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

**Consultation response to UNC Mod 0678/A/B/C/D/E/F/G/H/I/J - Amendments to Gas Transmission Charging Regime**

Gazprom Marketing & Trading Limited ("GM&T") 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 Ltd is 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 incredibly important consultation, we hope the outcome results in transparent and cost-reflective transmission charges that will promote security of supply and cross border trade, as per objectives of the Europe Network Code on Tariffs (TAR NC).

Please find below our responses to the consultation questions as outlined on the Joint Office website.

**Support/opposition for each proposal and expression of preference**

Proposal	Support/Oppose/Qualified Support/Comments	Proposal	Support/Oppose/Qualified Support/Comments
678 – National Grid	Oppose	678F – Storengy	Oppose
678A – RWE	Oppose	678G – Vitol	Comments
678B – Centrica	Comments	678H – EP UK	Oppose
678C – SSE	Oppose	678I - Gazprom	Support - Preference
678D - Eni	Comments	678J – South Hook	Comments
678E – Gateway	Oppose		

In GM&T's view, Mod 0678I best achieves compliance with TAR NC whilst continue to facilitate cross border trade, liquidity and security of supply for both GB and across borders as per the principles of TAR NC. The main areas of concern addressed in Ofgem's rejection 0621 are also considered within Mod 0678I.

## **UNC Mod 0678I as the preferred solution**

The compliance of the RPM should be tested against the following five principles. Mod 0678I meets these as explained below.

### **1. Reproducibility**

If the Forecasted Contracted Capacity (FCC) sits within the UNC, as proposed in 0678A, B and C, it can be changed at any time (subject to consultation). 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.

Mod 0678I goes further to achieve such certainty by proposing that the FCC methodology must be fixed for four years, with the exception that the FCC methodology can change following one year of implementation as a transitory arrangement. The FCC will only fluctuate for year on year changes as calculated within the methodology. In our view, keeping the FCC methodology outside of the UNC is consistent with other National Grid statements such as the National Grid Capacity Methodology Statements that do not sit within the UNC. In this framework the FCC methodology will still allow for a change process which allows for industry consultation and Ofgem's oversight.

### **2. Cost-reflectivity**

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/ booked and weighted 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. CWD reflects the lengthy topology of the network whilst Postage Stamp does not reflect the heterogeneity of the NTS. The PS methodology smears historical costs on an equitable basis and whilst it has merits in its simplicity, in our view this is not a reason to distort the main drivers of the allowed revenue. Particularly where there are additional tools available within Mod 0678I such as Wheeling to further enhance cost reflectivity at the extremities of the network where there is 0 km distance between a specified entry and exit route. In addition to the points already raised in the workgroup report, it must be acknowledged that it's impossible to achieve full cost reflectivity and therefore a degree of cross-subsidy will always remain. Regardless of this, the level of cross subsidy needs to be controlled and based on objective criteria that is suitable for the network under discussion.

### **3. Non-discrimination**

Mod 0678I does not allow for undue cross-subsidisation only provides for a discount at the Moffat IP which ends the isolation of Ireland, Northern Ireland and the Isle of Man with respect to their gas transmission systems, as allowed under Article 9. Wheeling is also provided for 0km distance routes within the NTS in the form of a discounted tariff as distance is a fundamental cost driver therefore it's cost reflective and reasonable to assign a conditional capacity product (Wheeling) for this purpose.

### **4. Volume risk managements and 5. Non-distortion of cross border trade**

The inclusion of Wheeling and the Ireland Security discount ensure that the increase in transporting gas cross border (ie Bacton IP and Moffat IP) that would result from a CWD or PS with no additional tools used (such as wheeling or optional charging), is rebalanced and therefore reduces the additional volume risk for end-customers that would result from the higher tariff at these points.

Mod 0678I not only addresses these five principles, but considers the three key points of non-compliance addressed by Ofgem in its Mod 621 decision letter; a) there is no concept of interim contracts proposed, b) there is no transition period that provides for commodity based revenue recovery charges and c) there is no optional charge proposed as we believe the complexities associated with removing the optional charge should be explored further in the Avoiding Inefficient Bypass review group “0670R”.

## **Wheeling**

A variation of optional charging that is proposed within 0678I is Wheeling, a well-established concept in other European gas markets such as Belgium, Netherlands and Austria, that allows a discounted tariff across 0km distance routes as set out in National Grid’s Distance Matrix.

The tariff set for Wheeling uses a simplistic approach, based on an update of the current parameters of the optional commodity charge and applying these to be capacity based. At the extremities of the network where there are 0km distance routes, in our view there is a genuine risk of NTS bypass therefore the wheeling tariff allows for further cost reflectivity within the CWD methodology. As a shipper that does not hold physical assets, GM&T is not able to make a full assessment on whether the complete risk of bypass is removed. We anticipate impacted end-users will present their findings to Ofgem.

National Grid’s<sup>1</sup> analysis shows that implementation of has the minimal impact on revenue recovery overall compared to the other optional charging solutions; non-transmission services would increase by only 0.002p/kwh compared to 0.006p/kwh under 678B, the volumes eligible for wheeling would have the largest reduction from the current OCC from 245TWh to 111TWh.

## **Ireland Security Discount**

Ofgem’s decision letter also touches on Specific Capacity Discounts. For the avoidance of doubt, UNC mod 621 and its alternatives did not provide for a discount at infrastructure that ends the isolation of member states as allowed until Article 9 of TAR NC, therefore this was not addressed in Ofgem’s decision letter. The bidirectional discount proposed in 621D was rejected on the basis that the same molecule of gas was unlikely to be transported in and out of the network therefore the same principles applied for storage discounts were not comparable in Ofgem’s view.

Mod 0678I proposes a 95% discount at the Moffat IP exit as “infrastructure ending the isolation” and therefore for security of supply purposes. The dependency of Ireland is reflected in the N-1 standard, which is a test whereby Member States must guarantee they can satisfy total gas demand if the largest piece of infrastructure fails on an exceptionally high gas demand day. This test applies to Moffat in the case for Ireland. To pass the test, the remaining gas infrastructure must be able to meet 100% of peak demand. As

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<sup>1</sup> [National Grid Optional Charge Analysis 9 April 2019](#)

Ireland cannot meet the N-1 infrastructure standard on a national level, the UK and Ireland have adopted a joint region approach to pass the test. It is therefore apparent that the Moffat interconnector can be defined as infrastructure that “ends isolation [...]” which is the key criterion for such a discount under Article 9. The discount is applicable for nominated gas from beach gas terminals to support the optimisation of UKCS, and therefore the Government’s MER (Maximising Economic Recovery) strategy. In GM&T’s view, Mod 0678I provides tools for all diverse gas sources where required; a wheeling tariff or an Ireland security tariff will be applicable at either interconnection points, facilitating cross-border trade as required in the introductory principles of TAR NC.

As outlined in mod 0678I, Irish wholesale gas prices are set by the GB price of gas plus the cost of transporting gas from GB to Ireland via the Interconnectors, as GB gas is the marginal source of gas supply to Ireland. According to National Grid, around 99% of flows to Ireland via the Moffat interconnector use the optional commodity charge, therefore any transmission capacity product that supports liquidity of the Irish gas market through lower transportation tariffs will strongly influence the wholesale gas cost for the Irish consumer.

The 95% discount level proposed is based on a ‘generate and test’ method to assess the impact that the removal of the optional commodity charge for Moffat flows. Even with a 95% discount our analysis indicates there will still be an increase in the cost of transporting gas to Ireland, however this will be fair and proportionate with minimal impact on NTS users as set out in Appendix 3 of UNC Mod 0678I.

### **Implementation timing**

Our concerns on the commercial implications of a mid-year implementation date are thoroughly reflected in Mod 0678I and in the workgroup report. For this reason, Mod 0678I is the optimal solution as it does not allow for any other effective date beside 1<sup>st</sup> October. In order to avoid conflicts with the CAM auction timetable whilst ensuring the same RPM is used at IPs and Non-IPs as required under Article 6 of TAR NC, Mod 0678I requires charges under the new regime to be issued by 1<sup>st</sup> June, who months ahead of the first quarterly capacity auction in August.

### **Omissions and errors in the workgroup report**

In our view, the workgroup has carried out as much analysis as sufficiently possible within the timeframe provided however there has been insufficient time to reflect and discuss the analysis provided by proposers. It’s therefore vital that Ofgem fully assesses the impact on end-consumers and consults neighbouring TSOs in its Regulatory Impact Assessment.

### **Ofgem questions**

#### **1. What impact, if any, do you think tariff differentials between existing and new contracts will have on users booking behaviour?**

Economic principles of capacity in natural gas dictate that tariffs are structured in two parts. A capacity charge which reflects an option to deliver a maximum volume during peak demand and a commodity charge to reflect the volume of gas that’s off taken during a given time period. Therefore, holders of existing capacity purchased an option to flow during peak demand periods based on these well-established principles to create investment signal required historically as well as manage their fixed costs

in a volatile upstream environment. If it is the case, that regulators wish to change the economic principles that apply to gas capacity then there must be time allowed to ensure capacity is now allocated in the most efficient way.

Efficient utilization of NTS capacity will occur with the emergence of a secondary capacity market. Users with existing stranded capacity that they will finally be able transact and sell to shippers that are able to create value with the capacity. Secondary markets play a vital role in helping market participants manage and shape capacity needs to meet business requirements where the price of traded capacity is determined by agreement between buyers and seller. In our view, the charging framework should not deter shippers' from utilizing secondary capacity.

The CWD model shows that long term bookings start to fall away significantly from 2023 so any tariff differentials that result from a secondary capacity market will gradually fall away.

As per the legal opinion provided by Eni we also believe it is reasonable for existing contracts to be excluded as at the time of booking the expectation that that the capacity charge would equate to the booking costs and a Revenue Recovery only chargeable on the basis of flow. Any uplift in the capacity charge goes against Art 35 and is inconsistent with the terms entered into at the time of booking.

**2. What date should the changes proposed by the modifications become effective and why?**

At the earliest 1 October 2019 or a succeeding 1<sup>st</sup> October date for the reasons outline above

**3. The proposals have different specific capacity discounts for storage sites. What level of storage discount do you consider is appropriate and can you provide clear justification if the discount is greater than 50%**

No comment

**4. Can you provide reasons why an NTS Optional Charge is or is not justified? If you consider an NTS Optional Charge is justified, which proposal do you prefer and why is it compliant with TAR NC?**

In principle we believe optional charging as a concept is justified as there is a genuine risk of NTS bypass within the GB network. Mod 0678I introduces Wheeling to ensure the risk of bypass is eliminated at extremities of the network with 0km distance routes. That said, this does not completely reduce the risk of bypass. More time is required to consider the broader impacts of removing the optional charge which we believe should be continued within the 670R workgroup as soon as reasonably practicable.

**5. 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?**

Yes. We also believe 0678I goes further by considering the recently published ACER opinions on the national tariff consultation documents for other member states.

**6. It is proposed that National Grid Gas may review or update the Forecasted Contracted Capacity (FCC) Methodology following consultation with stakeholders, unless Ofgem (upon application by any Shipper or Distribution Network Operator) directs that the change is not made as per its powers under Standard Special Condition A11(18) of National Grid's Licence. Do you believe that this governance framework is fit for purpose? Please provide reasons for your answer.**

First and foremost, it is highest priority to ensure that the GB regime does not provide unnecessary disruption for shippers, suppliers and end-consumer. As mentioned above, the proposed approach to the FCC methodology in 0678I is consistent with current practice but also allows for predictability and certainty in the regime.

Individual comments on each of the proposals can be found below. 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](mailto:sinead.obeng@gazprom-mt.com) if you wish to discuss any aspect of our response in further detail.

Yours faithfully,

Sinead Obeng

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**Reason for support/opposition and preference: Please summarise (in one paragraph) the key reason(s)**

**0678**

0678 fails to fully facilitate the relevant objectives. The CWD methodology is limited, in terms of cost reflectivity by inflating costs at Exit Points close to Entry Points it is compromised as there is no recognition of physical flow patterns. The risk of bypass will impact all customers, not only those who build the bypass pipelines, but also other through higher cap charges caused by a fall in revenue recovered.

**0678A**

As explained above, the postage stamp methodology results in significant cross subsidies through the exclusion of distance as a cost driver.

**0678B**

GM&T supports the principles applied within Mod 0678B however believes the approach applied for the optional charge is sub-optimal based on the results of National Grid's optional charging analysis.

**0678C**

In addition to comments on 0678A, 0678C does not exclude existing contracts from revenue recovery as required under Article 35 and is therefore not consistent with the economics principles applying when users purchased this capacity.

**0678D**

GM&T is supportive of the principle applied within 0678D however we believe the proposed solution for optional charging requires further assessment which would be suitable within the 0670R review group.

**0678E**

In addition to comments on 0678C, in our view 0678E does not correctly apply the relevant exclusions for revenue recovery permitted under Article 35.

**0678F**

In our view, capacity handback mechanisms are contrary to Ofgem's view regarding Interim Contracts in its 621 decision letter.

**0678G**

Same comments as for 0678D

**0678H**

Same comments as for 678A
<b>0678I</b>  Reasons for support are addressed above
<b>0678J</b>  In addition to the comments provided for 0678A and 0678D, 0678 correctly allows protection for existing contracts and attempts to further cost reflectivity with an optional charging solution.

**Standard Relevant Objective:**

<b>0678</b>	
a)	None
b)	None
c)	Positive
d)	Negative
e)	Negative
f)	None
g)	Positive
<b>0678A</b>	
a)	None
b)	None
c)	Positive
d)	Negative
e)	Negative
f)	None
g)	Positive



**Standard Relevant Objective  
(continued):**

**0678B**

a)	Positive
b)	None
c)	Positive
d)	None
e)	None
f)	None
g)	Positive

**0678C**

a)	None
b)	None
c)	Positive
d)	Negative
e)	Negative
f)	None
g)	Positive

**0678D**

a)	Positive
b)	None
c)	Positive
d)	None
e)	None
f)	None
g)	Positive

**Standard Relevant Objective  
(continued):**

**0678E**

a)	None
b)	None
c)	Positive
d)	Negative
e)	Negative
f)	None
g)	Positive

**0678F**

a)	None
b)	None
c)	Positive
d)	Negative
e)	Negative
f)	None
g)	Positive

**0678G**

a)	Positive
b)	None
c)	Positive
d)	None
e)	None
f)	None
g)	Positive

Standard Relevant Objective  
(continued):

0678H	
a)	None
b)	None
c)	Positive
d)	Negative
e)	Negative
f)	None
g)	Positive

0678I	
a)	Positive
b)	None
c)	Positive
d)	Positive
e)	None
f)	None
g)	Positive

0678J	
a)	Positive
b)	None
c)	Positive
d)	None
e)	None
f)	None
g)	Positive

**Charging Methodology  
Relevant Objective:**

<b>0678</b>	
a)	None
aa)	Negative
b)	Negative
c)	Negative
d)	None
e)	Positive

<b>0678A</b>	
a)	Negative
aa)	Negative
b)	Negative
c)	Negative
d)	None
e)	Positive

**Charging Methodology  
Relevant Objective  
(continued):**

<b>0678B</b>	
a)	Positive
aa)	Negative
b)	Positive
c)	None
d)	None
<b>0678C</b>	
e)	None
a)	Negative
aa)	Negative
b)	Negative
c)	Negative

Charging Methodology  
Relevant Objective  
(continued):

d)	None
e)	Negative

**0678D**

a)	Positive
aa)	Negative
b)	Positive
c)	Positive
d)	None
e)	Positive

**0678E**

a)	None
aa)	Negative
b)	None
c)	Negative
d)	None
e)	None

**0678F**

a)	Negative
aa)	Negative
b)	Negative
c)	None

d)	None
e)	Negative

#### 0678G

a)	Positive
aa)	Negative
b)	Positive
c)	Positive
d)	None
e)	Positive

#### 0678H

a)	None
aa)	Negative
b)	None
c)	Negative
d)	None
e)	Positive

**Charging Methodology  
Relevant Objective  
(continued):**

<b>0678I</b>	
a)	Positive
aa)	Positive
b)	Positive
c)	Positive
d)	None
e)	Positive
<b>0678J</b>	
a)	None
aa)	Negative
b)	Positive
c)	None
d)	None
e)	Positive