

Comments from Energy UK

Questions for Informal Consultation

National Grid would welcome responses to the following questions in preparation for the Formal Consultation expected to take place upon resubmission of the proposals:

Reason for support/opposition: Please summarise (in one paragraph) the key reason(s)

Energy UK supports the introduction of shorthaul arrangements in parallel with the charging reforms likely to be introduced by UNC 0678A. Absent shorthaul arrangements of some kind many parties will be required to pay charges disproportionate to their use of the transmission system. Many of these parties are likely to further develop plans and progress bypass pipelines which would lead to a sizable loss of transmission revenue which will need to be recovered from customers who remain connected to the transmission system. In this context we consider the likelihood of bypass and not the degree of socialisation of revenue to be a key factor. The latter should be an output of the arrangements rather than an input or constraining factor.

The proposals as outlined in 0718, A,B,C differ in a number of ways but it is fair to say the 718 proposal and the alternatives were all developed at a pace and have been subject to very limited discussion in charging workgroups. In fact a key parameter, the distance, changed between the initial draft and as issued version of 0718. The reasons for this were and remain unclear and this in itself led to the raising of an alternative proposal, due to the impact on a particular site and the peculiarities of the NTS configuration in the vicinity.

Other proposals include discounts to the non-transmission services charges which seem reasonable and some argue are necessary, else the arrangements will not deter bypass pipelines being financially attractive. This needs further consideration.

Another approach considers the discount should be capacity based rather than flow based, again this seems logical for a capacity-based charging system and could be said to be more consistent with reflecting alternative pipeline build. A pipeline would have a fixed capacity with variable utilisation, the cost of building the pipeline would relate to the capacity not the day to day use. This option may be more compliant with TAR NC and may provide for more stability in charges.

The test for eligible capacity at entry excluding existing contracts and traded capacity is a further issue that needs to be addressed by the assignment of capacity, although this is not a factor in itself of the shorthaul arrangements the rules in conjunction with the implementation of 0678A will have a major impact on the commercial attractiveness of the shorthaul arrangements.

To summarise it is fair to say that there are many outstanding issues with the proposals, but some kind of arrangement implemented in parallel with 0678 is preferable to none, and would demonstrate willingness to progress these concepts. There remain a number of uncertainties:

- How proposals may change following this consultation
- Whether new proposals may be raised

- If any are implemented, then further proposals may be raised to refine the arrangements

Energy UK considers it is vital to base proposals on the likelihood and cost of bypass rather than an artificial socialisation limit, this would not prevent bypass and would lead to additional socialisation of lost transmission revenues as an outcome when bypass pipelines are built.

Implementation: What lead-time do you wish to see prior to implementation and why?

Ideally the lead time for implementation should be at least 5-6 months ahead of time under normal operating circumstances. This would allow the indicative charges published by National Grid to be a good reflection of the actual charges that will apply. The time will also allow for updating contracts, capacity strategies, operating procedures, staff training, system changes etc.

Clearly if Ofgem decided to implement 0678A from October this year this will be even more challenging, due to social distancing and remote working however we would still consider it important to progress shorthaul arrangements in this timescale, due to the impacts above.

Indicative charges and 'final' charges for exit capacity have already been published. Although if Ofgem issues its decision on 0678A during May then further, very different values will be published before the beginning of June. As there is insufficient time for any shorthaul proposal to be raised and implemented before the end of May the entry and exit capacity charges will not take account of any shorthaul arrangements.

If shorthaul arrangements are implemented before the end of July, we understand the revenues required to support shorthaul will be included in the capacity-based revenue recovery charge. The analysis included in the proposals reflects a maximum uptake scenario and hence overstates the revenue for shorthaul due to the impacts of the eligible capacity rules. Setting charges on this basis will lead to an over recovery. To set charges on a more realistic basis National Grid will need to undertake a detailed assessment of each route, with a range of assumptions in order to determine the revenue recovery charge. Whilst we accept that this is normally opaque to industry, it would be helpful to include this analysis in the proposals when they are issued, to provide a more realistic assessment.

A better scenario would be for implementation of 0678A and shorthaul arrangements to be effective from October 2021, as requested in an Energy UK letter to Ofgem due to the current COVID 19 working arrangements. The additional time would give more time to understand and refine the options and be more likely to deliver a robust enduring solution that does not prompt further incremental development whilst also providing a reasonable lead time for implementation, although we appreciate this is not National Grid's decision.

Impacts and Costs: What analysis, development and ongoing costs would you face?

As a trade association none

Legal Text: Are you satisfied that the legal text will deliver the intent of the Solution?

We have not reviewed the legal text

The closing date for submission of your responses is **Friday 15th May**. Responses will be published as part of this discussion unless marked as confidential. Your response should be emailed to:

box.gsoconsultations@nationalgrid.com