ExxonMobil International Limited
MP 42, ExxonMobil House
Ermyn Way
Leatherhead
Surrey KT22 8UX
+44 (0)1372 223180 Telephone
+44 (0)1372 223160 Facsimile
Justin.jackson@exxonmobil.com

Justin Jackson
Manager, Europe Transportation

ExxonMobil Gas & Power Marketing

1 April 2010

Eddie Blackburn
Regulatory Frameworks
National Grid
NG House
Gallows Hill
Warwick
CV34 6DA

Re:NTS GCM 19: Removal of Daily Entry Capacity Reserve Price Discounts

Dear Eddie,

ExxonMobil (EM) welcomes the opportunity to respond to the Consultation Document around the Removal of Daily Entry Capacity Reserve Discounts.

EM's position has not changed since our response to GCD 08 on 8th February and we remain supportive of the proposed changes to the Entry Charging Regime and the removal of the day-ahead and within-day entry capacity discounts. We would ask that our response to GCD 08 be taken into account as part of our overall response to this consultation.

As you are aware, EM is a significant participant within the UK natural gas market with a number of different roles as an UK equity producer, UK gas shipper, Norwegian equity importer and purchaser of LNG imports. This response reflects our position in all of these differing roles and on behalf of the companies listed at the end of the letter. In addition we are active in numerous other European transportation systems and where possible will look to bring this experience of how other systems are operating into our response.

Although we appreciate that this consultation document does not request a specific response regarding the interruptible release change proposal ongoing within the UNC Transmission Workstream, we feel it is critical to acknowledge the intertwined nature of these proposals and that the removal of the firm pricing discounts is unlikely to have the desired effect without any adjustments to the interruptible quantity release or a revision of the interruptible price discount.

We have prepared our consultation response in two sections. The first section details our responses in italics to the specific questions posed in the document. In addition we wanted to provide our views around some of the concerns raised by other shippers through responses to the Discussion Document GCD 08: NTS Entry Charging Review. This is outlined in the second section and includes comments on the proposed adjustments to the interruptible quantity.

Directors:
Mr. B. W. Corson
Mr. R. F. Guerrant
Mr. R. G. Bellis
Mr. J. Selzer

Registered in England
Number: 3834848
Registered Office:
ExxonMobil House, Ermyn Way
Leatherhead, Surrey KT22 8UX

An **ExxonMobil** Subsidiary

ExxonMobil International Limited
MP 42, ExxonMobil House
Ermyn Way
Leatherhead
Surrey KT22 8UX
+44 (0)1372 223180 Telephone
+44 (0)1372 223160 Facsimile
Justin.jackson@exxonmobil.com

Justin Jackson
Manager, Europe Transportation

ExxonMobil
Gas & Power Marketing

1. Responses to Consultation Document Questions

Q1. Should the discounts that apply to day-ahead (DADSEC) firm daily entry capacity be removed?

Consistent with the views of National Grid as detailed in section 5.4 onwards in the consultation document, EM see two key concerns with the current high TO Commodity costs:

- *i)* *<u>Price Predictability:</u> A key desire for EM as a gas shipper is to have Transportation costs predictability. The current model in the UK with a high proportion of commodity costs with significant potential variation year on year does not provide that predictability.*
- *ii)* *<u>Cross Subsidies within the system:</u> As National Grid highlight in section 5.14-5.17, the effect of the current system is leading to shippers increasingly purchasing capacity at discounts leading to increasing commodity costs to manage revenue under recovery and allow National Grid to meet revenue targets. This is causing purchasers of long term capacity to effectively pay twice for capacity and leads to a cross subsidy within the system which is an unwanted consequence of capacity discounts.*

EM believes that to help correct the issues addressed earlier in this response associated with the current high TO commodity charges, the DADSEC and WDDSEC entry capacity discounts should be removed and both prices should be equal to the rolling monthly auction reserve prices.

Q2. Should the discounts that apply to within-day (WDDSEC) firm daily entry capacity be removed?
As a consequence of the removal of the discounts, day-ahead and within-day Daily NTS Entry Capacity Reserve prices (p/kWh/day) would both be equal to the rolling monthly auction reserve prices

EM believe the discounts that apply to within-day (WDDSEC) firm daily entry capacity should be removed. Please see answer to question 1 above for further details.

Q3. Should revenue from the sale of within-day Obligated Daily NTS Entry Capacity (if not redistributed via capacity neutrality) be treated as TO revenue for charge setting purposes?

EM believes that the revenue from the sale of within-day obligated NTS entry capacity should be treated as TO revenue.

ExxonMobil International Limited
MP 42, ExxonMobil House
Ermyn Way
Leatherhead
Surrey KT22 8UX
+44 (0)1372 223180 Telephone
+44 (0)1372 223160 Facsimile
Justin.jackson@exxonmobil.com

Justin Jackson
Manager, Europe Transportation

ExxonMobil
Gas & Power Marketing

2. Issues raised regarding Proposed changes to the Entry Charging Regime

We have summarised our understanding of the issues raised into the following sections.

- **Inappropriate balance between long term and short term capacity commitments / concerns about impact and ability to trade short term products**

We feel it is not accurate to believe that the proposed changes will automatically lead to people booking all their capacity on a long term basis. What the changes will result in is the removal of the pricing incentive to wait and purchase capacity on the day to realise the significant pricing discounts. What will remain is the incentive to wait and purchase capacity within month in order to match capacity more closely to a shipper's production or import profile. We would expect the majority of shippers to continue to exercise this profiling flexibility and acquire capacity on a short term basis.

EM has a diverse and flexible portfolio which requires us to make both long term and short term capacity commitments. We do not see these proposed changes as establishing an incentive to make long term capacity commitments, it merely establishes level pricing between the short term and long term products. We fully expect that a proportion of capacity would be purchased in the short term and fail to see how such changes would have any significant impact on UK market liquidity or the ability to trade short term products.

- **Reducing opportunities for new entrants / low value users to enter the market**

As we draw upon our European market experience, we see the fundamental obstacle to new entrants in entering markets is the base availability of capacity to purchase. This is not the case in the UK market where significant available capacity is available to purchase at the majority of entry points if a new entrant wished to gain access to the market. In addition there are frequent opportunities for this capacity to be purchased on a daily, monthly and annual basis.

As highlighted above, we do not feel these changes will force shippers into buying all their capacity needs in the QSEC auctions and still expect capacity to be available at the majority of entry points for booking on a short term basis.

One final critical point is that we would argue that the system today is actually positioned in favour of new entrants due to the capacity discounts associated with short notice bookings. The proposed changes will actually create a more balanced system and level playing field and remove the current inherent discriminatory pricing for shippers who choose to book a part of their capacity longer term or are forced to under UNC rules fpr new supply points.

- **Security of Supply Issues**

Security of supply concerns were raised around two key areas; i) that incremental capacity costs will result in the UK being less competitive than other European locations and ii) that restricting interruptible capacity could lead to restricting supplies into the UK due to not being able to access capacity.

With regard to the competitiveness issue, we would point out that the UK is already in a position of being less cost competitive that other European locations driven by the high TO commodity charges. As an example, there is a significant Transportation capacity cost difference between moving gas from Norway to the NBP compared to moving gas from

ExxonMobil International Limited
MP 42, ExxonMobil House
Ermyn Way
Leatherhead
Surrey KT22 8UX
+44 (0)1372 223180 Telephone
+44 (0)1372 223160 Facsimile
Justin.jackson@exxonmobil.com

Justin Jackson
Manager, Europe Transportation

ExxonMobil
Gas & Power Marketing

Norway to Zeebrugge Hub which is caused by the differing UK and Belgium entry costs primarily driven by the high UK commodity charge. By implementing a system in the UK whereby all users pay for capacity rather than those who have purchased long term capacity the outcome should be a reduction in the TO commodity charge and lowering of overall unit entry costs for the industry resulting in making the UK more competitive and actually increase security of supply.

We also do not believe that the restriction on release of interruptible capacity would cause security of supply concerns. By definition if the interruptible capacity is not released because 10% or more firm capacity is available then there is obviously no constraint on acquiring capacity as at least 10% of capacity is available for purchase. If available capacity is less than 10% of total firm capacity, then interruptible capacity will be released in the same manner as the existing process. On this basis we do not see the proposed changes as causing any new issues with regard to security of supply due to capacity not being available and linked with the above paragraph the changes should actually help to promote security of supply.

- **Inconsistency with ERGEG Framework guidelines**

We share a similar view with National Grid that the guidelines are focusing on arrangements at interconnectors only, and not all entry points which makes application to the UK uncertain. We also note the guidelines are initial views with further work to come particularly around charging. When comparing interruptible capacity products across Europe, the majority of European systems operate on the premise that interruptible capacity will not be available until firm has sold out, so the current UK system is not harmonised with Europe. Also when looking at the initial ERGEG guidelines, they advocate standardised capacity products which we interpret as no pricing discrimination within a class of capacity products. Firm primary capacity should be offered at the same price irrespective of the time of offering. In summary, the proposed changes are likely to bring the UK system closer in line to other European systems.

Thank you for the opportunity for allowing EM to share our views. Please do not hesitate to contact me if you have any questions regarding this matter.

Yours sincerely,

Justin Jackson

For and on behalf of:

ExxonMobil Exploration and Production UK Limited
ExxonMobil Exploration and Production Norway AS
ExxonMobil Gas Marketing Europe Limited