Joint Office of Gas Transporters

<table>
<tr><td colspan="2">Representation - Draft Modification Report
UNC 0678; 0678A; 0678B; 0678C; 0678D; 0678E; 0678F; 0678G; 0678H; 0678I; 0678J;
Amendments to Gas Transmission Charging Regime</td></tr>
<tr><td>0678</td><td>Amendments to Gas Transmission Charging Regime</td></tr>
<tr><td>0678A</td><td>Amendments to Gas Transmission Charging Regime (Postage Stamp)</td></tr>
<tr><td>0678B</td><td>Amendments to Gas Transmission Charging Regime</td></tr>
<tr><td>0678C</td><td>Amendments to Gas Transmission Charging Regime (Postage Stamp)</td></tr>
<tr><td>0678D</td><td>Amendments to Gas Transmission Charging Regime including a Cost based Optional Capacity Charge</td></tr>
<tr><td>0678E</td><td>Amendments to Gas Transmission Charging Regime – Treatment of Storage</td></tr>
<tr><td>0678F</td><td>Amendments to Gas Transmission Charging Regime – Treatment of Unprotected Entry Capacity Storage</td></tr>
<tr><td>0678G</td><td>Amendments to Gas Transmission Charging Regime including a Cost based Optional Capacity Charge</td></tr>
<tr><td>0678H</td><td>Amendments to Gas Transmission Charging Regime (Postage Stamp) including a Cost based Optional Capacity Charge</td></tr>
<tr><td>0678I</td><td>Amendments to Gas Transmission Charging Regime including Wheeling and an Ireland Security Discount</td></tr>
<tr><td>0678J</td><td>Amendments to Gas Charging Regime (Postage Stamp) including a Cost Based Optional Capacity Charge</td></tr>
</table>

Responses invited by: 5pm on 08 May 2019

To: enquiries@gasgovernance.co.uk

Representative:	Deborah Baker
Organisation:	CF Fertilisers UK Limited
Date of Representation:	8th May 2019

Support or oppose implementation? (Please note you will be asked for your reasoning further below)	0678	Oppose
	0678A	Oppose
	0678B	Support
	0678C	Oppose
	0678D	Oppose
	0678E	Oppose
	0678F	Oppose
	0678G	Oppose
	0678H	Oppose
	0678I	Oppose
	0678J	Oppose

Expression of Preference (Please note you will be asked for your reasoning further below)	*If **EITHER** 0678; 0678A; 0678B; 0678C; 0678D; 0678E; 0678F; 0678G; 0678H; 0678I **OR** 0678J were to be implemented, which **ONE** Modification would be your preference?* 0678B

Standard Relevant Objective:	0678	
	a)	Positive/Negative/None * delete as appropriate
	b)	Positive/Negative/None * delete as appropriate
	c)	Positive/Negative/None * delete as appropriate
	d)	Positive/Negative/None * delete as appropriate
	e)	Positive/Negative/None * delete as appropriate
	f)	Positive/Negative/None * delete as appropriate
	g)	Positive/Negative/None * delete as appropriate
	0678A	
	a)	Positive/Negative/None * delete as appropriate
	b)	Positive/Negative/None * delete as appropriate
	c)	Positive/Negative/None * delete as appropriate
	d)	Positive/Negative/None * delete as appropriate
	e)	Positive/Negative/None * delete as appropriate
	f)	Positive/Negative/None * delete as appropriate
	g)	Positive/Negative/None * delete as appropriate
	0678B	
	a)	Positive/Negative/None * delete as appropriate
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	c)	Positive/Negative/None * delete as appropriate
	d)	Positive/Negative/None * delete as appropriate
	e)	Positive/Negative/None * delete as appropriate
	f)	Positive/Negative/None * delete as appropriate
	g)	Positive/Negative/None * delete as appropriate

Standard Relevant Objective (continued):	**0678C**	
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	b)	Positive/Negative/None * delete as appropriate
	c)	Positive/Negative/None * delete as appropriate
	d)	Positive/Negative/None * delete as appropriate
	e)	Positive/Negative/None * delete as appropriate
	f)	Positive/Negative/None * delete as appropriate
	g)	Positive/Negative/None * delete as appropriate
	0678D	
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	b)	Positive/Negative/None * delete as appropriate
	c)	Positive/Negative/None * delete as appropriate
	d)	Positive/Negative/None * delete as appropriate
	e)	Positive/Negative/None * delete as appropriate
	f)	Positive/Negative/None * delete as appropriate
	g)	Positive/Negative/None * delete as appropriate
	0678E	
	a)	Positive/Negative/None * delete as appropriate
	b)	Positive/Negative/None * delete as appropriate
	c)	Positive/Negative/None * delete as appropriate
	d)	Positive/Negative/None * delete as appropriate
	e)	Positive/Negative/None * delete as appropriate
	f)	Positive/Negative/None * delete as appropriate
	g)	Positive/Negative/None * delete as appropriate

Standard Relevant Objective (continued):	**0678F**	
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	c)	Positive/Negative/None * delete as appropriate
	d)	Positive/Negative/None * delete as appropriate
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	f)	Positive/Negative/None * delete as appropriate
	g)	Positive/Negative/None * delete as appropriate

0678G	
a)	Positive/Negative/None * delete as appropriate
b)	Positive/Negative/None * delete as appropriate
c)	Positive/Negative/None * delete as appropriate
d)	Positive/Negative/None * delete as appropriate
e)	Positive/Negative/None * delete as appropriate
f)	Positive/Negative/None * delete as appropriate
g)	Positive/Negative/None * delete as appropriate

0678H	
a)	Positive/Negative/None * delete as appropriate
b)	Positive/Negative/None * delete as appropriate
c)	Positive/Negative/None * delete as appropriate
d)	Positive/Negative/None * delete as appropriate
e)	Positive/Negative/None * delete as appropriate
f)	Positive/Negative/None * delete as appropriate
g)	Positive/Negative/None * delete as appropriate

	0678I	
Standard Relevant Objective (continued):	a)	Positive/Negative/None * delete as appropriate
	b)	Positive/Negative/None * delete as appropriate
	c)	Positive/Negative/None * delete as appropriate
	d)	Positive/Negative/None * delete as appropriate
	e)	Positive/Negative/None * delete as appropriate
	f)	Positive/Negative/None * delete as appropriate
	g)	Positive/Negative/None * delete as appropriate

0678J	
a)	Positive/Negative/None * delete as appropriate
b)	Positive/Negative/None * delete as appropriate
c)	Positive/Negative/None * delete as appropriate
d)	Positive/Negative/None * delete as appropriate
e)	Positive/Negative/None * delete as appropriate
f)	Positive/Negative/None * delete as appropriate
g)	Positive/Negative/None * delete as appropriate

	0678	
Charging Methodology Relevant Objective:	a)	Positive/Negative/None * delete as appropriate
	aa)	Positive/Negative/None * delete as appropriate
	b)	Positive/Negative/None * delete as appropriate
	c)	Positive/Negative/None * delete as appropriate
	d)	Positive/Negative/None * delete as appropriate
	e)	Positive/Negative/None * delete as appropriate

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Charging Methodology Relevant Objective (continued):	

0678A

a)	Positive/Negative/None * delete as appropriate
aa)	Positive/Negative/None * delete as appropriate
b)	Positive/Negative/None * delete as appropriate
c)	Positive/Negative/None * delete as appropriate
d)	Positive/Negative/None * delete as appropriate
e)	Positive/Negative/None * delete as appropriate

0678B

a)	Positive/Negative/None * delete as appropriate
aa)	Positive/Negative/None * delete as appropriate
b)	Positive/Negative/None * delete as appropriate
c)	Positive/Negative/None * delete as appropriate
d)	Positive/Negative/None * delete as appropriate
e)	Positive/Negative/None * delete as appropriate

0678C

a)	Positive/Negative/None * delete as appropriate
aa)	Positive/Negative/None * delete as appropriate
b)	Positive/Negative/None * delete as appropriate
c)	Positive/Negative/None * delete as appropriate
d)	Positive/Negative/None * delete as appropriate
e)	Positive/Negative/None * delete as appropriate

0678D

a)	Positive/Negative/None * delete as appropriate
aa)	Positive/Negative/None * delete as appropriate
b)	Positive/Negative/None * delete as appropriate
c)	Positive/Negative/None * delete as appropriate
d)	Positive/Negative/None * delete as appropriate
e)	Positive/Negative/None * delete as appropriate

Charging Methodology Relevant Objective (continued):	0678E	
	a)	Positive/Negative/None * delete as appropriate
	aa)	Positive/Negative/None * delete as appropriate
	b)	Positive/Negative/None * delete as appropriate
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	e)	Positive/Negative/None * delete as appropriate

	0678F	
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	b)	Positive/Negative/None * delete as appropriate
	c)	Positive/Negative/None * delete as appropriate
	d)	Positive/Negative/None * delete as appropriate
	e)	Positive/Negative/None * delete as appropriate

	0678G	
	a)	Positive/Negative/None * delete as appropriate
	aa)	Positive/Negative/None * delete as appropriate
	b)	Positive/Negative/None * delete as appropriate
	c)	Positive/Negative/None * delete as appropriate
	d)	Positive/Negative/None * delete as appropriate
	e)	Positive/Negative/None * delete as appropriate

	0678H	
	a)	Positive/Negative/None * delete as appropriate
	aa)	Positive/Negative/None * delete as appropriate
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	c)	Positive/Negative/None * delete as appropriate
	d)	Positive/Negative/None * delete as appropriate
	e)	Positive/Negative/None * delete as appropriate

Charging Methodology Relevant Objective (continued):	**0678I**	
	a)	Positive/Negative/None * delete as appropriate
	aa)	Positive/Negative/None * delete as appropriate
	b)	Positive/Negative/None * delete as appropriate
	c)	Positive/Negative/None * delete as appropriate
	d)	Positive/Negative/None * delete as appropriate
	e)	Positive/Negative/None * delete as appropriate

	0678J	
	a)	Positive/Negative/None * delete as appropriate
	aa)	Positive/Negative/None * delete as appropriate
	b)	Positive/Negative/None * delete as appropriate
	c)	Positive/Negative/None * delete as appropriate
	d)	Positive/Negative/None * delete as appropriate
	e)	Positive/Negative/None * delete as appropriate

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

0678

Because there is no shorthaul tariff or equivalent within this proposed model, it would be significantly more expensive to CF Fertilisers, so much so that we could consider constructing a private pipeline. To be precise, the cost of this option is 44 times higher than our current transmission charges.

Shorthaul benefit current exists to incentivise users to utilise the National Transmission System, rather than building their own private pipelines. We understand that one of Ofgem's motivations is to ensure that the costs are shared fairly and among the widest pool of users. But there are a number of industrial gas consumers (like CF Fertilisers) who have the ability to connect directly to the entry points through private pipelines, and so would avoid National Transmission System charges altogether. Because of the cost impacts, this proposed modification would likely incentivise many of those consumers to proceed with investing in private pipelines, which, in turn, would increase the charges for the remaining users who cannot leave.

0678A

The annual cost of this option alone would exceed our entire EBITDA for 2018 and would represent an increase that is more than a 50 times higher than our current charges.

This is the most expensive option for an industrial user, like us, situated close to the entry point as it

    a. Takes no account at all of site location relative to the entry point; and

    b. Has no shorthaul tariff style alternative.

Under this option, we would have a significant incentive to avoid the National Transmission System altogether by constructing a private pipeline in order for the site as a whole to remain economically viable.

0678B

This is our preferred option. It is the only option available for which there is no real commercial case for us to avoid the National Transmission System altogether.

0678C

The annual cost of this option alone would exceed our entire EBITDA for 2018 and would represent an increase that is more than a 50 times higher than our current charges.

This is the most expensive option for an industrial user, like us, situated close to the entry point as it

    a. Takes no account at all of site location relative to the entry point; and

    b. Has no shorthaul tariff style alternative.

Under this option, we would have a significant incentive to avoid the National Transmission System altogether by constructing a private pipeline in order for the site as a whole to remain economically viable.

0678D

There is a replacement for the shorthaul tariff in this model, but it will still represent a fivefold increase in our current charges, and whilst it is more marginal than 0678, 0678A and 0678C, there is still an incentive to build a private pipeline.

0678E

Insert Text Here

0678F

Insert Text Here

0678G

There is a replacement for the shorthaul tariff in this model, but it will still represent a fivefold increase in our current charges, and whilst it is more marginal than 0678, 0678A and 0678C, there is still an incentive to build a private pipeline.

0678H

There is a replacement for the shorthaul tariff in this model, but it will still represent a fivefold increase in our current charges, and whilst it is more marginal than 0678, 0678A and 0678C, there is still an incentive to build a private pipeline.

0678I

Insert Text Here

0678J

There is a replacement for the shorthaul tariff in this model, but it will still represent a fivefold increase in our current charges, and whilst it is more marginal than 0678, 0678A and 0678C, there is still an incentive to build a private pipeline.

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

CF Fertilisers is the UK's only fertiliser manufacturer. To put the proposed changes into context, we are the UK's largest industrial user of Gas. Gas is the basic raw material within our production process. It represents almost 70% of our variable manufacturing cost. As a consequence, changes of this magnitude have the potential to undermine our ability to compete in the global market place. In order to remain a commercially viable business within the UK, CF Fertilisers would have to consider investing in a private pipeline that would provide a direct gas supply from the Teeside Entry Terminal and undertake commercial arrangements for gas commodity supplies upstream of the National Balancing Point (NBP).

Our preference is for a longest possible timeline such that we may remain commercially viable while the tariff model is implemented. The stakeholder consultation process has not worked well with respect to these proposed modifications and we believe strongly that changes of this magnitude should have been treated under the significant code review process. Moreover, Ofgem's Large User Group forum—designed to signpost significant energy regulatory changes—failed to identify this proposed change to gas transmission charges and, as a consequence, CF Fertilisers and many other energy-intensive industrials have remained unaware of the fundamental and material consequences of the changes being proposed to our businesses.

As a result of this failure, we have had no opportunity (until this juncture) to contribute to the process or comment on it. Industrial consumers (like us) will need as much time as possible to respond to commercial signals of this magnitude and adapt their businesses and strategies if they are to remain competitive. Certainly, were Ofgem to select any of the more expensive options, we would expect either that

a) Sufficient time be allowed to enable us to avoid the costs that would, in our case, have the potential to make our UK sites uncompetitive.

b) Ofgem bring forward an urgent modification to reinstitute Shorthaul Tariff, as a consequence of the severity of the impact of the changes.

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

0678
For one site alone, this represents charges that are 44 times greater than our current fee. This is greater than our entire EBITDA for 2018.

0678A
For one site alone, this model produces a cost 51 times greater than our current charges. This is larger than our entire EBITDA for 2018 and is an unsustainable cost increase to our business.

0678B
This is the only model that gives us an affordable cost. It would actually reduce our current charges at the one site for which we have conducted an impact assessment.

0678C

For one site alone, this model produces a cost 51 times greater than our current charges. This is greater than our entire EBITDA for 2018 and is an unsustainable cost increase to our business.

0678D

This option represents a fivefold increase in our current transmission charges at the site we have assessed.

0678E

Insert Text Here

0678F

Insert Text Here

0678G

This option represents a fivefold increase in our current transmission charges at the site we have assessed.

0678H

This option represents a fivefold increase in our current transmission charges at the site we have assessed.

0678I

Insert Text Here

0678J

This option represents a fivefold increase in our current transmission charges at the site we have assessed.

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Legal Text: *Are you satisfied that the Legal Text will deliver the intent of the Solutions for each Modification? Please specify which Modification if you are highlighting any issues.*

No comment.

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

0678

Insert Text Here

0678A

Insert Text Here

0678B

Insert Text Here

0678C

Insert Text Here

0678D

Insert Text Here

0678E

Insert Text Here

0678F

Insert Text Here

0678G

Insert Text Here

0678H

Insert Text Here

0678I

Insert Text Here

0678J

Insert Text Here

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

0678

Insert Text Here

0678A

Insert Text Here

0678B

Insert Text Here

0678C

Insert Text Here

0678D

Insert Text Here

0678E

Insert Text Here

0678F

Insert Text Here

0678G

Insert Text Here

0678H

Insert Text Here

0678I *Insert Text Here*
0678J *Insert Text Here*

Consultation Questions Requested by the Authority

The Authority has requested that the following questions be considered by Respondents when writing their responses.

Question Number	Question
1.	What impact, if any, do you think tariff differentials between existing and new contracts will have on users booking behaviour? Industrial gas users and other users who are located within close proximity to Entry Points will likely invest in private pipelines, thereby leaving the National Transmission System and Distribution networks altogether if the shorthaul tariff provision is removed. This has the potential to materially reduce National Transmission System network company revenues altogether – both forward and current, thereby further increasing costs for those users who do not have such options. This is particularly problematic given that gas demands are falling, network costs are largely sunk, and there are significant uncertainties regarding future gas demand.
2.	What date should the changes proposed by the modifications become effective and why? Certainly, no earlier than October 2020 – potentially longer if the shorthaul tariff provision is abolished. As a consequence of the failure to consult broadly on fundamental changes to network charges, all affected users and consumers should be given a lengthy period of time sufficient to adapt and implement alternative measures. As a consequence, it is essential Modification 670 comes to fruition in tandem with 678. If it does not provide an alternative to the existing shorthaul tariff that is commercially tenable, swathes of energy intensive consumers close to entry points will likely leave the National Transmission System. If there is inadequate time for industry to respond to the cost signals, given the unsustainable nature of the changes being proposed, an urgent modification would be essential to reinstitute the shorthaul tariff.
3.	The proposals have different specific capacity discounts for storage sites. What level of storage discount do you consider is appropriate and can you provide clear justification if the discount is greater than 50% No comment.
4.	Can you provide reasons why an National Transmission System Optional Charge is or is not justified? If you consider an National Transmission System Optional Charge is justified, which proposal do you prefer and why is it compliant with TAR NC? Shorthaul tariff, the current Optional Charge arrangement in place, was developed and introduced as part of GB gas network charging arrangements for valid reasons. It ensures economic and efficient use of pre-existing network assets, avoids duplicity in investment, maximises income for network companies and guarantees a revenue stream to offset sunk costs that would not otherwise arise and would have to be collected from remaining consumers. All of these elements are in the interest of current and future energy consumers. A National Transmission System Optional Charge is essential to prevent users like CF Fertilisers from moving off the National Transmission System, causing costs for an already oversized network to be shared amongst a diminished group of consumers. Without

	a shorthaul tariff option, CF and other similarly situated industrial facilities will seriously consider leaving the National Transmission System by building a private pipeline. The only option that provides no payback case at all for moving away from National Transmission System is Option B. Our preference, however, is that the current shorthaul tariff arrangements are simply amended to prevent abuse by implementing a maximum cap to the distance over which they are applied. It is our understanding that, when BEIS negotiated the new Tariff Code in the EU working group, given the importance of shorthaul tariff to industries like us, they did so in a manner would ensure that shorthaul tariff itself would continue to be compliant with the new regulation
5.	Do you consider the proposals to be compliant with relevant legally binding decisions of the European Commission and/or the Agency for the Co-Operation of Energy Regulators? We are not able to comment on this.
6.	It is proposed that National Grid Gas may review or update the Forecasted Contracted Capacity (FCC) Methodology following consultation with stakeholders, unless Ofgem (upon application by any Shipper or Distribution Network Operator) directs that the change is not made as per its powers under Standard Special Condition A11(18) of National Grid's Licence. Do you believe that this governance framework is fit for purpose? Please provide reasons for your answer. We don't have sufficient information and understanding to be able to comment on this.