

Mitsubishi Chemical UK Limited

Cassel Works
PO Box 8
Billingham
TS23 1LE
United Kingdom

Tel: +44 (0)1642 73 5000
Fax: +44 (0)1642 73 5136
www.luciteinternational.com

Dear Sirs,

Modification UNC728/A/B/C/D – Minded to notification and consultation

Mitsubishi Chemical UK Ltd (formerly known as Lucite International) operates the UK's only Methyl Methacrylate plant, directly employing 250 people in highly skilled jobs and contributing to the employment of many more in the Teesside area.

Methyl Methacrylate has many uses from the Perspex that has been used to great effect as virus protection screens to industrial and automotive coatings and is also approved for many medical uses. For example, polymer used in the production of blood cuvettes and incubators, resins that are used for adhesives for medical dressings, contact sensitive labels and printing inks for medicine and food packaging, monomers into latex gloves etc.

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 Transmission System and sourced through market-based arrangements.

The NTS Entry point from the closest shore-based gas 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.

Following the adoption of modification 678A in October 2020, Mitsubishi Chemical's operating costs have increased by approximately £1.5m per year compared to those under the Optional Commodity Rate (OCR), and we will incur a further £0.38m during this Gas Year in Revenue Recovery Charges (RRC) which were unexpected and consequently not included in our operating budgets.

Questions posed by the consultation:

Question 1: Do you agree with our assessment of the modification objectives against the applicable UNC objectives?

No opinion

Question 2: What are your views on our conclusion that the proposed modification proposals constitute a 'benchmarking' adjustment to the application of the reference price methodology (Article 6(4) TAR NC)?

No opinion.

Question 3: Do you agree with our assessment of the quantitative analysis?

We believe that the CEPA assessment of the likelihood of bypass of the Teesside cluster may not have considered the current ownership of much of the infrastructure in the area. Significant privately owned land corridors and pipeline tunnels under the river Tees link the former ICI manufacturing sites at Wilton (Redcar), Billingham and North Tees. The building of a private network to our closest terminals (CATS and TGPP) will be facilitated by the fact that one of these land corridors runs past the terminals, allowing the possible use of mothballed pipelines so reducing capital expenditure.

Question 4: Do you agree with our assessment that UNC728C is discriminatory because of the risk that the discount may be used for a route other than a qualifying nominated route?

No opinion

Question 5: Do you agree with our assessment of the modification options against our statutory duties?

We disagree that the introduction of UNC728B instead of UNC728D is in keeping with Ofgem statutory duties.

We believe that second order consumers would be negatively impacted by this minded-to decision as it will still result in a large bypass of the NTS. We believe that a middle ground option that increases the discount to consumers within the 5km proposed by UNC728D beyond that proposed by UNC728B would be beneficial in retaining National Grid revenue for use of the NTS and reducing the impact on large consumers.

Question 6: Do you agree with our minded-to decision to approve UNC728B?

The introduction of Modification 728B in October 2021 would reduce our additional known costs to £0.75m above that which we incurred under the previous Optional Commodity Rate (OCR). This is based

on currently published prices for transmission costs, and we anticipate that these will increase for the next Gas Year as National Grid seek to avoid a repeat of this year's need for RRC. The introduction of modification 728D would eliminate many of these costs.

The alternative to our ongoing utilisation of the NTS is to construct a new private pipeline of approximately 4 - 5km through these existing land 'corridors', which are readily accessible to Mitsubishi Chemical. Our heritage as former ICI site means we are in close proximity to several other large industrial users and so capital and operational costs can be shared; a project that perhaps would not be viable for us acting alone becomes attractive.

We are currently in discussion with a neighbouring company, with whom we already have existing pipeline connections for natural gas, to work together on this issue; we are part funding investigations into the viability of using existing mothballed infrastructure or to build a new pipeline to develop this private network. The economic case for investment is strong and strengthened by the removal of the uncertainty of future developments in the Transmission code and subsequent additional costs. The development of this private network will result in a permanent bypass of the NTS and subsequent loss of revenue for National Grid.

We believe for the reasons stated above that the implementation of UNC728B is not sufficient to prevent bypass of the NTS for some routes and will result in a detrimental effect to second order consumers. We disagree with the implementation of UNC728B over UNC728D.

Question 7: What are your views on our minded-to decision that implementation of UNC728B should take place from October 2021?

We would support the implementation of UNC728D from October 2021.

Yours sincerely,

Phil Bailey
General Manager
EAME Region