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To: Joint Office of Gas Transporters,
relevant Gas Transporters, Shippers and other interested partiers

Consultation response to UNC Mod 0621/A/B/C/D/E/F/G/H/J/K/L - Amendments to Gas Transmission Charging Regime

Gazprom Marketing & Trading Limited is the UK registered wholly-owned subsidiary of Gazprom Group ("Gazprom"), responsible for the optimisation of Gazprom's energy commodity assets through GM&T's marketing and trading network. GM&T operates as an active as a trader and marketer of gas at various points in Europe, and especially in the UK.

We welcome the opportunity to respond to this important consultation and we hope that it will result in gas transmission charges that are transparent, costs reflective and promote security of supply across borders, as per the objectives of the EU Tariff Code.

GM&T does not support any of the proposals raised in their current form, however we recognise that there are strengths and weaknesses of each proposal. Our response draws on the benefits and potential negative impacts that we have identified in each of the proposals as we think it's important to assess each element of the charging regime, as well as the proposals in their entirety.

Please find below our responses to the consultation questions outlined on the Joint Office website, which we hope provides clarity on the areas of the proposals that do not effectively meet the relevant objectives.

Section 1: Support/opposition for each proposal and expression of preference

Proposal	Support/oppose
621 - National Grid	Comments
621A - Storengy	Comments
621B - SSE	Comments

621C - Centrica	Comments
621D – WWU	Oppose
621E - Uniper	Oppose
621F - IUK	Comments
621H - ENI	Comments
621J - RWE	Oppose
621K - Gateway	Comments
621L - Shell	Oppose

GM&T does not support any of the proposals but considers Mod 621B as the least, worst proposal.

Section 2: Assessment of the key charging regime elements

Reference Price Methodology (RPM)

1. Of the RPMs proposed, we prefer the Capacity Weighted Distance (CWD) approach as it takes allowed revenues and allocates them to entry and exit points in accordance with the volume of capacity deemed to be available, or booked and weights in on the basis of the relative distance of these points. There is clearly a relationship between the cost of pipeline provision and distance and the RPM should reflect this correlation if it is to be regarded as cost reflective. We do not support the application of the square root to the CWD model as proposed in WWU's Mod 621D as there is insufficient justification for this. It is purely arbitrary resulting in a RPM which sits between Postage Stamp (PS) and CWD. If it is accepted that pipeline distance drives cost, any dilution of this principle should be disregarded.

Forecasted Contracted Capacity (FCC)

2. Mod 621 and its alternates (excluding 621B) propose an "interim" period, where the FCC will be based on Obligated Capacity levels for each entry and exit point. For the "enduring" period, the methodology proposed FCC for all mods (excluding 621B), will be based on a forecast that has not yet been formulated by any of the proposers.

3. We support the concept of an interim period but Users are unable to take a view on FCC for the enduring period as none of the proposals have presented a basis for its calculation. This is a key element that should have formed part of the proposed Reference Price Methodology, as such it is difficult for Users to fully assess the impact of the proposed RPM on their businesses.

4. SSE's Mod 0621B however, proposes to use Obligated Capacity as the basis for FCC indefinitely. The Obligated Capacities are outlined in National Grid's licence and therefore provide a stable input for Users to predict future transmission charges, for inclusion in commercial decision making. In our view this is the only proposal that achieves stability and predictably as per the stakeholder objectives outlined in Section 6 Part I of the Workgroup Report.

5. The use of obligated also removes the undesirable side-effects of forecasting errors. Based on the methodologies proposed, any forecasting errors, which we expect to be commonplace, will be socialised across all Users and ultimately customers. Without question this will result in a degree of cross-subsidy and a deviation from cost reflective charges

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Multipliers

6. National Grid (NG) have proposed to apply multipliers equal to 1 for all capacity products in Mod 621. As mentioned in 4.3 of Part I of the Workgroup Report, National Grid's initial intention was to apply these values for one year, after which they would be subject to annual consultations. Following concerns raised by workgroup participants, the wording was amended to include multipliers in the UNC, meaning that they could only be modified through the formal governance process. Notwithstanding the fact that Users are free to propose alternative multipliers, we are concerned by the lack of analysis which has been carried out to verify that the initial values are reasonable and will not have unintended consequences. In this respect, we do not support any of the proposals and we welcome the opportunity for NG to assess booking behaviours in the interim period to potentially review multipliers as they originally intended.

7. In our view, step changes in the level of short term multipliers should have been considered as a transitional element, in addition to the FCC. Industry will now see a significant increase in the cost of short term capacity, which will impact cross-border trade and security of supply for neighbouring countries. Cheaper short term capacity enables gas to flow to the highest priced market without price disconnections. Price disconnections lead to higher market risk premia and ultimately higher prices for consumers.

8. The Gas Deficit Warning on 1st March 2018, is a prime example of why cheaper short term capacity is necessary, especially with the closure of Rough long range storage and the limited short term flexibility of LNG. The availability of cheap short term capacity enabled gas to flow from the Continent through the interconnectors in order to meet demand.

9. In light of this we also think a review of multipliers for IP daily and within-day standard capacity products is needed, given that lower levels at IPs may encourage security of supply and support within day trade. This is allowable in accordance with Article 13 of the EU Tariff Code (TAR NC) which states IP short term multipliers may be less than 1 where duly justified.

Specific capacity discounts

10. In combination with the above we think it would be sensible to apply discounts in line with Article 9 of TAR NC at points that "end isolation of member states", such as the Moffat IP which vastly contributes to Ireland's energy security.

11. Article 9 of TAR NC also requires a minimum 50% discount for storage facilities. Recital 4 of TAR NC goes further and states the discount must also acknowledge the "general contribution of storage facilities to system flexibility and security of supply". As Mods 621, 621E, 621H and 621L do not acknowledge this additional contribution and as a result we do not support these proposals. In our view an 86% storage discount[1] is sufficient to avoid double charging and more fully reflects the requirements in TAR NC.

Application of revenue recovery during interim and enduring capacity periods

12. As mentioned above, SSE's Mod 621 is the only proposal that achieves stability and predictability, as it does not propose moving from a transition to an enduring period. GM&T supports a least disruptive approach for the new GB charging regime. In our view SSE's proposed application of commodity based tariffs at non-IPs and capacity based tariffs at IPs is supported by Article 4(3) of TAR NC. Despite this, we agree that separate treatment for abandoned capacity with respect to revenue recovery is fair.

[1] Paper produced by Waters Wye Associates

Optional Commodity Charge

13. Although GM&T does not fully support Centrica's Mod 653, GM&T agrees with the principles it applies to OCC, as this reflects the cost drivers in the CWD methodology without the inclusion of an arbitrary distance cap. That said, we believe that Mod 653 requires further analysis.

14. We disagree with the proposed removal of the OCC by Wales and West Utilities (WWU) Mod 0621. The OCC is a valid service which benefits all Users of the system by ensuring minimal NTS bypass. The same principles also apply for other short distance products in member states including regional capacity products available in France[2].

15. The Workgroup Report does not sufficiently assess and validate the material impacts on industrials and end-users that could result from the inclusion of a distance cap as proposed in Mod 0621 and its alternates (excluding 621C and D), in addition to UKCS producers that are striving to maximise the economic recovery of remaining reserves, in line with the Government's MER Strategy.

Section 3: GM&T's assessment of the code relevant objectives and the charging relevant objectives

Below is our assessment of each proposal against the relevant objectives. Due to the vast number of alternative proposals to assess, our response refers to our key concerns within the workgroup reports.

Standard Relevant Objectives

	621	621A	621B	621C	621D	621E	621F	621H	621J	621K	621L
a)Efficient and economic operation of the pipe-line system.	None	Positive	Positive	None	Negative	None	None	None	None	None	None
c) Efficient discharge of the licensee's obligations.	Positive	Positive	Positive	Positive	Negative	None	None	None	None	None	None
d) Securing of effective competition:	None	Negative	Positive	None	Negative	Negative	Negative	Negative	Negative	Negative	Negative
g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	Comments	Comments	Positive	Comments	Comments	Comments	Comments	Comments	Comments	Comments	Comments

a) Efficient and economic operation of the pipeline system

621D negatively impacts efficient and economic operation of the pipeline system because it fails to recognise the economic rationale for the Optional Commodity Charge as addressed in Section 2 above.

c) Efficient discharge of the licensee's obligations

WWU's Mod 621D Workgroup Report does not explain how the removal of the OCC has a positive impact on NTS Licence Special Condition A5(5), which explicitly states "[the methodology should be calculated] to promote efficiency and avoid undue preference in the supply of transportation services." The removal of OCC does not promote efficient use of the system and therefore fails to meet this objective. Contrary to

[2] 'Proximity terms' - http://www.smart.grtgaz.com/en/tarifs

this, Mods 621, 621A and 621B further this relevant objective for the reasons already outlined in the respective workgroup reports.

d) Securing effective competition between relevant shippers
None of the proposals even suggest a framework for the FCC in the enduring period (excluding 621B). The inability for shippers to assess their commercial positions beyond September 2021 is concerning, and will only have a negative impact on "securing effective competition" in the midterm. In our view Mods 621 and 621A could facilitate this objective, but only within the interim period.

g) Compliance with regulation
Mods 621, 621E, 621F, 621H and 621L all propose a 50% discount for storage facilities to avoid double charging and fails to 'acknowledge the general contribution of storage facilities to system flexibility and security of supply' as outline in Article 9 of TAR NC. We additionally wish to highlight that the primary goal of TAR NC is to encourage cross border trade, improve security of supply and encourage NRAs to ensure TAR NC is "implemented […] in the most effective way". This should be considered first and foremost when updating the charging framework.

<u>Charging Relevant Objectives</u>

In general we agree with the views expressed by SSE (621B) in the workgroup report and recognise that CWD leads to unintended consequences for end-users. However the workgroup report does not address how the inclusion of an unjustified 60km distance cap for the qualifying OCC impacts end-users. When assessed in their entirety we do not believe that any of the proposals effectively meet all the Charging Objectives.

Unlike 621B the alternate mods propose a "fully capacity based" regime in the enduring period, where any forecasting errors in the FCC will result in excessive capacity pricing. This style of pricing can be compared to standing charges in domestic billings. The utilities industry is moving away from standing charges (ie the cost of having access to supply) and towards consumption based charging to encourage efficient use of energy, which is furthered by the roll out of smart metering. This should also be applied in gas transmission charging to encourage efficient use of the NTS. In our view 621B achieves this and best meets Charging objectives a), b) and c) than the alternate proposals.

<u>Section 4: Omissions and errors</u>

Interaction with Mod 636 and the Optional Commodity Charge
Mod 636 and its alternates seek a transitional reform to the OCC ahead of Mod 621 implementation. As it's currently under consideration, there are two scenarios that could occur in the lead up to October 2019. 1) Mod 636 or an alternate is implemented (potentially) from October 2018 or 2) Mod 636/alternate is not implemented. In both of these scenarios there is no workgroup analysis on how a change in OCC will impact customers. We think it's incorrect to assess the 636 and 621 proposals in complete isolation, as there are too many moving variables for consideration. Industry requires a comprehensive assessment of these proposals to really understand the impacts on the whole charging regime.

End-user impacts
The workgroup report does not provide sufficient analysis on the impacts for end consumers. Although in our view the CWD methodology is the most cost reflective mechanism of the options available, we recognise that it is not perfect and that there is a need for further consideration of the impacts on customers, especially in Scotland and the North of England. As highlighted in the rationale behind WWU's Mod 621D and the 621

[GDN Workgroup Analysis (Action 501),](#) additional volatility and uncertainty could be introduced due to the potential mismatch between GDN and NTS charging methodologies. We would like to request that Ofgem gives careful consideration to this in its Impact Assessment.

Brexit and Ireland

The Prime Minister has spoken of “protecting the single […] market across Ireland and Northern Ireland” following Brexit, however it not guaranteed that the UK will remain a member of the European energy market. Besides the disruptive commercial impacts for GB shippers, the absence of an applicable capacity product to support the gas supply to Ireland (such as the OCC), may cause a security of supply vacuum for Ireland, this is coupled with fact that Ireland benefit from the same diverse range of gas supply as the GB[3].

Source: [Ireland2050](#)

This map illustrates the lack of varied gas supplies available to Ireland; the Corrib gas field, Moffat IP and the Kinsale gas fields, which will be decommissioned by 2021 provide Ireland’s gas supplies. It’s therefore imperative that there is thorough assessment of how the GB charging framework impacts neighbouring TSOs such as Ireland, including its customers.

[3] SEAI (2016) Energy Security in Ireland: A Statistical Overview

OCC application mechanism

In Part II, Section 11, 'Optional Commodity Charge' of the Workgroup Report section, the technical explanation of how the OCC will be applied at IPs lacks clarity. As the legal text does not provide further clarify this, we are unable to comment on the technical application mechanism.

In this same section we've identified an error; page 25 under 'Application: Non-Interconnection Points' and 'Application: Interconnection Points' it states:

" NTS Optional Flow will be subject to the NTS Optional Charge as an alternate to both the flow-based Entry Revenue Recovery Charge (at the identified Entry Point) and the flow-based Exit Revenue Recovery Charge (at the identified Exit Point)."

The following amendment should be made:

"NTS Optional Flow will be subject to the NTS Optional Charge as an alternative to Entry Revenue Recovery Charge, Exit Revenue Recovery Charge ***and Non-Transmission Services charges****"*

This would be consistent with the NTS Optional Charge definition in the same section 'NTS Optional Charge (see paras 3.25 to 3.28 in Section 3)' page 23 where it clarifies the NTS Optional Charge will also replace non-transmission services charges;

[…] This is available to Users (by election) as an alternative to the Transmission Services Revenue Recovery charges (entry and exit) ***and general Non-Transmission Services Entry and Exit Charges*** *"*

Section 5: Modification Panel and Ofgem questions

1. ***Do you believe there are specific issues that should be considered by Ofgem's Regulatory Impact Assessment?***

   In addition to the items addressed above in Section 4, Omissions and errors:
   A proper examination of the effects of the proposed changes to OCC, whether it be the application of RPI, a distance cap, or conversion to a capacity based solution. It is our opinion that the analysis presented in this report falls short of what might be reasonably expected when such a radical change to a specific charge has been proposed, which will impact I&C customers and cross border trade

2. ***Ofgem requested that the following questions be included as part of the consultation. Panel agreed to include these:***

   The rationale in the report for having an interim period and using the obligated capacity as the Forecasted Contracted Capacity (FCC) is to avoid significant changes to charges and have a period to understand how booking behaviour changes. How does this compare to having two structural changes to charges (one at the start of the interim period and another at the enduring period)?

   Please refer to our response in Section 2.3 and 2.4 above.

3. ***What (if any) consequences do you see from 'interim contracts' being allocated at QSEC and AMSEC auctions in 2019 given the timings of these auctions in the UNC and possible date of Ofgem decision on UNC621? What options are there to deal with these consequences and what impact would these options have?***

   No comments – this should be addressed in Ofgem's impact assessment.

4. ***Do you consider the proposals to be compliant with relevant legally binding decisions of the European Commission and/or the Agency for the Co-Operation of Energy Regulators?***

   Please refer to our response in Section 3 – Standard relevant objectives.

5. ***In what way do you consider the reference price methodologies proposed (Capacity Weighted Distance (CWD), CWD using square root of distance and Postage Stamp) to be cost reflective and meet the criteria in Article 7 of TAR?***

   Article 7 of TAR NC requires compliance with five key principles; reproducibility, cost reflectivity, non-discrimination, volume risk management, non-distortion of cross-border trade.

   In our view CWD meets the criteria as it takes allowed revenues and allocates them to entry and exit points in accordance with the volume of capacity deemed to be available, or booked and weighted on the basis of the relative distance for these points. Admittedly, there is no direct correlation with investment costs[4], however, if it is assumed that allowed revenue is a reasonable approximation of total costs (historical and current) and that distance is the main driver of transmission costs then it might be reasonable to conclude that CWD is more cost reflective than LRMC.

   Our further views on postage stamp and CWD square root are addressed in Section 2.1 above.

6. ***The proposals have different combinations of specific capacity discounts for storage sites and bilateral interconnection points. In what way do you consider the different combinations facilitate effective competition between gas shippers and gas suppliers?***

   Please refer to our response in Section 2.7.

GM&T recommendations

The Workgroup Report is substantial but there are still outstanding areas that require further analysis, as there has been a poor allocation of the time available in this process. More understanding is needed on the impacts on end users and what tools can be used to assist unintended negative impacts in this instance. The secondary impacts such as industrial and commercial customers, power prices, cross border flows and neighbouring markets such as Ireland also need to be considered. Given the materiality of these topics we would suggest that Panel sends the proposal back to workgroup for further consideration on these specific areas. Alongside these topics, we propose that Ofgem considers the impact of the charging framework on neighbouring Ireland, particularly in light of Brexit.

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 faithfully,

Sinead Obeng

Regulatory Affairs Advisor
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[4] Paragraph 3.5, Part II Workgroup Report 0621