interconnector
fluxys

Interconnector Limited
4th Floor · Burdett House
15-16 Buckingham Street
London · WC2N 6DU · UK
T +44 20 3621 7800
www.interconnector.com

Colin Williams
Charging & Revenue Manager
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

22 June 2023

RE: NTS GCD 13 – Impacts of Existing Contracts on Transmission Services Charges

Dear Colin,

Thank you for the opportunity to provide views on the challenges and distortions associated with the current GB charging regime arrangements. Interconnector appreciates National Gas Transmission's initiative to issue this discussion document. The current challenges Europe has witnessed due to the Ukraine war and curtailment of Russian gas supply provide a further illustration of the importance of ensuring that the GB charging regime is designed optimally to support security of supply and a competitive, attractive GB gas market for the imports it requires.

It is well documented that a dual regime exists for GB NTS Entry, which distorts competition and creates a barrier to Entry. This continues to be a challenging matter of concern for shippers, and for infrastructure service providers. This comes in addition to the high GB NTS Entry charges, both in absolute terms and relative to other European markets. Addressing these challenges is necessary to ensure GB can compete in the international space, particularly with other North West European markets who are actively encouraging gas into their markets through lower Entry charges and increasing their LNG import capabilities.

We continue to believe that an adjustment to the 50:50 Entry/Exit split constitutes the most credible and legally compliant option to address these challenges. Lower revenue collection from Entry can address both the dual regime and high Entry tariff problem. It does not change the total costs to consumers, or to NTS revenue. Higher costs at Exit points would be more than offset by lower wholesale prices – several other countries use this model successfully. Whilst we have not done any legal review, it appears that most of the alternative commodity charge options attract compliance concerns.

Please find in Annex 1 below, Interconnector's response to your specific questions raised in NTS GCD-13.

If you wish to clarify anything in our response please do not hesitate to contact me or my colleague Pavanjit Dhesi (Pavanjit.dhesi@interconnector.com).

Yours sincerely,

Ore Ogundipe
Regulatory Analyst

Annex 1: Interconnector (INT) response to NTS GCD 13 – Impacts of Existing Contracts on Transmission Services Charges

1. **Do you agree that Existing Contracts are having a significant impact to Transmission Services Entry Reserve Prices?**

Long term contracts play an important role for security of supply in the market, help TSOs earn stable revenues and contribute to tariff stability. It is important therefore that Existing contracts are respected to maintain market confidence to purchase such longer term capacity. The current situation faced across Europe with the Ukraine war and challenges to replace Russian gas supply illustrates the importance of having a healthy mix of contracts secured by shippers, as opposed to a shorter market which risks more volatility and therefore higher potential costs to consumers.

It is well observed that there is a significant gap between the prices paid by those with legacy contracts and those seeking new bookings. The price gap creates a dual regime and distorts competition. The evidence is readily available and has been included in the current and previous NGT and Ofgem analysis.

2. Do you believe there should be some remedy to limit/reduce/remove their influence?

As noted in our response to question 1, it is important to continue respecting Existing Contracts in order to provide confidence to the market when considering long term commitments. However, adjustments to the GB charging regime should be used to reduce the impact of the level of charges applied to new NTS capacity bookings when compared to Existing Contracts.

3. Should there be any treatment, different to the status quo, for ECs and how they are accommodated and charged in the Charging Methodology?

Although we view that there is a need to address the distortion resulting from the dual regimes, it is important to respect the terms of Existing contracts. There are difficulties associated with many of the commodity charge options highlighted in the NTS GCD-13. Revenue recovery by commodity charges raises both compliance questions and risks creating a barrier to flows. Flow is variable therefore an additional commodity charge is not an effective option to resolve the distortions as it has the potential to disrupt shipper flow behaviour leading to under recovery or shipper seeking alternatives routes or market opportunities altogether to avoid the high levies. In light of the above, we view that the focus of a feasible solution should be directed towards the adjustment to the current Entry/Exit split arrangements.

On the options that focus on TS Entry alone:

4. Do you think any of these options provide a more suitable approach to Transmission Services Charging achieving an objective of more competitive TS Entry charges? If so, please include why this would be beneficial to competition.

The options presented that focus on Entry alone intend to achieve lower Entry prices for shippers and reduce the gap between the dual regimes. However, as mentioned above, we view that these options may raise compliance questions (Tariff Network Code) and risk legal challenges. This was well documented in the UNC790 discussions. Additionally, if these options were to be applied other dual regimes or distortions may be created.

NTS GCD-13 suggests the possibility of a compliant commodity charge by calculating such a charge before the capacity rates rather than as a consequence of the capacity rates. However, the analysis presented in the document continues to highlight the difficulty in the feasibility of doing so. We note that some of the analysis on the proposal of a commodity charge to apply to Existing Contracts suggests a method with an outcome in which we could see Existing Contract holders paying more than New Capacity. That also then raises questions about a dual regime the other way and whether shippers will have the confidence to make new long term commitments.

5. Are there any other options or refinements / amendments / specific treatment within these options that should be considered and why?

It is important that there is upfront legal analysis of the options in terms of compliance with UNC obligations and the TAR Network Code. This should be shared with stakeholders. Ofgem's views as well (however caveated) are also important at an early stage. Only those options with a clear compliance assessment should be taken forward.

6. Should there be any additional things to consider (e.g. capacity hand-backs) on the broader approach to managing TS Entry charging as part of a bigger objective (e.g. making the UK more attractive to land Gas)

Yes. We do believe it is necessary to consider issues holistically. One key issue is the need to ensure the NTS tariffs encourage gas into the GB market. The Ukraine war and curtailment of Russian supply is leading to a rapid rise in LNG import capacity capability in neighbouring North West European markets. High GB Entry prices, or the distortion of competition caused by the dual regime, creates a considerable risk of gas bypassing GB and going directly to Continental markets. It is in the interest of GB consumers to ensure GB can continue to be an attractive destination to land gas. This helps to dampen wholesale gas prices and contribute to NTS revenue recovery meaning tariffs that ultimately consumers pay can be lower too.

We note that many European countries have strategically taken a policy decision to recover lower transmission revenues from Entry points compared to their Exit points in order to reduce the relative Entry charges. This is done to attract gas into their markets which helps dampen wholesale gas prices. This successful model should be considered for implementation by GB also.

<u>On the broader approach to managing TS Entry charging as part of a bigger objective (e.g. making the UK more attractive to land Gas)</u>

7. Are there merits in reviewing Transmission Services Charging on a broader perspective, recognising that this would encompass Entry and Exit?

Yes. As highlighted in the NTS-GCD 13, a review of the Entry/Exit split as part of a broader consideration has the benefit that the associated options are already compliant with the TAR Network Code. Hence, where compliance of the TAR Network Code has been a barrier to pursing commodity charging options, consideration of options like a change to the 50:50 Entry Exit split can avoid such compliance related issues.

8. What, if any, objective could this aim to achieve?

Ensure GB is an attractive, competitive destination for gas, with a liquid gas market which serves GB consumers interests by ensuring wholesale gas prices (which are the significant element in consumer's bills) are as competitive as possible.

9. Should a discussion and review of, for example, a change to the 50/50 split be a deliverable for any such review?

Yes. As noted above, an adjustment of the Entry/Exit split which sees lower revenue collection from Entry, addresses both the dual regime and high GB tariffs in a compliant way. It does not change the total costs to consumers, or to NTS revenue. Higher costs at Exit points would be more than offset by lower wholesale prices – several other countries use this model successfully and the 2021 CEPA study jointly commissioned by Interconnector and BBL also indicated positive results for the GB market if such an approach was adopted here. This compliant option should be reviewed.

<u>Overall</u>

10. Assuming an initial conclusion that something should be done (subject to views) do Stakeholders agree that we should explore: a) TS Entry only? b) A wider scope i.e. Transmission Services as a whole?

Something should be done. The dual regime challenges are well documented, including in Ofgem's UNC790 decision. In terms of feasibility and the need to review the matter holistically with broader objectives (i.e. ensuring the GB market is a competitive destination), we view that a wider scope should be explored. This should include a further review and consideration of the Entry/Exit split arrangements.