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Richard Miller
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Review of NT Entry Charge Setting Arrangements - Impact Assessment

Dear Richard,

ExxonMobil International Limited is submitting views on this Impact Assessment on behalf of its gas shipping entity ExxonMobil Gas Marketing Europe Limited.

We have supported GCM 19R and UNC modification proposals 284 and 285 which we believed offered practical remedies to encourage longer term purchase of entry capacity requirements in an environment where spare system entry capacity continues to increase. We continue to support those proposals and were disappointed that Ofgem, in its impact assessment, has found so few reasons to be able to support.

We urge Ofgem to look hard for reasons to support these proposals or at least find ways to avoid outright veto/rejection and allow further constructive discussions to be pursued. The summary below provides a perspective on the issues and answers in some part the questions raised by Ofgem.

Summary

As long as the current arrangements remain there can be no doubt that users who require or may require entry capacity for future production or import purposes will see an increasing incentive to defer purchase of capacity until the day. At several of the entry points connecting UKCS supplies to the market capacity can be reasonably predicted to be both available and free on the day. Users at importing locations see their long term capacity price effectively increasing as they also collect a share of the price that is not being paid at locations with spare capacity. It is inevitable that these users will start to respond by reducing or eliminating long term capacity commitments they might otherwise have made in the future, also organizing their business to obtain increasing access via daily capacity. By the mid 2020s NGGs entry capacity revenues may be very substantially generated through the TO commodity charge.

What are the potential consequences for the UK gas market ?....The market would be increasingly supplied by “short notice” volumes, if for instance wholesale sellers (shippers) become reluctant to commit long term gas at the NBP. Retail Gas suppliers might respond by seeking to procure longer term gas needs ex terminal from importing users (and take on the entry capacity risk themselves). This could lead to a situation where less and less gas is available for trade at the NBP with implications for market liquidity and security of supply.

Ofgem argue eloquently for the marginal cost pricing approach as being one that is in the consumers interest. We have to question whether these rather narrow arguments represent the whole of the consumers interest given the potential consequences for the market. Ofgem may be right that the case has not been made that the proposals improve price predictability – however we think that the case to remove cross subsidy and incentivise longer term capacity holdings are much clearer. Maintaining the integrity of the current gas market arrangements into the future is important for and beneficial to GB consumers.

The transmission charging principles that were developed back in 2002 for entry capacity auctions and reserve prices (the market clearing principles in particular) were never, as far as we can recall, tested against the capacity supply and demand outlook we are now able to see. Also, Europe is currently developing its guidelines and principles in relation to capacity allocation and GB may need to make further changes based on the outcomes there.

Conclusion

Ofgem has indicated that it is currently inclined to veto/reject the proposals. In the event that Ofgem confirms its initial view, we hope that Ofgem will nonetheless acknowledges the significance of the issues for which remedies are sought, and provide direction and timetable for further discussion.

Yours sincerely

Ian Trickle