modification should be implemented with effect from 1st October 2021.

We believe there are refinements that could be made to the UNC728B solution to further optimise the conditions for a discount for avoiding inefficient bypass of the NTS system as restrictions in the proposal may mean that some users may still be incentivised to construct bypass pipelines. However, these refinements should not impact on the implementation date of UNC728B, since they can be addressed subsequent to implementation.

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?

We do not wish to raise any other matters with respect to Ofgem's minded to decision to implement UNC728B.