

# UNC 0621D:

## Mod Title: Amendments to Gas Transmission Charging Regime



*A proposed alternate to UNC 0621 which currently mirrors UNC 0621 except for treatment of Inefficient Bypass which is afforded the optional commodity tariff. This alternate proposes to remove the current optional commodity tariff.*

**Proposer:** Richard Pomroy (Slides presented by Robert Wigginton)

**Panel Date:** 15<sup>th</sup> February 2018

# Why change?



*Please use bullets to summarise what in the UNC is wrong and creating problems*

- The proposer believes that the current Optional Commodity rate is flawed:
  - It can not be justified on ground of efficiency under the gas act
  - Arguably does not reflect a license compliant charge in that no costs are actually incurred
  - Provides some connections a purely commercial tariff decision of whether the optional tariff would yield lower charges than conventional NTS charges.
  - In doing so the tariff does not fulfil its raison d'être of ensuring sites who legitimately intend to bypass the NTS (by laying an adjacent pipeline) do not do so

# Why Change – Gas Act Considerations



- The Gas act considers Economic and efficient in consideration to 'each authorised area of his'.
- For the NTS the 'authorised area of his' would not be inclusive of an Entry point outside the Transporter area.

*Powers and duties of public gas transporters*  
3. For section 9 of the 1986 Act there shall be substituted the following section—

*"Powers and duties of public gas transporters*  
General powers and duties. 9.—(1) It shall be the duty of a public gas transporter as respects each authorised area of his—  
(a) to develop and maintain an efficient and economical pipe-line system for the conveyance of gas; and  
(b) subject to paragraph (a) above, to comply, so far as it is economical to do so, with any reasonable request for him to connect to that system, and convey gas by means of that system to, any premises.  
(2) It shall also be the duty of a public gas transporter to avoid any undue preference or undue discrimination—

The optional tariff is based on the presumption that inefficient bypass of the NTS should be avoided (i.e. the counter of an efficient and economical pipeline system). However, as indicated above the assessment of efficient in this instance should be based on the network of the NTS only and not the GB network. Consequently the tariff can not be justified under the Gas Act on grounds of efficiency.

# Why change – Cost reflectivity considerations



*Please use bullets to summarise what in the UNC is wrong and creating problems*

- License Condition A5 requires charges to reflect costs ‘incurred’
- Under inefficient bypass the unit rate is derived with reference to a proxy third party cost which would be incurred should bypass be taken
- Therefore, as no cost is incurred, the current optional tariff can not be reflective of costs incurred by the NTS.

As no cost is actually incurred.

# Why change – Other considerations



- The current product fails to adequately address the perceived issue of avoiding inefficient bypass. In theory the tariff should seek to ensure that:

$$\begin{array}{ccc} \text{NPV of future costs} & & \text{NPV of future costs} \\ \text{from the NTS} & < & \text{of building and} \\ & & \text{maintaining a by} \\ & & \text{pass} \end{array}$$

- However, the assessment can be made annually so purely becomes:

$$\begin{array}{ccc} \text{Annual Cost of NTS} & & \text{Annual Cost of NTS} \\ \text{Standard Tariff} & \text{VS} & \text{optional tariff} \end{array}$$

- The applicant need have no desire or plan to bypass.
- The risks of stranding assets and making long term decisions is not built in
- The first equation is not actually addressed as the formula makes no attempt to address the actual cost to bypass for a given connection

# Options



*Please use bullets to summarise what options have been considered to fix the identified problem. Is a UNC modification the only route?*

- As the charge is in UNC, this is deemed the correct route
- Our consideration of the first two points results in the conclusion to remove the optional tariff.
- Alternative arrangements could be arrived at to address the issues identified in point 3. However, we believe that:
  - There is potential upside to bypass, including
    - increasing capacity within the NTS improving flexibility
    - Removing the barriers to entry of new large diameter pipe providers competing with connections work which may bring long term industry cost reduction
  - The risks and responsibility of building and maintaining a bypass are such that we believe the risk of connections choosing to bypass (and risk large upfront capital commitments) would be low. Currently DN end users pay 80% of NTS costs, yet use only half the capacity. Removing this tariff could help redistribute this distortion which we deem a cross subsidy.

# Solution



*Please use bullets to briefly outline the solution contained within the modification.*

- The modification mirrors the original modification raised by National Grid NTS except for removing the option of the 'optional commodity tariff'.

# Recommended Steps



*Please use bullets to summarise the recommended steps. Please indicate how long you think the assessment process should last and if self-governance should apply or not.*

- The Proposer recommends that this modification should be:
  - Not subject to self-governance because it should be aligned with MOD0621 in that it is a significant change to industry arrangements impacting all parties.
  - Workgroup assessment to develop the modification to the timescales set out for MOD0621