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Sent by email to:
Gas.TransmissionResponse@ofgem.gov.uk and alena.fielding@ofgem.gov.uk

Response to Ofgem public consultation on the gas transmission charging review

Dear Alena

On behalf of ExxonMobil Gas Marketing Europe Limited (EMGME) and Esso Exploration and Production UK Limited (EEPUK), ExxonMobil International Limited (EMIL) appreciates the opportunity to comment on Ofgem's policy position on future charging arrangements resulting from the gas transmission charging review (GTCR).

Our major concern with the current and future charging arrangements is the impact on holders of existing long term capacity bookings.

Current Regime

As your analysis highlights, there is currently a trend to booking heavily discounted short term capacity which is resulting in the significant increase in commodity charges. These increased charges may be acceptable to short term capacity holders as the capacity charge is often zero, but it penalizes holders of long term capacity.

Most of the existing major long term capacity reservations were made some time ago and would have been executed without the expectation of a commodity charge increasing to such an extent, or that there could be a major redesign of the tariff setting mechanism. Furthermore, some of those long term bookings will have been associated with new project investments and consequently the economic analysis associated with the booking at the time will now be significantly different.

We acknowledge that shippers should be aware at the time of booking that the TSO is entitled to recover allowed revenues and hence total capacity pricing is not "fixed", but the changes in commodity charges have been substantial.

New Regime

We appreciate that all users of the gas transmission network should cover a proportionate cost of historic network costs. However, as long term capacity bookings are generally made to accommodate peak flow, the introduction of a floating charge applicable to the entire capacity booking is a further unplanned charge that will

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significantly penalize shippers who booked long term peak capacity for prudence and in good faith in the existing regime, knowing that nominal flows are likely to be lower. With long term capacity holders currently unable to optimize or adjust their capacity commitments the proposed policy position appears to further frustrate the capacity booking.

Sanctity of Contract
We stress the importance of contract sanctity, reasonable commerciality and stability of the regulatory framework for market parties to make (or support) any major new capital investments needed to secure gas supply to UK consumers. Upstream projects, LNG terminals and interconnections are realized on this basis.

With the trend in commodity charges under the current regime and the proposed changes in the new regime it appears that the cost of capacity under the original long term capacity bookings is significantly and materially different to those that that could reasonably have been expected at the time they were made.

Proposal
If Ofgem implements the current proposals on existing long term bookings, the impact on those long standing commitments should be acknowledged and capacity holders should be given the right to adjust the long term capacity bookings in order to restore the contractual balance between the network user and TSO and help remedy the highlighted issues with the original booking. This would allow long term capacity holders to have the same ability to optimize their bookings and operate on a “level playing field” with other shippers who have not made long term bookings. We recommend a one-off capacity return option, giving shippers the right to reduce or eliminate their long term bookings. The deadline for releasing capacity should be shortly before the first long term capacity booking round prior to the implementation of the new regime.

The effect of changes to capacity charging methodologies and resulting total capacity charges is one that has been discussed and, in some locations, addressed in other EU member states using a capacity return option. For example, the “Cooperation Agreement” between German TSOs and DSOs stipulates the right of a shipper to terminate transportation agreements if tariffs change beyond a threshold. Similarly, there are proposals under discussion regarding the inclusion a capacity reset option in the draft EU network code on tariffing to address this type of situation.

With respect to capacity bookings associated with new infrastructure investment where there is a minimum booking obligation i.e. eight years duration, then the holder of that associated capacity should not be able to release it during that period, but be free to release a proportion of any capacity booking beyond the first eight years. Again, the deadline for releasing capacity should be shortly before the first long term capacity booking round prior to the implementation of the new regime.

We trust that you will find our input useful and if any clarification is required please do not hesitate to contact us.

Yours sincerely,

Lee Bowerbank
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