Lucite International

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Dear Mr O'Neill,

Modification Proposal UNC 678(A)

Lucite International (LIUK) is the UK's only manufacturer of Methyl Methacrylate; the precursor to Perspex which is a product fundamental to many other goods and products supplied into the UK and international markets supply chain. Our site at Cassel, in Billingham, directly employs 250 people. As the site is intrinsically linked into the former ICI infrastructure and supply chains in the Teesside area, Lucite is indirectly responsible for the employment of up to another 2000 individuals in the local area.

Natural gas and ammonia are two of the major raw materials required in the production of Methyl Methacrylate. The site at Cassel uses of the order of 1300GWh per annum of natural gas directly and a further 500GWh indirectly through the use of UK manufactured ammonia. For the avoidance of doubt these supplies of natural gas are currently obtained by an off take from the National Gas Transmission network and sourced through market-based arrangements.

Gas is supplied from the Central North Sea into the Central Area Transmission System (CATS) pipeline which makes landfall at Coatham Sands, Redcar before making its way under the river Tees to the CATS and pX gas processing terminals located at Seal Sands. The NTS Entry point from these terminals is approximately 5km in a straight line from our manufacturing site; or a 9km pipeline to our door. As a significant stretch of the infrastructure that serves our site is already in private ownership, due to the connectivity of the former ICI infrastructure, the NTS section of this pipeline is no more than 5km in length. LIUK considers that the current short-haul framework (Optional Commodity Rate OCR) provides a fair and proportionate balance of charges that reflect the cost of the investment and operation of the NTS pipeline section that supplies us, versus the opportunity cost of providing a direct connection. Furthermore, the cost levied for our use are not artificially low, inefficient or uneconomic and does not provide a cross-subsidy from other gas consumers or users to our business. As such the existence of the OCR is not in itself a barrier to competitiveness of the system by ourselves or other consumers.

The implication of the introduction of Modification 678A would result in an increase of up to £1.5m per annum. The alternative to our ongoing utilisation of the NTS is to construct a new private pipeline of approximately 4 - 5km through existing land 'corridors', which are in private ownership and are readily accessible to LIUK. Based on our studies and investigations it is estimated that construction of an alternative connection would pay back within 2- 4 years; Under this scenario, LIUK's management team and Directors would be economically driven to pursue this option given that our business and investors expect to remain in production for very many years to come.

The construction of this pipeline will entirely eliminate our volume of gas from the GB market arrangements and use of the NTS, significantly decrease the revenue collected by National Grid from LIUK, and render these costs directly back for recovery from other gas consumers. Implementation of the modification that would result in this credible and inefficient bypass of the NTS therefore would be clearly counter intuitive and against the interests of gas consumers now and into the future.

It should also be noted that the loss of our volume from the open market, 0.14%[1] of the total flows through the NTS, could negatively impact competitiveness for all consumers through a material reduction in liquidity.

LIUK supports the intent of the Large Users Group and confirms that we too are supportive of the need to reform the gas charging arrangements. The current regime is economically efficient for all concerned; the future methodology must not only be compliant with EU codes, it must help ensure that the UK can compete in a global energy market by providing for the low-cost transportation of one of our most important commodity supplies.

Yours sincerely,

Phil Bailey
General Manager
EAME Region

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[1] Based on 918420 GWh stated in the Draft Modification Report for UNC 686 https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/book/2019-05/Draft%20Modification%20Report%20686%20v1.0.pdf. Accessed 28th May 2019