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Chris Wright
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By email to: box.gsoconsultations@nationalgrid.com

26 April 2022

Dear Sir/madam,

RE: Consultation on Entry Capacity Release Methodology Statement

Thank you for the opportunity to comment on National Grid's proposal to amend its Entry Capacity Release Methodology Statement (ECR). This response is submitted on behalf of ExxonMobil Gas Marketing Europe Limited. ExxonMobil affiliates are variously stakeholders in upstream LNG liquefaction, shipping, and trading; and stakeholders in and users of LNG regasification facilities including the South Hook LNG terminal at Milford Haven.

We strongly oppose both this proposed change, and also the way in which it has been communicated.

Two underlying issues have been put forward as justification for this proposal: asset maintenance requirements on the national transmission system, and concurrent anticipated high flows through Milford Haven during this summer.

However, this proposal is intended to include October, which is not traditionally viewed as a summer month, and indeed National Grid's own maintenance plan does not identify any relevant scheduled maintenance in October. While we accept that asset maintenance could clearly impact network capability, constraints in that part of the network are not uncommon, including in periods where no maintenance work has been scheduled and indeed during higher demand periods in winter months.

We therefore view this proposal to withhold firm obligated entry capacity as being significantly driven by existing network capability deficiencies, which stand to be exacerbated to some extent by maintenance and high flow situations.

Change Proposal – Impact on LNG and wholesale market

We disagree with the characterisation of the proposed change as being non-complex and limited in nature. While the change to the wording in the ECR may be minor, the effects upon GB entry capacity acquisition and management processes and industry participants are significant. We also believe that the effects will not only be felt once Ofgem decides upon implementation. LNG cargoes are contracted many weeks or even months in advance with related hedging and trading activities being undertaken in similar timescales and these activities will almost certainly already have taken place for effect within the period of capacity uncertainty.

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Indeed, we believe it is highly likely that proceeding with this proposed change will result in LNG cargoes that were previously identified for delivery to the GB market through Milford Haven during this affected period being actively considered for diversion to alternative destinations. Matching GB wholesale market position will similarly be unwound.

If we are correct in our assumption, then there is a risk that the reduction in supply to the GB market could result in upward pressure on GB wholesale prices which could ultimately feed through to end consumers.

This cost impact could potentially be larger than the impact presented in the change proposal but has not been modelled or accounted for in the limited cost-benefit analysis provided. That analysis presents only a wide-ranging, gross impact based on the assumed constraint management costs avoided. Given the very limited time available to us we are not able to even begin to quantify the possible net position taking into account the consequential implications set out above.

Irrespective of Ofgem's ultimate decision, the very fact that this change proposal has been raised risks significantly undermining efforts to deliver LNG to the UK market, and for onward transmission to wider European markets, at this time when LNG has never been in greater demand. We note in particular statements made in the recent government "*British Energy Security Strategy*" document, which references the importance of international relations and UK infrastructure, including LNG terminals, in meeting UK and wider European gas demand.

Against that background, this change proposal feels counterintuitive. We do wonder whether more open and transparent discussions regarding the underlying issues might have produced a better solution and outcome.

It is widely recognised that following the GB gas entry capacity charging review (mod 0678A) and the significant increase in capacity prices that resulted, shippers increasingly look to match capacity as closely as possible to actual requirements. Bookings will therefore occur as close to the gas day as reasonably practicable, given that this is when actual capacity requirements will be best understood.

Shippers will have had a reasonable expectation that short term capacity would be available on a monthly basis, and now also weekly following the implementation of UNC modification 0752S. This expectation is based upon the many years over which the full capacity baseline has been made available up to the gas day.

This proposal therefore marks a significant shift in the GB entry capacity acquisition and management process, and cannot reasonably be identified as limited in nature.

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Change Proposal – Wider Implications for GB entry capacity

It is generally understood that the GB gas network is not designed to accommodate maximum flows from all entry points simultaneously, nor cater for all possible supply and demand patterns. It is also widely recognised that to develop a network capable of doing so would be inefficient.

Instead, our understanding is that the GB capacity regime is predicated on the basis that where a shipper has signalled a need for incremental capacity and meets the relevant user commitment hurdle, National Grid with oversight from Ofgem decides how, and crucially how much, to invest in physically meeting that capacity requirement through system capability.

Implicit in that investment decision is an acceptance that any mismatch between the commercial capacity which forms the obligated baseline, and the physical capability developed in order to meet that capacity obligation, gives rise to a constraint management cost risk upon National Grid. That cost risk will materialise where a shipper tenders gas for delivery into the network under a firm capacity holding, but National Grid is unable to accommodate that gas.

Under this proposed ECR change, it appears that by withholding firm capacity from the market, National Grid is passing the entirety of its constraint management cost risk on to gas shippers and end consumers. This is presented in the change proposal as an overall cost saving.

However, our understanding is that National Grid will be a significant financial beneficiary of this process, and the calculation ignores any additional costs that the balance of the gas industry – producers, LNG shippers, terminal owners/operators, GB gas shippers and most importantly end consumers – will face as a consequence.

When viewed alongside recent constraint management experiences at Milford Haven, including during a winter month, this ECR change proposal strongly suggests that network capability at Milford Haven has been under-developed. By taking the proposed steps to avoid any constraint management costs, we consider that National Grid is also neutralising any residual financial incentive it may have to invest in additional network capability in order to overcome future constraints. We do not believe that this accords with the letter or the spirit of how the GB capacity regime is supposed to operate.

This proposal is presented as being time limited. However we assess that the underlying issues that have given rise to it will endure or recur in the future.

We therefore consider that this proposal is setting a precedent that could be repeated in future years at Milford Haven, as well as setting a blueprint for constraint management at other entry points given that network capability constraints have occurred at other ASEPs in the past and could do so again in the future. To that end, it must be questioned whether targeting this constraint management tool solely at Milford Haven is discriminatory.

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If withholding firm capacity from sale is indeed the best possible solution to managing network constraints, then this must form part of a much wider industry discussion. That discussion must by definition also include consideration of whether the prevailing risk-return balance struck as part of the RIIO2 price control process remains appropriate.

Process

The requirement to conduct maintenance work on national transmission system assets related to Milford Haven would have been known about by National Grid many months in advance, while the potential for higher than average flows at any time of year has always been a realistic possibility given LNG's responsiveness to price signals.

Indeed, publically available information shows that historic flow levels through the Milford Haven ASEP have on occasion been close to the indicative capacity release volume of ~59-66mcm/d which has been provided as part of this change proposal.

Therefore, rather than creating the issues at Milford Haven, we believe that this issue has only served to further highlight the pre-existing shortfall in transmission system capability versus the firm capacity baseline.

It is therefore disappointing that no attempt has been made to discuss these underlying concerns earlier, either through established gas industry fora or directly with impacted parties. Such an early discussion would almost certainly have sent less of a shockwave through the LNG industry and may have yielded a more palatable solution.

Industry participants were not given any notice that a derogation was being sought from Ofgem to both radically shorten the consultation period from a minimum of 28 days to just seven, or to remove the requirement for oversight by an Independent Examiner. Neither, as far as we're aware, did Ofgem attempt to seek views from other industry participants as to the appropriateness of the request, prior to granting the derogation. All of this has been conducted around a major public holiday period when many affected parties will be away from work.

As far as we're aware attention was drawn to this consultation by a single notice issued by the Joint Office of Gas Transporters. While it may be argued that such a notice is adequate for GB gas shippers, we do not believe that it satisfies the requirement to also consult with any other interested parties as required by Special Condition 9.18.10(a)(iii) of National Grid's gas transporter licence.

In this scenario, other interested parties are likely to include as a minimum LNG producers, importers and traders who may not be GB gas shippers and may not routinely receive notices from the Joint Office. Very little time has been left for their attention to be drawn to this consultation by less formal means.

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In summary, we believe that the process followed in this case falls short of expected standards of openness, transparency and consideration, and risks the implementation of a significant and problematic change to the GB capacity regime with minimal notice and scrutiny.

Other considerations

As a stakeholder in the ongoing PARCA process, which is being developed alongside the prospective expansion of the South Hook terminal, this proposal causes us significant concern. We now believe that Milford Haven will be proportionately more constrained after the terminal has been expanded and the network reinforced. This is because the network expansion will only meet the new terminal capability under limited circumstances. This is not conducive to an environment in which infrastructure investment decisions can be taken with confidence.

Finally, it should be recognised that this proposal affects two of Britain's three LNG terminals - Dragon and South Hook both based at Milford Haven. The only LNG terminal which is not affected is Isle of Grain, which is in direct competition with the Milford Haven terminals and potentially stands to benefit due to its proportionately greater attractiveness as an LNG destination by virtue of its assured capacity baseline. We note that the Isle of Grain terminal is owned by National Grid.

I trust that these observations are helpful, and please do not hesitate to contact me for further information or if you wish to discuss any aspect of this response.

Yours sincerely

Chris Wright

Regulation and Policy Advisor