



David O'Neill/Alsarif Satti  
Ofgem  
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London E14 4PU  
United Kingdom

20 February 2020

Dear David & Alsarif,

Equinor welcomes the opportunity to respond to your minded to decision and draft impact assessment for UNC678/A/B/C/D/E/F/G/H/I/J of 23<sup>rd</sup> December 2019

**Question 1: What is your view of our assessment that Postage Stamp is a more appropriate RPM in light of the circumstances of the GB network?**

Answer 1. Equinor supports Ofgem view that Postage Stamp (PS) is a more appropriate Reference Price Methodology (RPM) for the GB network ahead of Capacity Weighted Distance (CWD). As outlined in our consultation response supporting 678A Equinor feels PS RPM will enhance security of supply in a meshed network with spare capacity where cost recovery rather than location is a key driver of cost. This non-discriminatory approach benefits consumers by ensuring gas delivered at points furthest away from the network such as St Fergus aren't subject to distortive charges because of distance. Equinor believes PS is non-discriminatory with no un-due cross subsidisation and better reflects the actual cost drivers of transportation within the network.

**Question 2: Do you agree with our assessment that maintaining the FCC methodology in the UNC improves the transparency and consistency of governance compared to maintaining the FCC Methodology outside of the UNC?**

Answer 2. Equinor fully supports placing FCC methodology inside the UNC. This will ensure UNC governance requirements are fully met and any proposed reviews of FCC are carried out via workgroup assessment promoting transparency and visibility to all users of the network.

**Question 3: What is your view on our assessment that the PS RPM would be preferable to the CWD for future green gas market entrants?**

Answer 3; Equinor supports this view in that future green gas entrants should be able to access the network regardless of distance and in a non-discriminatory way under PS. This is a critical area for charging to support decarbonisation and the transition towards net zero targets.

**Question 4: What are your views on our assessment of the quantitative analysis?**

Answer 4: Equinor supports your assessment of the quantitative analysis and accepts that some of its findings could be indicative.

**Question 5: What are your views on our assessment of the modification options presented to us against the applicable UNC objectives?**

Answer 5: Equinor supports the assessment of the options against UNC objectives and believes PS and 678A better facilitate the relevant objectives as outlined.

**Question 6: What are your views on our conclusion that only two modifications - UNC678 and UNC678A - are compliant with the relevant legislation? If you disagree, please provide a fully reasoned explanation.**

Answer 6; Equinor agrees that only 678 & 678A are compliant with relevant legislation. However, Equinor supports the implementation of 678A for the reasons already outlined within this response. Equinor also supports your recommendation that Revenue Recovery Charges (RRC) aren't applied to Existing Contracts as per article 35 of TAR NC.

**Question 7 a) Given our conclusion that only two modifications are compliant with the relevant legislation, what are your views on our minded-to decision to approve UNC678A rather than UNC678? b) Do you consider our minded-to decision to appropriately reflect the principles-based assessment and quantitative analysis presented in this report? c) Do you agree it best facilitates the relevant objectives? Please fully justify your response.**

Answer 7: As previously stated Equinor supports the minded to decision to approve 678A while reflecting the principles-based assessment and quantitative analysis outlined in the report. As per answer 5 Equinor believes UNC678A best facilitates the relevant objectives.

**Question 8: What are your views on our assessment that the proposed RPM (PS under UNC678A) achieves, inter alia, the following objectives: a) enables network users to reproduce the calculation of reference prices and their accurate forecast; b) presents a better option than CWD for the recovery of the costs of the gas transmission system in the presence of a meshed network characterised by spare capacity and declining usage, and where cost-reflectivity is less relevant; c) ensures non-discrimination and prevents undue cross-subsidisation (you may refer to the results of NGGT's Cost Allocation Assessment ("CAA") published as a subsidiary document to this consultation); d) ensures that significant volume risk related particularly to transports across an entry-exit system is not assigned to final customers within that entry-exit system; e) ensures that the resulting reference prices do not distort cross-border trade?**

Answer 8;

a) Equinor feels PS enables network users to reproduce the calculation of reference prices and their accurate forecast due to the low number of inputs required. This is extremely important to ensure stability and predictability for future charging arrangements.

- b) Equinor agrees that PS represents a better option than CWD for the recovery of the costs. CWD creates charges that are higher at beach terminals which could have a negative impact on wholesale prices and therefore increased costs could be passed onto consumers.
- c) PS reduces non-discrimination and prevents undue cross-subsidisation because all users pay the same amount. Ofgem in their 621 rejections letter made several references to the merits of PS as an RPM methodology over CWD which are important in this context.
- d) As capacity at interconnection points (IPs) is priced in the same manner as capacity at other points then there is no bias towards revenue recovery from final customers
- e) Setting charge at all IPs in the same manner should not distort cross-border trade once the arrangements are in place.

**Question 9: What are your views on our minded-to decision that implementation should take place from 1 October 2020 to coincide with the start of that gas year?**

Answer 9; Equinor fully supports a 1<sup>st</sup> October 2020 implementation date to coincide with the start of a gas year. As outlined in our consultation response a mid-year implantation of the new regime would be wholly unsatisfactory. Equinor feels a final decision is required by the end of May 2020 to ensure that future auctions are captured within the new framework.

**Question 10: Are there any other matters, whether or not addressed in our analysis or minded-to findings, which you think we should take into account in reaching our final determination?**

Answer 10:

Equinor has no further comment to make for question 10.

**Equinor Summary**

Equinor fully supports Ofgem's minded to position to implement UNC678A and the PS methodology. We feel this proposal best reflects the relevant objectives of the UNC. We agree this is a suitable way of supporting competition, and minimising cross-subsidisation. Equinor feels the proposal to be compliant with TAR NC particularly around existing contracts being exempted from RRC. Equinor also welcomes the recommendation to implement FCC methodology within the FCC to ensure good governance in the future. Equinor requests a final decision on the process before the end of May 2020 for implementation in October 2020.

Yours sincerely,

Terry Burke  
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Equinor UK Limited