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Rebecca Hailes
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Sent by email to: enquiries@gasgovernance.co.uk

9 November 2017

Dear Rebecca,

Gazprom Marketing & Trading Limited (GM&T) initial representation on UNC Modification 0636

GM&T would like to submit an initial representation regarding UNC Modification 0636. We are of the view that the analysis and justification behind the solution needs further development, in particular we note that:

- The modification refers to the GCD11 process and the solution cites the 'Option 2' formula. However the review process for GCD11 is incomplete, in particular the derivation of the formulae produced. The supporting spreadsheet setting out the calculation of the formulae was produced after the stakeholder consultation concluded and therefore the formulae have not been subject to proper stakeholder review. This process ought to take place as part of the 0636 workgroup process.
- There is a lack of transparency around the derivation of the formula as the values ascribed to the additional pipelines added to the portfolio have not been presented for "commercial sensitivity reasons".[1] We think that further discussion on this point is warranted.
- The inclusion of additional pipe diameters in the portfolio is a change which was not investigated during the GCD11 process. We would like more justification for their inclusion and to understand whether it is realistic to assume that NGG would use larger pipeline diameters to service shorthaul connections.

[1] http://www2.nationalgrid.com/WorkArea/DownloadAsset.aspx?id=43844 cells B16 and B75

- Also in relation to pipeline diameters, we note that the methodology employed by NGG allocates specific flow rates and diameters to a specific pipeline size. The assumptions behind this allocation process need to examined, particularly in light of the expansion of the pipeline portfolio as described in Option 2.
- We think that there would be merit in conducting further analysis on the use of a steel index. The decision to invest in a private pipeline would have occurred, in most cases, many years ago. This brings into question the validity of updating the steel index to today's prices. At the same time, where a decision was taken by an off-taker not to invest in a private pipeline, using either an existing pipeline route, or a new/enhanced route, any investment undertaken by NGG would have been taken at that time. The application of a steel index to historical investments appears to be inappropriate and at least warrants further discussion during the workgroup process.
- The Option 2 formula results in a greater contribution towards SO costs by shorthaulers. The validity of this outcome needs to be investigated if the charges are to be deemed to be cost-reflective.
- We would like to understand the relevance of linking the formula to RPI. We would like to understand whether its application is consistent with the way charges are imposed elsewhere (e.g. in the case of the standard commodity charges).
- Based on the impact analysis provided in GCD11, the benefits in terms of recovered revenues and the overall reduction in standard commodity charges are small, however, the impacts on individual offtakes are significant. We strongly believe that a thorough cost benefit analysis ought to be carried out to consider the impact of adopting Option 2. In particular, the additional costs which will be imposed on a particular category of customers (industrials and power generation) need to be weighed up against the benefits (in terms of reduced combined commodity charges) to the wider customer base.

We hope that you find these initial comments useful. If you would like clarification or further detail in relation to any of the above points please don't hesitate to contact me.

Yours sincerely,

Lucy Manning

Regulatory Affairs Advisor

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