

## Representation - Draft Modification Report

UNC 0636 0636A 0636B 0636C 0636D

### Updating the parameters for the NTS Optional Commodity Charge

Responses invited by: **5pm on 14 June 2018**

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

<b>Representative:</b>	Stephen Parle
<b>Organisation:</b>	Petronas Energy Trading
<b>Date of Representation:</b>	14 <sup>th</sup> June 2018
<b>Support or oppose implementation?</b>	0636 – Oppose 0636A - Oppose 0636B – Oppose 0636C - Oppose 0636D – Oppose
<b>Expression of preference:</b>	<i>If either 0636, 0636A, 0636B, 0636C or 0636D were to be implemented, which would be your preference?</i>  None but if any, 0636D
<b>Relevant Objectives:</b>	0636: <b>g)</b> Negative  0636A: <b>g)</b> Negative  0636B: <b>g)</b> Negative  0636C: <b>g)</b> Negative  0636D: <b>g)</b> Negative

<b>Relevant Charging Methodology Objectives:</b>	<p>0636:  <b>a)</b> Negative  <b>b)</b> Negative  <b>c)</b> Negative  <b>e)</b> Negative</p> <p>0636A:  <b>a)</b> Negative  <b>b)</b> Negative  <b>c)</b> Negative  <b>e)</b> Negative</p> <p>0636B:  <b>a)</b> Negative  <b>b)</b> Negative  <b>c)</b> Negative  <b>e)</b> Negative</p> <p>0636C:  <b>a)</b> Negative  <b>b)</b> Negative  <b>c)</b> Negative  <b>e)</b> Negative</p> <p>0636D:  <b>a)</b> Negative  <b>b)</b> Negative  <b>c)</b> Negative  <b>e)</b> Negative</p>
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**Reason for support/opposition/preference: Please summarise (in one paragraph) the key reason(s)**

**0636:**

The change to the definition of the “M” component in the formula is flawed given historical flows at an exit point are in no way a certain indicator of future flows. This is particularly true of CCGTs, where changes in the relative price of competing fuels for example can have a significant impact upon running regimes from one year to the next.

Furthermore, changes to the definition of “M” within the formula undermine the fundamental principle of the Optional Commodity Charge (“OCC”) being a key factor for developers in determining the investment cost of connecting to the NTS rather than bypassing it by building a private pipeline. We consider any amendment to the formula to be discriminatory against those who made historical investment decisions based on the information at the time and are no longer in a position to undo or adjust those decisions.

Additionally, the proposal contains an update to the OCC formula previously considered within National Grid discussion document GDC11. It should be noted that National Grid did not implement this change after consultation with industry.

## 0636A/B/C/D

Given the ongoing work and analysis around Modification 621, which will include changes to the OCC from Oct-2019 (most of which conflict with Modification 636), any interim arrangements are not conducive to a stable charging environment. This has a detrimental effect upon Customers for whom it would be extremely difficult to contract in such an unstable environment, as well as negatively impacting upon investment decisions by Shippers. Please see further detail below.

Implementation of Modification 636 (or any of its variants) would invalidate the analysis currently being undertaken as part of Modification 621 which has been based and calculated upon the current status of the OCC. Any change would therefore require a review of this analysis as it would clearly have an influence on responses to that Modification.

We would also draw attention to the fact with regards to 636C, the OCC is an exit service so we are surprised to see an entry element introduced into the formula for the value of "M".

If any of the proposals were to be implemented, our preference would be for 636D. However, please see general comments and important observations below with regards to the general overall impact of any of these Modifications.

**Implementation:** *What lead-time do you wish to see prior to implementation and why? Please specify which Modification any issues relate to.*

It is essential that, if any changes are made, this are only implemented at the start of the relevant gas year (i.e. 1 October).

Industry standard contracts for supply and offtake are typically aligned with the gas year and do not permit mid-gas year changes to terms, particularly pricing. They also do not typically have termination or amendment rights associated with change in laws or regulation.

Negotiation of these contracts, renewals and tenders have already commenced (and, in some cases, completed) and the majority of such will have been finalised by August 2018. All such contracts will be based on the existing charging arrangements and it is critical that Shippers and Customers have certainty on the charging regime in determining pricing. Changes during the gas year would have a significant impact on Customers and it is difficult to see how adequate notice can now be given.

Please see further our letter dated, [28<sup>th</sup> March 2018](#).

**Impacts and Costs:** *What analysis, development and ongoing costs would you face? Please specify which Modification any issues relate to.*

Any change to the OCC at this stage would have a significant detrimental commercial impact. We already have contracts in place with customers for the coming gas year, which have been agreed based upon the current charging regime. We will not be able to amend or terminate these contracts until the following gas year (October 2019).

**Legal Text:** *Are you satisfied that the legal text will deliver the intent of the Solution? Please specify which Modification any issues relate to.*

N/A.

**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.*

We consider the analysis conducted to date to be insufficient to adequately assess such a significant change to the charging arrangements. It is vital that the impact upon individual customers/consumers is determined. An assessment of what this will mean for specific CCGTs, industrial customers and imports into the UK by offshore producers is essential as any change to their gas transportation costs could have a serious impact upon their ability to continue business.

The impact upon security of supply has not been adequately considered. Flexible supplies which are currently utilising the OCC may be diverted to other markets due to increased transportation charges in the UK. Investment decisions on marginal projects could also be impacted.

Additionally, the analysis is too static. It assumes that there will be no change in consumption behaviour thereby ignoring any price elasticity of demand as a result of these changes. Benefits to non-OCC customers are therefore over stated as assuming the consumption of current OCC customers will remain completely unchanged is unrealistic.

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

Due to the material impact that this Modification will have on Customers and Shippers and the potential for it to impact upon security of supply for the UK, we believe that Ofgem needs to conduct a full impact assessment. Ofgem should determine the impact upon individual market participants and not make a decision based upon the high level and flawed analysis that we have so far.

As we have said above, we consider the timing to be deeply at odds with the commercial timetable for negotiating supply and offtake agreements with customers for the 2018-2019 gas year.