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Response to Gas Transmission Charging Review - Call for evidence

14 September 2013

Dear Sirs,

Our ref. petbi

DONG Energy is pleased to provide a response to the abovementioned call for evidence on Gas Transmission tariffs.

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As you may be aware DONG Energy is now active in the entire UK gas value chain with retail sales through DONG Energy Sales UK and a gas wholesale business based partly on our Norwegian Ormen Lange volumes that can either enter Easington or flow to the Continent. In addition, DONG Energy is involved in gas exploration in a number of licences in the West of Shetlands area with first production from the Laggan-Tormore fields expected in late 2014 / early 2015.

As the UK becomes increasingly dependent on gas imports and with the harmonisation of gas transmission and charging systems across Europe, it is important that the UK gas transmission charging system remains consistent and competitive vis-à-vis neighbouring systems in order to attract gas volumes and support gas development in the UK.

Our key messages are:

1. There should be a high level of predictability in tariffs in order to support long term investments. DONG Energy finds that the high share of tariff income raised via the commodity charge in the current system leads to fluctuating tariffs, in particular for entry into the UK. This could be managed via changing the split between capacity and commodity income and via setting restrictions on how much total tariffs at a certain point can change year on year
2. The UK system should be consistent with other European countries. The current system, with a high level of commodity charge, incentivises gas flow to the Continent, where the variable component is considerably less compared with the UK. Hence, shippers will tend to use capacity booked at entry points on the Continent unless the premium at which the NBP trades above the Continental hubs exceeds


the commodity charges. This may lead to more fluctuations in the daily supplies into the UK. Again, a possible remedy is to adjust the split between capacity and commodity charges.

3. The UK system should be competitive vis a vis other countries. With the UK offshore production – and transit through UK – decreasing the absolute level of tariffs levied on entry points increases as entry tariffs recover 50% of the allowed revenue. DONG Energy finds it appropriate that consideration is given to the overall split between entry and exit tariffs. More generally, yet linked to the manner in which revenue recovery is determined, DONG Energy proposes that the review revisits the manner in which National Grid derives the cost of transmission, through the application of scaled LRMCs. It is important that the methodology strikes a balance between cost reflectivity, impact on wholesale prices and security and supply particularly in view of the UK gas market becoming a net importer. Transmission charges need to be structured in such a way as to attract new volumes and support gas exploration in areas further from the consuming markets.

We look forward to the continued discussions on these for the UK gas market important issues and we are of course ready to elaborate on any questions, which our letter may have given rise to. In the attached annex 1 we have given additional input as regards the specific questions you raise.

Yours sincerely

DONG Energy



Peter Bilttoft-Jensen

Head of Regulatory Affairs, Gas and Trading
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Annex 1

Question 1: What has given rise to the current balance between charges for access to the transmission network? How might this change in future?

Answer: No specific input.

Question 2 & 3: What issues are there with current charging arrangements? & Question 3: How do current arrangements give rise to these issues?

Answer: DONG Energy's key concerns are reflected in the key messages in the cover letter.

Question 4: In the event that there were to be minimal implementation of the Framework Guidelines/network codes as currently drafted, eg no subsequent changes at domestic points, what would be the impact?

Answer: DONG Energy finds that the charging system must be seen in an integrated manner. The challenges facing the UK system, for instance decreasing transit volumes, unpredictable charges etc., require that the entire system is considered when developing the charging system.

Question 5: Are our goals for the review appropriate?

Answer: The goals for the review seem appropriate,

Question 6: How could charging arrangements better meet the objectives set out in NGG's special standard condition A57 which sets out the objectives for NGG's charging methodology?

Answer: DONG Energy finds that emphasis should be on creating efficient markets attracting gas supplies to the UK, cf. our key messages above, and focus on cost reflectivity in the charging system should be balanced against this.

Question 7: Do the objectives set out in NGG's special standard condition A5 remain fit for purpose? If not, how should they be changed?

Answer: DONG Energy finds that an additional focus point should be the overall security of supply for the UK system

Question 8: What other suggestions do you have for the objectives of our review?

Answer: Please see key messages and comments made above.

Question 9: What is your view on the timescale for our review

Answer: DONG Energy finds that the timescale is appropriate for the review

Question 10: Bearing in mind the issues and objectives you have identified, what options should be explored to address these? & Question 11: What are the pros and cons of your suggested option?

Answer: Please see our key messages and comments made above.