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

Joint Office for Gas Transporters
Radcliffe House,
Blenheim Court,
Warwick Road, Solihull, B91 2AA

Sent by e-mail to: enquiries@gasgovernance.co.uk

11 December 2020

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

GM&T response to UNC Mod 0748: Prospective Removal of Entry Capacity Revenue from Capacity Neutrality Arrangements

We welcome the opportunity to respond to this consultation, we hope the outcome results in substantial improvements to the charging regime that will promote efficient functioning of the market and cross border trade.

Support or oppose implementation: Qualified support

Relevant Charging Objectives

Relevant Objectives	**Charging Methodology Objectives:**
c) Positive	**a) Positive**
d) None	**b) Positive**
g) Comments – see 'Implementation'	**c) Comments – see 'Implementation'**

Reason for support/opposition: Please summarise (in one paragraph) the key reason(s)
In general, we believe implementation of this Modification better achieves charging objective (a) as the revenue distribution will be adjusted to ensure the Revenue Recovery Charge (RRC) is reduced as soon as practicable. Currently the existing arrangements do not enable National Grid to recover a material amount of revenue from the sale of within day and interruptible capacity. Despite this, we can only offer qualified support to this proposal due to the proposed lead times.

The proposal allows National Grid to give five Business Days' notice for any revisions to transportation charges as a result of this enabling mod. This short lead time would be incredibly disruptive to the GB gas market. Liquidity in the forward trading markets will be reduced, as participants are unable to factor in the costs of transportation charges until such time as the RRC is notified. Further it will compromise security of supply as market participants providing physical supplies would be unable to consider the full costs of the NTS until very close to delivery. This is a sub-optimal outcome for all GB consumers.

Implementation: What lead-time do you wish to see prior to implementation and why?
From a TAR compliance perspective, we note that there is explicit reference to the provision of information related to transmission and non-transmission tariffs in Art 30.1.(c) which sets out those tariffs which can be published up to 30 days prior to the tariff period. In addition, as the RRC is not required to be published in accordance with Art. 29, by extension it is a relevant charge for the purposes of Art. 30 therefore the proposed minimum lead time in UNC 748 is not in compliance with the code.

Given that the risk of last-minute changes removes price certainty, prevents long term hedging and increases the cost of balancing during the crucial winter period, we propose an amendment to Section 8 to allow at least one month's notice so shippers can make appropriate adjustments for incoming changes. This change would achieve NC TAR compliance and further Relevant/Charging objectives (g) and (c).

Impacts and Costs: what analysis, development and ongoing costs would you face?
Although a decrease in the incoming RRC is welcomed, the proposed lead time means that many shippers are unable to mitigate their exposure to the cost of delivering gas to the NBP during winter and may need to unwind their positions in the market which is a cumbersome process. Increasingly, shippers rely on short term products for their physical trading portfolios as these products influence the spreads between market areas therefore, any quick changes to the RCC will impact the flow direction of marginal supply sources from the continent.

The proposal as currently drafted also risks undermining the stability of the regulatory regime and ultimately the attractiveness of the GB gas market. Although we believe the absolute level of tariffs should not be disproportionately high, in instances where there is a trade-off between certainty and the level of capacity prices, we believe certainty (and therefore transparency) prevails.

Legal text: are you satisfied that the legal text will deliver the intent of the Solution?
Further to the reasons outlined above, we disagree with paragraph 5.6(a) which states National Grid "shall give [no] less that five Business Days' notice" for revisions to transportation charges as it applies for the full remainder of gas year 2020/21 and is not unique to the Authority decision on this modification.

<u>Additional questions from Ofgem</u>

Q1: Do you agree that the treatment of interruptible and within day firm entry capacities feeding into capacity neutrality is inappropriate?
Yes, we believe it's appropriate to retain interruptible capacity sales within the capacity neutrality mechanism.

Within the capacity release methodology, interruptible capacity is calculated as the 30-day rolling average of unused capacity capturing unused, sold firm capacity. On this basis, it's intuitive to retain interruptible capacity in the neutrality mechanism so the system fairly recompenses firm shippers for their capacity

Gazprom Marketing & Trading Limited
20 Triton Street
London NW1 3BF
www.gazprom-mt.com

purchases that have not been utilised by the purchaser. Further it does not reward National Grid for effectively selling the same unit of capacity thereby over-recovering revenue against its Allowed Revenue

Q2: Do you agree that these revenues should be removed from capacity neutrality?
The revenues from within day capacity should be removed from capacity neutrality as outlined above.

Q3: Do you support that National Grid should be granted a one-off relaxation of its obligation to provide two months' notice of pricing changes?
We understand that urgency procedures are appropriate for this proposal so we support a one-off relaxation of this obligation, however one months' notice for pricing changes would be more appropriate to avoid significant commercial impacts.

Are there any errors or omissions in this Modification that you think should be taken into account?
We have identified the following omissions:

- The consultation is very rushed, lacks detail, and doesn't explain why neutrality was introduced
- Further consideration is still required for the remaining exit capacity cross subsidies as highlighted in National Grid's presentation on 10th December
- There is further under recovery unrelated to the neutrality mechanism that requires consideration
- Analysis of alternative recovery mechanisms such as recovering revenue over the full remaining duration of the gas year or utilising the k-factor to recover "missing revenues" in gas year 21/22
- The legal text does not confirm that any changes will not be applied before 1st February 2021

Please provide any additional analysis of information to support your representation
No further comments.

Yours sincerely,

Sinead Obeng

Regulatory Affairs Advisor
Gazprom Marketing & Trading

Mauricio Cepeda

Regulatory Affairs Manager
Gazprom Marketing & Trading