

Questions for Informal Consultation

National Grid would welcome responses to the following questions in preparation for the Formal Consultation expected to take place upon resubmission of the proposals:

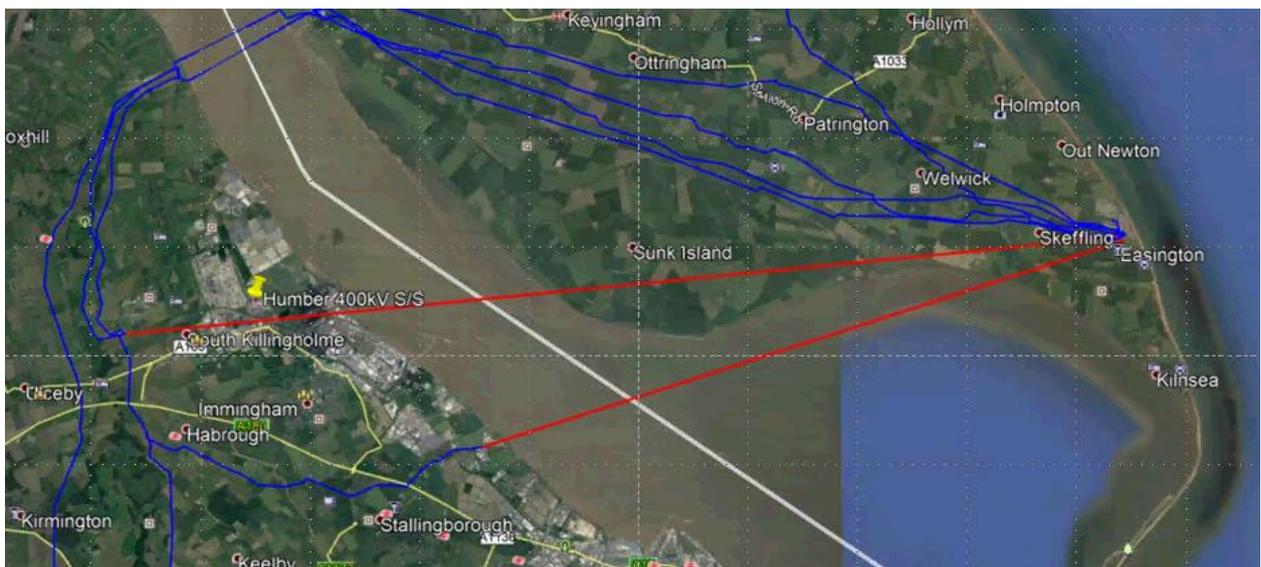
Reason for support/opposition: Please summarise (in one paragraph) the key reason(s)

Vitol S.A is the proposer of 0718B which sets a maximum route distance of 28km and applies a 69% discount in transmission services charges. Vitol owns and operates VPI Immingham CHP which is located on the south bank of the Humber Estuary.

Vitol does not support 0718, 0718A or 0718C which all cap eligible routes at 18km. A previous draft of 0718 included a maximum eligible route capped at 28km, but it is unclear why it was amended.

As the owner and operator of VPI, excluding sites eligible for short haul between 18-28km creates significant investment signals. These are exacerbated by the punitive nature of postage stamp on sites close to entry points. As an example, at Immingham, gas capacity charges could increase by 17100%, with equivalent commodity charges also rising by 61%. The large increase in baseline costs means that independent pipeline infrastructure can be justified within operational timescales.

Further to the above, as optional commodity charges are calculated on a straight-line basis from entry to exit, the shape of the NTS and location of different connection points means that, with an 18km cap, adjacent sites on the south bank of the Humber Estuary are treated very differently. This creates signals for inefficient low-cost investment which could be paid back in a matter of months (e.g. unnecessarily redirecting pipeline infrastructure short distances to different exist points, which are geographically closer to entry points as the crow flies).



Other capex alternatives are commercially confidential however, at a high level, include bringing forward new types of supply, capitalising on coastal locations and repurposing existing infrastructure.

As mentioned above, a previous 0718 draft included a 28km cap. It is unclear why this was amended however Vitol is concerned that this was done to minimise cross subsidisation, rather than to manage actual risks around inefficient bypass. As stated, an 18km cap, will have the impact of treating adjacent sites with almost identical risk profiles very differently. It is also unclear whether impacts to businesses are fully appreciated when considering likely payback periods and capex costs.

With regards to a discount to transmission service charges, Vitol believes that in principle it makes sense that optional charge users do not pay the full ESO cost. 0718B differs from 0718A as a smaller discount is applied. This seeks to manage the level of cross-subsidisation between NTS users (in line with NG), which granted is still unknown given expected changes to bookings etc.

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

Vitol supports the implementation of new charging arrangements in line with the likely introduction of 0678A. Failure to do so will mean that some users experience short term investment signals and exit the network, to the detriment of all other users.

The longer the lead time, the easier it is for Boards to plan and take investment decisions on behalf of shareholders. Ideally, Vitol strongly believes that there should be several years before implementing new charging arrangements (i.e. in line with the capacity market). However, given the background of the gas charging review, this appears extremely unlikely without additional intervention.

If an 18km distance cap was introduced at short notice, this would obviously create immediate winners and losers on the network, as well as a change in behaviour versus the status quo. Gas users the need time to react and, given current COVID working arrangements, there is already additional levels of complexity (e.g. implementing new operating procedures, updating contracts, changing capacity strategies, testing operating procedures, further staff training, IT etc).

For the above reasons, Vitol has therefore supported wider deferral of any changes to the gas charging regime until October 2021.

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

Vitol has already described the potential impact of the changes proposed. Depending on the outcome, we will also incur other additional operational costs which it is not appropriate to disclose in this consultation.

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

Vitol has not commented on the legal text at this stage.

The closing date for submission of your responses is **Friday 15th May**. Responses will be published as part of this discussion unless marked as confidential. Your response should be emailed to:

box.gsoconsultations@nationalgrid.com

