43 Poolfield Drive
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Chris Shanley
Joint Office

14 June 2018

Dear Chris,

Uniform Network Code Modification Proposal 636
- Updating the parameters for the NTS Optional Commodity Charge

I write as a domestic consumer having observed that domestic consumers do not appear to have been adequately considered, or represented, in the development process of Modification Proposal 636 (“636”).

In the last millenium Transco introduced the Optional Commodity Charge (OCC). Network Users could elect to use the OCC rather than pay standard transportation commodity charges. The OCC was designed to encourage flows onto the Transco system avoiding what might be considered to be inefficient bypass. The associated pricing was set using a methodology designed to reflect the underlying investment and operational costs of competing pipelines. The outcome was that OCC prices would only be sufficiently attractive where there was a genuine opportunity of a short by-pass pipeline, i.e. that the alternative pipeline would be commercially viable as an alternative to using the Transco system at the standard prices.

Unfortunately Transco, and its successor, National Grid, failed to update the charges to reflect historic developments in investment and operational costs. Over time, because of increased standard commodity charges as a result of zero reserve price for firm entry capacity and the failure to update the OCC rates, an ever greater proportion of load has migrated to the OCC. Very substantial flows on the system now pay the inappropriately low prices available via the OCC. The OCC is now used for long distance transportation that could never realistically be served economically by a by-pass pipeline. This leaves a disproportionate cost burden upon gas consumers such as myself.

National Grid’s data confirms that the OCC is creating a cross-subsidy of approximately £150 million per annum at the expense of domestic, industrial and commercial users. The beneficiaries are larger loads, particularly power stations connected direct to the NTS and to consumers in other countries, including Ireland and other mainland Europe countries. Furthermore the continued operation of the OCC distorts gas trading. During the late 90s trading migrated from the beach to the NBP. However in recent years the advantages of the OCC to some has increased beach trading as a result of the anomalous transportation charging arrangements. The discrimination associated with access to the OCC confers advantage to some consumers and their shippers at the expense of those that can’t.

The problems associated with the OCC have been known for more than two years. However the industry resisted suggestions to quickly address the anomalies preferring, instead, to support changes to bring transportation charging arrangements within the scope of the Unified Network Code (UNC).

Late last year vested commercial interest triggered 636 because it is likely that the cross-subsidy associated with the arrangements was detracting value from the Corrib gas resource being used to serve part of Ireland's gas demand. The OCC is distorting international trade of gas delivering benefits to gas consumers in other countries at the expense of GB domestic customers and many industrial and commercial gas users.

Further vested interests have opposed and frustrated the progress of 636. A series of alternative proposals have been raised which have effectively filibustered the debate in the UNC Working Group. Only after many months of slow and protracted objections has it been possible to progress 636 and its alternates to public consultation.

These delays represent a failure of the governance process. That transportation charging matters should be addressed via the UNC change process needs to be revisited in the light of the 636 debacle and the challenges now apparent that have been associated with the development of GB's response to the Commission Regulation (**EU**) 2017/460 ("EU Tariff Code") within the Modification Proposal 621 process ("621").

It is imperative that a timely decision on 636 is made. It is essential that the continued failure to deliver cost-reflective charging, giving rise to cross-subsidies of approximately £150m per annum, is addressed as a matter of urgency.

It is also important to realise that the EU Tariff Code does not permit two tier charging regimes as implied by the OCC. Therefore it is unclear how many of the proposals currently envisaged in 621 could be regarded as EU Tariff Code compliant.

Furthermore it is important to recognise that none of 636 or its alternates removes the current cross subsidy. 636 reduces the cross-subsidy the most, and by approximately 50%, and therefore should be preferred over all the other 636 alternates.

Therefore 636 should be approved because it furthers the Relevant Objectives of the Charging Methodology. Specifically it will better ensure that the charges faced by network users better reflect the costs incurred in the provision of transportation service. Additionally the charging arrangements will need to be compliant with binding decisions of the European Commission, namely the EU Tariff Code. A decision to implement would be a step in that direction.

It is therefore important that Ofgem gives urgent consideration to 636 so that it can be implemented as soon as possible, and certainly by October 2018, with a view that such non-compliant tariff charging can be completely removed from October 2019 when a fully EU Tariff Code should be implemented.

Yours sincerely

(this letter was sent electronically and therefore is not signed)

Nigel Sisman

cc: Chris Logue, National Grid
Natasha Smith, Ofgem
Stew Horne, Citizens Advice Bureau