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Sent by e-mail to: box.gsoconsultations@nationalgrid.com

15 May 2020

Dear Colin,

Response to NTS GCD 12 – Informal consultation on Modifications raised to introduce a Conditional Discount to Avoid Inefficient Bypass of the NTS

We welcome the opportunity to respond to this informal consultation, we hope the outcome results in fully complete optional charging regime that will promote efficient functioning of the NTS and cross border trade.

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

GM&T is concerned that all the proposals are based on methodologies which in many cases overestimate the costs of building and operating an NTS bypass pipeline. The generic assumptions which underpin the discount methodologies do provide a degree of transparency but fail to reflect the individual cost-drivers specific to each route. On this basis, we believe that numerous offtakes will pursue bypass options if any of the proposals are implemented, resulting in a sub-optimal outcome for all UK customers.

Further to this, GM&T is unable to support a solution which does not permit discounts to be applied to transferred capacity. Exclusion of this capacity will artificially limit access to an optional charging product and create broader inefficiencies in the market, and therefore the risk of inefficient bypass will not be reduced where necessary. GM&T has set out detailed views in its [letter sent to National Grid on 3 April](#) and subsequently discussed at the April NTS CMF workgroup.

Implementation: What lead-time do you wish to see prior to implementation and why?

An optional charging product is critical to the GB gas market. If correctly designed and applied, it will optimise the use of the NTS bringing benefits to all consumers and the wider economy. In light of this, any change to the NTS Charging Methodology, such as that envisaged in UNC 0678/A should not be progressed until such time as a suitable product has been developed.

More specifically, we are concerned that any lead time shorter than 12 months will have undesirable impacts: Users and customers require a reasonable period to agree and execute contracts to accommodate a new optional charging product; National Grid will need to forecast its utilisation in order to set NTS Capacity charges with any accuracy, any deviation from forecast utilisation will have a knock-on impact on revenues and result in the application of a Revenue Recovery Charge, which needs to be well communicated in advance to ensure end-consumers can assess the cost implications. We believe these activities will need a minimum of 6 months lead time between Ofgem decision and implementation.

Impacts and Costs: What analysis, development and ongoing costs would you face?

If any of the current modifications were to be implemented, the network would be faced with double bookings as shippers would be forced to acquire entry capacity from National Grid due to the exclusion of secondary capacity from accessing an optional charging discount. Where capacity could previously be transferred from an existing holder, either a third party, or related sister company, then the duplication of capacity purchases will result in overall higher costs, as well as sterilisation of previously acquired capacity. This could lead to network congestion and artificial system constraints.

In terms of analysis, we refer you to the point raised in the previous answer relating to forecasting aggregate transmission charges. If National Grid incorrectly forecasts the take-up and utilisation of the optional charging product then collected revenues will deviate from allowed revenues. Consequently, shippers and their customers will face uncertainty in future transmission charges on the expectation that National Grid will recover/redistribute revenue via the Revenue Recovery Charge/Capacity compensation mechanism. This outcome runs contrary to the objectives underpinning NTS Charging Reform which seeks to provide stability and certainty in NTS charges.

Legal Text: Are you satisfied that the legal text will deliver the intent of the Solution?

No comment

We hope these 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 sincerely,

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