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9 February 2010

Eddie Blackburn
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National Grid
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Re:NTS GCD 08: NTS Entry Charging Review

Dear Eddie,

ExxonMobil (EM) welcomes the opportunity to respond to the Discussion Document around the NTS Entry Charging Review.

Please see our responses outlined below in italics to the questions posed in the document and also the question raised by Ofgem during the last Entry Charging Review Group (ECRG) meeting on 26th January.

Ofgem request for views on the issues seen with the current high TO Commodity costs.

Consistent with the views of National Grid as detailed in section 4.4 onwards in the discussion document, EM see two key concerns with the current high TO Commodity costs:

i) *Price Predictability:* *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) *Cross Subsidies within the system:* *As National Grid highlight in section 4.14-4.17, 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*

Respondents are therefore asked to consider how the proposals would best satisfy the relevant charging objectives as part of their response.

EM shares the views of National Grid in that the proposed changes will meet the Charging Objectives by leading to improvements around the key areas around Cost Reflectivity, Promoting Efficiency and Avoiding Undue Preference versus the existing charging regime.

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National Grid invites views on:
Q1. Whether the objectives of the review are appropriate, namely to identify any charging methodology and/or UNC modifications required to;
a. Continue to recover allowed revenue while achieving the NTS Licence and EU relevant charging objectives.
b. Maximise the proportion of NTS TO target entry revenue recovered through entry capacity charges.
c. Appropriately incentivise long term booking of NTS Entry Capacity.
d. Appropriately differentiate by price between the NTS Entry Capacity products made available.
e. Incentivise Security of Supply.

EM believes that the review objectives are appropriate. As a member of the ECRG EM recognises significant debate and discussion amongst the participating parties went into defining these objectives.

Q2. Whether a phased implementation approach, as suggested by the ECRG, is appropriate, with;
a. Phase 1 comprising removal of entry capacity discounts and
b. limiting the release of interruptible capacity to when firm capacity has sold out or is close to selling out.
c. Phase 2 covering further changes in light of experience of phase 1 including the potential re-introduction of price multipliers for daily and monthly capacity.

EM is supportive of the phased approach given the uncertainty of the potential revenue impact of Phase 1 based on National Grid's analysis showing a potential range 0f £3-71M. EM however does not believe there should be a significant delay in commencing with Phase 2 given that National Grid's analysis indicates that Phase 1 will not be sufficient to close the gap between actual revenue and the revenue target and believe that price multipliers are a potential tool to close this gap.

As to the content of Phase 1, EM is supportive of the removal of the entry capacity discounts and limitation of interruptible capacity until firm has sold out or is close to selling out.

Q3. Should the 50-50 entry-exit TO revenue split within the Charging methodology be retained or should an increased proportion be allocated to exit with a reduced proportion for entry?

EM would be supportive of further analysis to determine whether this is an appropriate measure to address the issues of the current charging regime but does not see any justification for change based on the information in the current discussion document.

Q4. Should the TO Entry Commodity charge continue to apply uniformly to all entry gas flow allocations excluding storage and "short-haul"?

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EM would be supportive of further analysis to determine whether adjustments in this area would be an appropriate measure to address the issues of the current charging regime but does not see any justification for change based on the information in the current discussion document.

Q5. Should the prevailing quarterly, monthly and daily entry capacity products, auction timings, and auction frequencies be changed or reviewed?

EM sees no reason to change the existing entry capacity products, timings and frequencies, but to focus the review on the pricing of the relative products.

Q6. Removal of Discounts
a. Should the discounts that apply to day-ahead (DADSEC) firm daily entry capacity be removed?
b. Should the discounts that apply to within-day (WDDSEC) firm daily entry capacity be removed?
c. Should a revised calculation for day-ahead (DADSEC) and within-day (WDDSEC) firm daily entry capacity apply such that both prices (p/kWh/day) are equal to the rolling monthly auction reserve prices?
d. Should the zero reserve price that applies to daily Interruptible entry capacity (DISEC) be retained?

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.

With regard to d. EM sees a need to distinguish the pricing between firm and interruptible products but sees a 100% discount or zero reserve price for interruptible as being an excessive reduction versus the firm capacity price. This will always create a shipper incentive to purchase interruptible capacity and may have a corresponding impact on TO capacity revenue. This could be resolved by keeping a discount but reducing the amount of the discount. It can also be addressed through the limitation of the interruptible quantity as outlined in Q7 below. Clearly a lower, even zero, price for interruptible release may be possible where firm has fully sold out but if interruptible release is made when firm has not quite sold out then a non zero price at some level is appropriate.

Q7. UNC Changes
a. Should the calculation of the Daily Interruptible NTS Entry Capacity quantity released be reviewed?
b. Should Daily Interruptible NTS Entry Capacity at each ASEP be limited to when the firm entry capacity at the ASEP has sold out or is close to selling out?
c. Should the revenue from the sale of within-day obligated NTS Entry Capacity continue to be redistributed via the entry capacity neutrality mechanism?

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Linked with our response to Q6 EM believes that for the removal of entry capacity discounts to have the desired impact of increasing capacity revenue there have to be changes to the calculation of the Daily Interruptible quantity to limit the amount released EM is supportive of limiting this quantity until the firm entry capacity has sold out or is close to selling out. With regard to the latter, the discussion paper makes reference to potentially using a figure of 90% of firm capacity sold before interruptible quantity is released. EM would be supportive of this figure as a starting measure with the aim of reviewing potential impacts on capacity revenue versus a 100% case, assuming enough information is available, after implementation as part of Phase 2 of the review.

EM believe it is appropriate for revenue from the sale of within-day obligated NTS Entry Capacity to continue to be redistributed via the entry capacity neutrality mechanism to continue to create an incentive for National Grid to release as much capacity as possible.

Q8. Licence Changes
a. Should the Licence clearing obligation be removed?
b. Should the revenue from the sale of within-day obligated NTS entry capacity continue to be treated as SO revenue or should it be treated as TO?

EM believes that the License clearing obligation should be removed, as currently this is a principle reason for the zero reserve prices and subsequent revenue under recovery causing the issues described above.

EM believes that the revenue from the sale of within-day obligated NTS entry capacity should be treated as TO revenue and is supportive of the solution proposed in section 3.38 to manage the transition from TO to SO as an interim solution.

Please do not hesitate to contact me if you have any questions regarding this matter.

Yours sincerely,

Justin Jackson