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RE: NTS GCD 12: Informal consultation on Modifications raised to introduce a Conditional Discount to Avoid Inefficient Bypass of the NTS

15 May 2020

Dear Colin,

Uniper welcomes the continued development of a future shorthaul product and supports NGG's aim of implementing it at the same time as UNC Modification Proposal 0678(A). In providing our comments, we note there is no guarantee the former proposals will be re-raised or that the content will be the same. Moreover, we believe these proposals are likely to be amended and it is also conceivable that new proposals may be raised. This response is, therefore, a summary of pressing issues to consider rather than a replacement of the formal UNC consultation process.

At the time of writing, we await Ofgem's decision on UNC Modification Proposal 0678 (and alternatives) and the associated implementation date. In our written response (dated 24 February 2020) to Ofgem's consultation "*Amendments to Gas Transmission Charging Regime minded to decision and draft impact assessment*", we raised concerns that October 2020 was a highly challenging target date and suggested that consideration be given to October 2021 implementation. Since that consultation ended, the COVID-19 global pandemic has resulted in unprecedented challenges and changes to normal business operations. As a member of Energy UK, we fully support the recent letter sent by Energy UK to Ofgem. On this basis, we believe that implementation of all gas transmission charging reform should now be postponed until 1 October 2021.

Implementation in October 2021 would likely help address our concerns about the shorthaul proposals raised to date. In our view, the following issues need to be addressed in order to deliver a robust, enduring shorthaul solution:



1. An enduring shorthaul product must allow traded capacity to qualify for a shorthaul discount, by NGG implementing capacity assignment within GEMINI. This issue was raised in industry workgroups by Shippers as long ago as 2007 and remains a key customer requirement. It is clear that delivering such a change by October 2020 is unrealistic, based on our understanding that it would require a significant systems change for NGG. We consider that October 2021 would be a more realistic target, but we request that NGG provides more detail on the delivery timeframe for this change. The absence of this information will inevitably lead to a Shipper forcing the change process via a UNC Proposal. We believe that a more collaborative approach by NGG would be much appreciated by industry, given this issue is longstanding and unresolved.
2. NGG's approach of starting with an amount of shorthaul charge 'socialisation' as a percentage of Maximum Allowed Revenue and then dividing that by eligible shorthaul users is fundamentally flawed. It will result in shorthaul rates floating, perhaps unpredictably and some routes changing in eligibility on an annual basis. The alternative of building a pipeline would result in costs which would be much more predictable and stable. As a result, we would seriously question whether this product would be a true alternative to pipeline bypass. Whilst the amount of socialisation is clearly important to the integrity of the overall charging arrangements, availability of shorthaul to Users should be driven primarily by likelihood of NTS bypass. Stable shorthaul charging year-to-year is also important to allow efficient contracting.
3. It is critical to the success of a shorthaul product that a discount is provided to both TO and SO (i.e. future Transmission and Non-Transmission Services (Non-Tx)) charges. This is a fundamental aspect of the current shorthaul product and moving away from it requires compelling evidence, which is currently missing from both the NGG and RWE proposals. Put simply, not providing a discount to Non-Tx charges will provide an insufficient incentive to discourage NTS bypass. The credible risk is that the sites most likely to bypass the NTS will do so, defeating NGG's stated aim of shorthaul. This would then leave only a handful of marginal sites taking advantage of the discount, including some where there may not be significant likelihood of actual bypass. This would be a cross-subsidy that would be difficult to defend. The incentive not to bypass, therefore, needs to be strong and this can be achieved by providing a suitable discount for Non-Tx charges. On this basis, we will not support any future shorthaul proposal which does not include a Non-Tx charge discount.

As none of the proposals raised to date address all of our concerns, we are unable to offer our full support for any of them. Our hope is that a pragmatic postponement of all charging reforms until October 2021 will allow industry to deliver a robust,



enduring shorthaul solution. We would not want to see an incomplete shorthaul product implemented in October 2020 which then requires further development, introducing yet more regulatory and market uncertainty.

We hope you and future UNC proposers find these comments helpful. If you have any further questions or queries in relation to this response, please do not hesitate to contact me.

Yours sincerely,

Richard Fairholme
Uniper