

## Representation - Draft Modification Report UNC 0686

### Removal of the NTS Optional Commodity Rate with adequate notice

**Responses invited by: 5pm on 07 June 2019**

To: [enquiries@gasgovernance.co.uk](mailto:enquiries@gasgovernance.co.uk)

<b>Representative:</b>	Chris Wright
<b>Organisation:</b>	ExxonMobil
<b>Date of Representation:</b>	7 June 2019
<b>Support or oppose implementation?</b>	Oppose
<b>Relevant Objective:</b>	<p>c) None</p> <p>d) Negative</p> <p>g) None</p>
<b>Relevant Charging Methodology Objective:</b>	<p>a) Negative</p> <p>b) None</p> <p>c) Negative</p> <p>e) None</p>

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

Use of the Optional Commodity Rate (or “shorthaul”) does appear to have become excessive in recent years, extending beyond what could be considered to be the risk of inefficient system by-pass, and driving some cross-subsidisation between Users who take advantage and Users who cannot. However, we do not support this proposal to completely end the current arrangement with no immediate replacement.

We do not believe that this proposal would eliminate all cross-subsidisation, but would instead reverse the effect of the current arrangement for some Users, whereby Users who shipped gas over very short distances would effectively be over-paying for the service they received. Without an effective shorthaul arrangement in place, this situation would incentivise those shippers to seek to by-pass the NTS via competing pipelines. This would be an inefficient outcome for the GB gas industry, since lower overall NTS utilisation would result in higher unit costs for remaining Users.

We note comments made by Ofgem in its decision to reject 0636 etc, in particular that the future of shorthaul should be considered as part of a wider charging review. 0678 et al is, of course, still live, and all of those proposals seek to end shorthaul in its current

form. Given the close relationship between 0678 and shorthaul, our strong preference would be for Ofgem to consider these matters holistically in order to deliver the best possible outcome for the GB gas market and its end consumers and the smoothest transition between regimes.

Development of potential replacement shorthaul solutions under workgroup 0670R, and latterly under the 0678 process, has seen the emergence of what we consider to be an appropriate shorthaul methodology – set out in 0678D, G, H and J. We believe that that methodology strikes the right balance between avoiding incentives to invest in inefficient system by-pass, while limiting its use only to situations in which by-pass could be considered to be a credible option. We therefore believe that an appropriate replacement is available for sequential implementation.

Implementing this proposal in isolation will not ensure compliance with EU TAR.

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

This proposal should be rejected.

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

Not available.

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

Yes.

**Are there any errors or omissions in this Modification Report that you think should be taken into account?** *Include details of any impacts/costs to your organisation that are directly related to this.*

None.

**Please provide below any additional analysis or information to support your representation**

None.