



National Grid's NTS gas charging discussion document (NTS GCD)

NTS GCD 11 – Updating the Cost Inputs to the NTS Optional Commodity Charge Function

Eni Trading & Shipping (hereinafter ETS) welcomes the opportunity to submit a response to this discussion document.

Question 1: Do respondents prefer Option One or Option Two as the most reasonable approach, and most consistent with facilitating the relevant objectives, to update the underlying costs of the formula in an effort to bring the NTS Optional Commodity charge formula more up to date?

ETS recognises National Grid's (NG) Licence obligation to keep charges under review, including the cost assumptions underpinning the formula of the NTS Optional Commodity Charge introduced and lastly updated in 1998, but does not support the proposed intervention. Industry is aware that discussions on substantial tariff reforms are still ongoing, meaning that the outcomes are uncertain both at UK and European levels. It is expected that the EU NC TAR and Ofgem's GTCR will lead to changes in the calculation and application of the Optional Commodity charge.

ETS does not support either of the proposed two Options to update the Optional Commodity charge because we believe that the underlying issue is not with the NTS Optional Commodity Charge but with the very high level of TO and SO Commodity charges that make the NTS Optional Commodity charge viable for use over even greater distances than originally expected). Ofgem, in their GTCR, already proposed that, as of October 2017 (or before), more NG revenue would be collected from capacity charges and less from commodity charges to ensure improved allocative efficiency in charging and legal compliance with EU NC TAR.

With specific regard to both proposed NG Options to update the cost inputs of the NTS Optional Commodity Charge, we deem that they will have a significant negative impact on all Shipper sector groups and customers that currently benefit from this charge. On the other hand, the overall reduction in the Combined Commodity rate to all shippers is very low. Based on the NG analysis, one would expect that the most affected individual users would likely be smaller industrial users that are situated a long distance away from the entry terminals. However, our analysis shows that at even one of the largest NTS exit sites, which is situated at an entry terminal, may see up to a 91% increase in its Optional Commodity Tariff if NG proceeds with implementing its review of the Optional Commodity charge formula. Therefore the magnitude of this charge is such that the market needs a longer period to incorporate this change.

Question 2: Do you agree with the proposal to delay reviewing the methodology / access and flexibility of the NTS Optional Commodity charge until EU TAR / GTCR is more certain?

ETS agrees that reviewing the methodology/access and flexibility of the NTS Optional Commodity charge should be delayed until EU TAR is more certain, in the same way it deems that it is not appropriate even to review the cost inputs in the Optional Commodity charge at this stage. The obligations falling out of the EU NC TAR are still uncertain, however, it is probable that changes to the Optional Commodity charge will be required.

We deem that a comprehensive review of the UK transmission charging system including the Optional Commodity Charge and all related aspects should be undertaken once for all when the EU TAR is more certain, in order to ensure that relevant requirements are met. Also, considering the significant impacts of these changes we do not believe that two major changes in this this charge should be conducted in such a short time frame.

Question 3: Do respondents agree with our proposed approach on timescales for notifying a change to NTS Optional Commodity charges, following the same notice periods as for other NTS charges? If not what do you believe these should be?

ETS disagrees with the proposed approach on the timescale for notifying a change to NTS Optional Commodity charges. Due to the nature of the contracts that are associated with the Optional Commodity charges, the notice period needs to be at least one year. Please note that it is not uncommon for contracts associated with the NTS Optional Commodity charge to have a duration longer than one year.

Question 4: Do respondents believe 1 April 2016 is an appropriate implementation date? If not what do you believe the implementation date should be and why?

ETS disagrees that 1 April 2016 is an appropriate implementation date for this change. We believe that it is inappropriate to review and implement the Optional Commodity charge independently of the GTCR. Therefore, we believe that the appropriate date for implementing changes in the Optional Commodity charge is the date when the GTCR implementation takes place.

Question 5: Are there any elements that you feel we should take into consideration, or that you believe we have missed and should take into account, in the two options being considered for reviewing the NTS Optional Commodity Charge?

ETS believes that the Optional Commodity Charge formula does not need to be updated because the true problem is not with the NTS Optional Commodity Charge but with the very high level of TO and SO Commodity charges that make NTS Optional Commodity charge viable for use over even greater distances. NG should take in account historical records that show that the current Optional Commodity Tariff is adequate for the regime with moderate commodity charges.