NTS GCD 12 – Response to Questions for Informal Consultation

Vermilion Energy Ireland Limited ("Vermilion") is pleased to provide the following response to the National Grid questions raised in the NTS GCD12 Consultation. We would expect to respond to the formal consultation in due course.

Vermilion considers implementation of the general tariff reform (678 or 678A) as per 1st October 2020 as crucial for having a compliant system in GB. We would support development of a conditional product to reduce the risk of bypass pipeline being constructed. This development and subsequent implementation should be undertaken as soon as practicable but should not be a reason to delay the general tariff reform.

Vermilion's responses to the specific questions raised by NG are provided below.

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

Vermilion understands that there is a risk of NTS bypass pipelines being constructed in cases where larger volumes are transported over shorter distances between entry and exit points if there is no provision of a conditional product that provides a discounted tariff, when compared to the standard tariffs.

Ideally such a conditional product would mimic the situation where parties would build their own (bypass) pipeline and would fulfill the following four conditions:

1. being cost reflective i.e. represent the cost (capex and opex) of a bypass pipeline;
2. facing fixed yearly costs for multiple years;
3. being independent from the actual flow through the bypass pipeline;
4. assuring that this product cannot be used to either directly access the NBP from entry or to directly source gas from NBP to exit.

All four modifications can be seen as a pragmatic approach to lower the risk of bypass pipelines being constructed, but none of the four modifications fulfill all the four conditions outlined above.

For a distance of zero km ("wheeling"), all four proposals have a 90% discount on the capacity tariff and 718A and 718B also provide a discount on the commodity tariff (80% and 69% respectively). For example, in the Netherlands, the wheeling service has a charge equal to a discount of 94% of the standard entry and exit tariffs. We therefore consider the discount for zero km as proposed in all four proposals as being reasonable.

The four alternatives consider a distance cap of 18 or 28 kilometers. Looking at the entry-exit combinations that fall within the maximum distance cap, we believe that the vast majority, if not all combinations, could be seen as candidates for considering a bypass pipeline (or a bypass network for a group of exits) where a conditional product with a discounted tariff is not provided. As the proposed discount decreases with the distance, we consider all four proposals as a pragmatic approach for a conditional product in GB.

With the current description of 718C, we believe that this alternative does not fulfill our condition 4 i.e. in our opinion the discounted product can be used to reach NBP from entry or reach exit from NBP. See our examples further down at "Legal Text". In its current form we therefore do not support 718C, but if this issue is solved, this alternative meets our condition 3, while the others don't.

Vermilion considers implementation of the general tariff reform (678 or 678A) as per 1st October 2020 as crucial for having a compliant system in GB. Vermilion therefore suggests to have one of the modifications (preferably 718C with an amendment as indicated in the paragraph above) implemented as soon as possible (ideally as per 1st October 2020). To have a better alignment with the four conditions as described above we suggest considering future refinements of the conditional product in the near future (e.g. early 2021).

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

We would suggest a very short lead time (1-2 months) could be managed.

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

Vermilion does not foresee development nor ongoing costs associated with an inefficient by-pass option. Rather the continued delay and associated uncertainty is causing ongoing costs.

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

For 718C we see as a risk that the discounted product can be used to reach NBP from entry or to source gas from NBP at exit. This is shown in the two following examples.

Example 1:

Assume the capacity bookings are:

- entry booking: 40 units of capacity as shorthaul (with discount) and 10 at standard charge;
- exit booking: 50 as shorthaul (with discount)

If on the day there was 50 units of entry flow and 10 of exit flow, then the flow of 10 can be considered as a shorthaul flow. At exit side no issues, but at entry there is 40 general entry flow (towards NBP), while only 10 units of capacity is available (at the standard charge), so there is a booking shortage of 30 units of entry capacity at the standard tariff.

The current legal text allows this 30 standard entry to use the discounted entry tariff, which should not be the case.

Example 2:

Assume the capacity bookings are:

- entry booking: 40 as shorthaul (with discount) and 10 at standard charge;
- exit booking: 50 as shorthaul (with discount)

If on the day there was 0 entry flow and 15 exit flow, then there is no flow that can be considered as shorthaul. At entry side no issues, but at exit there is 15 general exit flow (from NBP), while no exit capacity at the standard tariff is available.

The current legal text allows this 15 standard exit to use the discounted exit tariff, which should not be the case.

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