Gazprom Marketing & Trading Limited
20 Triton Street
London
NW1 3BF

David O'Neill, Alsarif Satti,
Gas Systems
Energy System Transition
Ofgem

Sent by e-mail to: Gas.TransmissionResponse@ofgem.gov.uk

24 February 2020

Dear David, Alsarif,

Consultation response to Ofgem minded to decision and draft impact assessment on UNC Mod 0678: Amendments to Gas Transmission Charging Regime

We welcome the opportunity to respond to this incredibly important consultation, we hope the outcome results in fully complete charging framework that will promote security of supply and cross border trade, as per objectives of the Europe Network Code on Tariffs (TAR NC).

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

Postage Stamp does not reflect the heterogeneity of the NTS, as it smears historical costs on an equitable basis. Whilst it has merits in its simplicity, we do not believe this is a reason to distort the main drivers of the allowed revenue. Although it's impossible to achieve full cost reflectivity and that a degree of cross-subsidy will always remain, the level of cross subsidy needs to be controlled and based on objective criteria that is suitable for the network under discussion.

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?

We do not agree with Ofgem's assessment as this causes the FCC to be the only variable factor that sits within the UNC and potentially cause instability and uncertainty as it's exposed to the open governance process where users with commercial incentives may wish to understate the FCC and attempt to employ this via the governance process. This is not consistent with other National Grid statements such as the National Grid Capacity Methodology Statements that do not sit within the UNC.

Mod 0678I resolves this issue as it proposes a fixed FCC methodology for four years, with the exception that the FCC methodology can change following one year of implementation as a transitory arrangement. Therefore, the FCC will only fluctuate for year on year changes as calculated within the methodology.

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?

Ofgem has supported this view with the following statement: *This informed the decision of the Commission for the Regulation of Utilities to introduce special arrangements for renewable gas facilities to have a single notional tariff in order to promote stability and predictability of the tariff*

In other words, it is based on decisions made by a different regulatory authority for a member state that has an entirely different gas transmission system; Ireland is currently engaging in an ambitious plan to achieve 20% renewable gas in their network by 2030. In this instance, the impact of the PS methodology on future green gas market entrants is not justified and assumes these entrants would be located at the extremities of the network. The RPM does not impact predictability and certainty of tariffs, this is derived from the FCC and relies on allowed revenues being communicated in a clear and timely manner.

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

The results on the NOC are counterintuitive concluding that the removal of short haul would lead to a reduction in the wholesale cost of gas.

If the NOC is removed or significantly reduced, this will increase the cost of transporting gas to the GB network therefore the NBP spreads will need to widen, requiring a higher marginal price to signal flows to the GB market.

The routing and costing of bypass options are overly simplistic, as the modelling cannot fully and accurately represent each individual case. For example, it assumes construction of "new" pipelines, ignoring the reality that there are numerous existing and mothballed private pipelines which can be connected into, or "re-lifted", resulting in costs significantly below those produced by CEPA.

Additionally, the analysis does not consider that in some cases, commercial enterprises are located in such a way to allow "clustering" (consortia of companies developing infrastructure projects permitting multiple connections to a single network). It also ignores the potential for offshore bypass of the NTS; upstream field may commission existing infrastructure to connect between sub-terminals, increasing the likelihood of stranded assets onshore.

Analysis on Ireland

The analysis fails to quantify the impact of no relief granted for end-consumers and also ignores the near-zero distributional impacts on GB consumers as a result of the Ireland Security Discount as illustrated below[1].

[1] UNC Mod 0678I, Appendix 3 https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/book/2019-04/Modification%200678I%20v6.0.pdf

Impact of Ireland Security Discount on NTS Exit prices 2019/20					
	FCC	Moffat IP Exit	Revenue recovered yearly	Total revenue recovery	Share of revenue recovery
	KWh/d	p/KWh	(£)	(£)	
0678 Scenario	212920231	0.01714	4,902,120	337,823,191	1.45%
0678I Scenario	212920231	0.00086	666,042	337,823,191	0.20%
Additional cost to exit points of Ireland Security discount (p/KWh)			**0.000695**		

The table shows that the estimated unit increase costs at exit points is minimal, therefore an Ireland Security Discount of 95% does not lead to distortion in GB NTS capacity prices and will have very little impact on GB customers.

Based on the assumptions above and a series of confidential scenarios tested by the Proposer, the potential impact of implementing 0678 on the Republic of Ireland, Northern Ireland and Isle of Man gas markets is between ~£15m to ~£30m, however this does not consider the impacts on the Integrated Single Energy Market. Generators will need to consider the additional costs of procuring gas for CCGTs and hedge against increasing costs due further uncertainty in the future transmission charging arrangements. This premium is likely to be passed on to end-consumers.

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

No comments

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

We disagree with Ofgem's conclusion, particularly in relation to the Ireland security discount. Paragraph 4.14 of Ofgem's letter states *"The proposed Ireland Security Discount does not serve the purpose of increasing security of supply. Therefore, the test laid down in Article 9(2) of TAR NC is not satisfied "*

Contrary to this, the justification for the Irish discount has been clearly expressed for security of supply purposes addressing not only the Ireland's gas security, but also the GB market by supporting UKCS production value. This in turn improves the NPV for upstream fields, allowing producers to extend their field life and therefore maximising economic recovery of upstream gas; a security of supply benefit for the GB market.

Question 7: 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?
[…]

We do not believe that UNC mods 0678 and 0678A best facilitate the relevant objectives for the reasons outlined above.

Question 8: What are your views on our assessment that the proposed RPM (PS under UNC678A) […] 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?

In addition to points raised in Question 1 the absence of additional tools used such as optional charging or discounts increases volume risk for end-customers, particularly in Ireland.

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?

We welcome Ofgem's decision to implement the new regime at the start of the year, however we also note that implementation of UNC 0678A will result in a sub-optimal outcome as it provides no solution for the optional commodity charge and storage discounts. In our view, it would be sensible to develop a complete package that will deliver the best outcome for all UK customers. Implementation of UNC 678A for this October will not provide adequate time to develop an optional capacity charge and storage solution. Without a fully developed solution there is a danger that customers will invest in bypass pipelines and storage facilities may be forced to close or mothball capacity.

Question 10: Are there any other matters […] you think we should take into account in reaching our final determination?

We would like to draw Ofgem's attention to an ongoing work programme in the Netherlands; REG2022 which aims to address stranded asset costs and rising tariffs coinciding with the Groningen gas field phase out and expiration of long-term contracts. Given the GB network is facing similar challenges we would welcome a similar review for the GB system.

We hope the comments above prove helpful. Please do not hesitate to contact me on +44 (0)20 7756 9732 or at sinead.obeng@gazprom-mt.com if you wish to discuss any aspect of our response in further detail.

Yours sincerely,

Sinead Obeng

Regulatory Affairs Advisor
Gazprom Marketing & Trading

Mauricio Cepeda

Regulatory Affairs Manager
Gazprom Marketing & Trading