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Dear David,

RE: UNC728/A/B/C/D ('Introduction of a Conditional Discount for Avoiding Inefficient Bypass of the NTS'): minded to decision and impact assessment

Thank you for providing the opportunity to respond to this consultation on what we refer to as "shorthaul". This response is submitted on behalf the ExxonMobil group of companies ("ExxonMobil"). We do not consider this response to be confidential, and as such are happy for it to be published on the Ofgem web site.

Summary of ExxonMobil's Views

The availability of an appropriate Shorthaul product is of critical importance to ExxonMobil. We were represented throughout the workgroup process where this current suite of shorthaul UNC modification proposals was discussed and developed. During that process, we also heard from a number of other gas network users, and indeed gas consumers, of the very credible risk of system bypass where no gas transmission shorthaul option existed. It seemed apparent even at that stage that by-pass options were already being considered.

We've also heard about the shock to businesses, which had benefitted from the previous shorthaul Optional Commodity Charge arrangements, when that arrangement ended abruptly in September 2020. With hindsight we believe that failure to update the previous arrangement to keep it relevant to developments in the GB gas market over the years resulted in shorthaul benefits being applied inappropriately – i.e. where no credible risk of shorthaul existed. This may have incentivised the development of gas consuming businesses which may now be struggling under the burden of full Postage Stamp gas transportation charges.

ExxonMobil has itself been a shorthaul user in the past, and has been significantly impacted by its cessation. Having carefully consider all five of the current suite of UNC modification proposals, we offered our support for all of them during the UNC consultation process, primarily on the basis that all of them were compliant with prevailing regulations and all of them would be better overall than having no shorthaul. We particularly favoured 0728A due to the balance that it struck between an appropriate distance cap at 18km, and its inclusion of a General Non-Transmission Services discount.



Nevertheless, we have felt it prudent to consider the prospect that shorthaul would disappear forever. To that end we have been giving considerable thought to options for by-passing the national gas transmission system in the event that no reasonable prospect of an appropriate and enduring shorthaul option appears in the near term.

The outcome of this consultation, and the decision that Ofgem makes as a result, is therefore of utmost importance to us.

Responses to specific Ofgem questions

Question 1: *Do you agree with our assessment of the modification options against the applicable UNC objectives? If you disagree, please provide a fully reasoned explanation.*

In a number of cases Ofgem has reached a different view to our own about the extent to which these modification proposals might better facilitate the various UNC relevant objectives. Most notably, Ofgem has found some relevant objectives are not better facilitated when we believe they are.

Nevertheless, since we support Ofgem's overall decision to implement 0728B, we offer no further evidence or argument on these points.

Question 2: *What are your views on our conclusion that the proposed modification proposals constitute a 'benchmarking' adjustment to the application of the reference price methodology (Article 6(4) TAR NC)? If you disagree, please provide a fully reasoned explanation.*

We agree.

Question 3: *Do you agree with our assessment of the quantitative analysis? If you disagree, please provide a fully reasoned explanation.*

We have no material basis for disagreeing with Ofgem's assessment.

Question 4: *Do you agree with our assessment that UNC728C is discriminatory because of the risk that the discount may be used for a route other than a qualifying nominated route? If you disagree, please provide a fully reasoned explanation.*

While we understand the logic behind 0728C, we agree that ensuring fair and appropriate use in all cases could be problematic in practice. We do not believe that these challenges are insurmountable but policing this discount could add significant complexity and, potentially, cost. We consider that 0728C would be discriminatory to the extent that it was actually applied inappropriately, but possibly not discriminatory where it was applied as intended.

Question 5: *Do you agree with our assessment of the modification options against our statutory duties? If you disagree, please provide a fully reasoned explanation.*

Yes.



Question 6: Do you agree with our minded to decision to approve UNC728B? We would expect any stakeholders alleging a risk of bypass to provide robust evidence demonstrating that risk, including any confidential commercial information (for instance, specific capital and operational costs required for the construction and operation of a bypass pipeline as well as - where possible – a structural representation of any bypass pipeline(s) they are considering).

ExxonMobil offered support for all of the current suite of shorthaul modification proposals during the UNC consultation process and is therefore pleased that 0728B is being actively considered for implementation.

However, during that process we expressed a preference for 0728A. We did so primarily on the basis that, when shorthaul is considered as a proxy for genuine by-pass pipeline costs, we believe there is strong justification for discounting General Non-Transmission Services (commodity) charges as well as Transmission Services (capacity) charges.

We are not able to provide any additional input on the question of the maximum distance over which shorthaul should be applicable; we understand the arguments in favour of a 28km cap and have no evidence to challenge this.

We do, however, note that none of the suite of proposals included the option for both Transmission Services and General Non-Transmission Services discounts over distances up to 28km. It would be particularly helpful if Ofgem could provide guidance on the appropriateness of this option, and the acceptable level of discounts, in its final decision. We believe such guidance could help inform any future attempt to introduce a General Non-Transmission Services discount

Question 7: What are your views on our minded-to decision that implementation of UNC728B should take place from 1 October 2021?

We understand that a number of businesses, including our own, will have seen costs rise significantly under the dual impact of a move to Postage Stamp pricing, and the removal of the shorthaul discount. These cost increases have come at an especially difficult time for many due to the COVID impacts. There is therefore an argument in favour of implementation as early as possible.

However, this must be weighed against the implications for the RRC charge, the introduction of which has already caused significant upset and pricing uncertainty.

On balance, given the likely timing of a final decision which will come some significant way through the current gas year, we support an effective date of 1 October 2021.

Question 8: 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?

No.

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Please don't hesitate to contact me should you require any further information or clarification regarding this response.

Yours sincerely

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