

Mr Colin Williams  
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15 May 2020

Dear Colin,

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

Thank you for the opportunity to provide views on the potential “short haul” modifications. We appreciate the initiative to undertake this consultation now given the increasingly challenging timescales to progress this issue as we await Ofgem’s UNC678 decision.

Whether Ofgem determine the new GB charging regime should be implemented this October or perhaps in October 2021, it is vital that the new charging regime is complete. It must include an appropriate short haul charging solution from implementation of the new charging regime. It is prudent therefore for the industry to take a conservative approach to ensure regulatory approval can be achieved in a timely manner.

Whilst there is clearly a need to reform the current optional commodity charge, it should be also recognised that a short haul option has been in place for over 20 years and investments decisions have been taken in that time based on a legitimate expectation that a bypass avoidance tariff will remain. It remains appropriate and fair for “short haul” to continue. As well as making contributions to NTS costs rather than bypassing the network, short haul has proven to make a wider contribution to GB by encouraging gas to come into GB. It has also been a key element in supporting GB gas exports via the interconnectors. There is a risk therefore that without an appropriate short haul tariff the NTS sees less bookings and activity which consequently reduces the actual level of NTS revenues received, resulting in higher charges.

With respect to the key elements of the potential modifications:

- We agree a short haul capacity discount applied to the Entry Capacity Reserve Price and Exit Capacity Reserve Price is compliant with the European tariff network code and note other countries have approved short haul capacity discounts e.g. The OCUC<sup>1</sup> in Belgium.
- We believe it would be more appropriate to apply a discount to capacity bookings only and note this is currently only proposed in UNC718c. The OCUC in Belgium as an example provides a discount only taking account of capacity bookings. Applying the discount to capacity bookings (rather than take account of flows also) would be simpler to implement.

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<sup>1</sup> Operational Capacity Usage Commitment. See Fluxys website for further details: <https://www.fluxys.com/en/products-services/ztp-trans-shorthaul-ocuc>

It also reflects the fact that capacity bookings are not always in line with actual flows, which are dependent on a number of market variables. The technical capacity and “capacity bookings” of any bypass pipeline would also most likely not always match actual flows yet all of this capacity would bypass the NTS.

- We support the proposal to start a short haul transmission services discount at 90% and reduce the discount as distance increases.
- The application and disapplication rules appear overly restrictive. Companies would not be restricted to construct or acquire capacity in only one bypass pipeline so should be permitted to have short haul discounts on more than one eligible route. The OCUC in Belgium for example allows multiple routes.
- To ensure the effective functioning of the market and utilisation of capacity, the short haul discount should continue to apply when capacity is traded in the secondary market. The OCUC in Belgium as an example does allow this. We note concerns have been raised by some shippers at recent NTS charging methodology forum meetings about the impact of this omission from the current proposals.

We would appreciate the above elements being considered in the preparation of the final short haul modification proposals by stakeholders. If implementation of the new charging regime is indeed later than October 2021, there is also an opportunity to consider alternatives short haul solutions like an adapted version of the Belgium OCUC.

If you have any questions, please do not hesitate to contact me.

Yours sincerely



**Pavanjit S Dhesi**

**Regulatory Affairs Manager**