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National Grid Gas
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RWE's Response to National Grid Gas's Consultation on Entry Capacity Release Methodology Statement

Dear Sir/Madam,

RWE welcomes the opportunity to respond to National Grid Gas's Consultation on their Entry Capacity Release Methodology Statement. I am responding on behalf of RWE Supply & Trading GmbH and RWE Generation UK plc.

We do not support the proposal to give National Grid the option to withhold what appears to be an undefined amount of capacity from an ASEP in WSEC or RMTNTSEC auctions in the period between 30th May 2022 to 31st October 2022 at the Milford Haven ASEP. We believe that these arrangements are unnecessarily conservative, will deter LNG imports and hence increase GB wholesale prices, and may present an increased risk to GB security of supply, particularly since the arrangements are proposed to extend into the winter until the end of October 2022.

We would urge National Grid to commit to new baseline levels and not retain the option to withhold an undefined amount of capacity. The proposed wording only indicates a notional level that will be released, not baseline levels. We would also urge National Grid to consider setting these baseline levels as high as possible such that they minimise the impact on imported LNG volumes, wholesale prices and the risk to security of supply, in the expectation that some constraint management will be required. We appreciate the difficulties in assessing these opposing cost pressures, but believe the indicated levels are far too low. We would also urge National Grid to commit to completing the relevant maintenance by the end of the summer so that these "emergency" arrangements do not extend into the winter period.

We are disappointed that these changes are being proposed at such short notice, since the combination of the Weekly Entry Capacity Auctions, the invasion of Ukraine and high market prices have all been known for at least 2 months. This problem could have been highlighted on publication of the National Grid maintenance schedule, if not earlier whilst it was being prepared.



We are surprised that the geopolitical situation in Europe is cited as a reason to reduce baseline capacity. In our view, it is a reason to find ways to maximise possible throughput and attract LNG, not to propose arrangements that achieve the opposite.

QSEC and AMSEC auctions are held too far in advance for many LNG import cargoes, the destination of which will not have been determined at the time that these auctions take place. Hence many parties will currently be relying on the release of Entry Capacity in the RMTNTSEC and new WSEC auctions for cargoes that are planned to be delivered this summer. If a potentially biting Entry Capacity limit is unexpectedly introduced at short notice at Milford Haven as is currently proposed, importers run the risk of not being able to secure capacity after their cargoes have arrived, and in many cases after they have been discharged. Even the RMTNTSEC auctions are too short notice in many cases to divert LNG volumes away from GB in the event that an importer fails to secure Entry Capacity. The cost of failing to secure capacity would be substantial, but the probability of this occurring to a particular importer may be very low. The current arrangements allow for the cost impact of managing constraints to be socialised across Shippers, but the proposed change to the arrangements would place what is likely to be a new low probability (being the one party who fails to secure capacity), but high impact, “tail” risk on importers. Importers may decide that this tail risk is too great. Hence it is not so much the actual levels of capacity that are ultimately released that will determine the amount of LNG that is imported to Milford Haven, but rather the amount of capacity that importers anticipate will be released and their assessment of how biting the Entry Capacity limits might be. If importers are already concerned, they will already be looking for new “homes” for their LNG cargoes, and may be already buying back their gas hedges at the NBP, increasing wholesale prices.

Given that reduced LNG imports would almost certainly result in higher (potentially significantly higher) wholesale prices, there will be a trade-off between how much Capacity National Grid commits to release and the cost of managing constraints with alternative arrangements such as locational gas trades. It appears that the indicated levels are set so as to completely avoid all locational trades throughout the summer, and we do not believe that these indicative levels would be efficient baseline levels.

We note that Ofgem has given approval for this consultation period to be reduced from 28 to 7 days, and whilst RWE has had an opportunity to make an initial review of the proposal, we are concerned that other stakeholders may not yet even be aware of these fundamental and significant changes and the extent of their impact. This may be particularly likely given that most of the consultation period has been during the Easter Monday bank holiday week.

If you have any comments or wish to discuss the issues raised in this letter, then please do not hesitate to contact me.

Yours sincerely,

By email

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