

## 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>	Andrew Pearce
<b>Organisation:</b>	BP Gas Marketing Ltd
<b>Date of Representation:</b>	7 June 2019
<b>Support or oppose implementation?</b>	Oppose
<b>Relevant Objective:</b>	<p>c) Negative</p> <p>d) Negative</p> <p>g) Negative</p>
<b>Relevant Charging Methodology Objective:</b>	<p>a) Negative</p> <p>b) Negative</p> <p>c) Negative</p> <p>e) Negative</p>

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

The industry is in the process of making changes to the current charging regime through UNC modification 0678 where we will see, if implemented, the whole methodology for calculating transportation charges changing with the intention of being fully compliant with the TAR Network Code. This includes moving to a mainly capacity based charging methodology. Some of the alternative 0678 proposals also include a variant of the Optional Commodity Charge (OCC) based on a capacity charge.

We also note that review group 0670R *Review of the charging methodology to avoid the inefficient bypass of the NTS*, is also looking at this area.

Modification 0686 is only looking at the removal of the OCC from the current charging regime. The proposer says that this is to make GB compliant with the TAR Network Code. We fail to see how removing one element from the current charging regime will make GB compliant with the TAR NC.

Ofgem have already said that they do not agree with looking at just the OCC in isolation in their decision letter for UNC Modification proposal 0636.

*The OCC should not be looked at in isolation but should be considered holistically in the context of the wider charging landscape”.*

If implemented there would be material change to those offtakes that are making use of the NTS Optional Commodity Charge. There has been no proper analysis on the effect of removing the OCC would have on these large NTS offtakes i.e. discussions with the affected offtakes.

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

We do not support any implementation date.

The proposed two month lead time set out in the proposal is totally insufficient for such a fundamental change such as this.

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

As stated there has been no analysis on the impact removing the NTS Optional Commodity Charge will have on end consumers that are using the product. If users were to build their own pipelines the effect that any lost revenue will have on the rest of the system has not been properly analysed, the only analysis carried out has always seen the offtakes remain on the NTS.

Typically, the large industrial users that use the OCC rate will align their gas contracts with the gas year. These contracts would have been negotiated or will be in the process of being negotiated. Increased uncertainty around the future charging regime does not help with these negotiations and could lead to increased volatility if the contracts have to be renegotiated during a contract year. This point was raised many times during the discussion surrounding implementation date for modification 0678. Where it was argued that contracts are already in place for October 2019 and implementation should not be before October 2020. It was also pointed out that as contracts mainly follow the gas year implementation should only be from the start of a gas year and not during the gas year.

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

We have no comment to make.

**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.*

The timetable set out for this modification proposal is extremely tight, even though the request for urgency was rightly rejected by Ofgem, with only one workgroup meeting held. There has been no time to carry out proper assessment of the impact on users of the OCC if this charge was removed from 1<sup>st</sup> October 2019.

Proper analysis should have been carried out on the loss of revenue National Grid may see from implementation of this modification.

The impact that implementation of this modification proposal could have on gas prices in the Isle of Man and on the island of Ireland should be looked at.

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

We do not agree that users of the OCC are benefiting from a cross subsidy. Most OCC offtakes are near beach terminals, thus using short distances of the NTS. In most cases the gas has not even passed through an NG owned compressor station so we would argue that the actual costs to use the NTS pipeline are low. Which is reflected in the OCC rate.