

# Energy UK initial representations for Mod 636: updating the parameters for the Optional Commodity Charge

09 November 2017

Energy UK is able to provide these initial comments to help further workgroup discussions on this proposal. We may also provide additional comments at a later stage.

The comments are listed in no particular order of importance or priority:

The proposed formula is lifted from the GCD 11 consultation document yet the discussion report did not recommend this as the way forward. Many issues were raised in response to the GCD consultation which need to be considered now in the context of Mod 636. The discussion report is available here

<http://www2.nationalgrid.com/UK/Industry-information/System-charges/Gas-transmission/Charging-methodology/Gas-Charging-Discussion-papers/>

The key themes in the discussion report were:

- Timing (April versus October) for the implementation of any change;
- Governance of making such an update to cost inputs;
- Transparency in deriving the NTS Optional Commodity charge formula;
- Considering wider impacts beyond NTS Charges;
- Interaction and impact of the EU TAR NC and GTCR;
- Putting more of the NTS Optional Commodity charge process / methodology into the UNC.

The formula works on the cost to NG of building a pipeline, it is generally accepted that it would be cheaper for connectees to build their own. In recent years nearly all spur pipelines to CCGTs have been built by the connecting party. Respondents in 1998 felt that the tariff was high.

In addition the spreadsheet to help industry to understand the derivation of the formula was only published after consultation on GCD11 had closed and since further development was postponed has not been subject to industry scrutiny. This needs to happen now in the context of mod 636

The calculation includes load sizes that are very small and would not be NTS connected, this seems unrealistic –what impact does this have?

Transparency of MNEPOR values needs to be considered

The source of the original 1998 costs is not clear, are these a sound basis as the starting point for indexation?

Costs for pipeline diameters are included when these are far beyond the pipe size that would be required for most sites (CCGT) that would consider by-pass. A 600mm pipe would be more than sufficient for a 2GWe CCGT. What is the justification for including these pipeline sizes ? To what extent do these affect the analysis ?

The spreadsheet includes dummy values - how are the issues of sensitivity of these numbers to be addressed to provide transparency of the derivation of the formula

Is the use of RPI / steel index appropriate ? why a mixture of both? NG was subject to RPI –X regulation for a substantial period of time since when the shorthaul tariff was established. Would RPI – X be more appropriate indexation and more consistent with Ofgas original decision ?

Anecdotally steel prices have fallen in recent years due to China flooding the market with cheap steel, does the steel index reflect this ? if not why not ?

Why is increasing charges above RPI appropriate? Is this cost reflective?

Should costs be broken down between material and labour and different rates applied?

Changes are likely to have significant distributional impacts; a small number of parties seeing a large increase in transportation charges whilst others see a small decrease – the wider consequences of this need to be examined in a cost benefit study. This should consider impact on the generation sector, flows to Ireland and IUK exports.

The interaction with Mod 621 needs further thought as this proposal may not have been implemented before mod 621 is sent to consultation, so how can this be handled in terms of change to code that is subject to change?

Energy UK would be happy to discuss these points further, in the first instance please contact Julie Cox, details below.

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