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Jan Gascoigne
Regulatory Frameworks
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Modification Proposals to the Gas
Transmission Transportation
Charging Methodology

Dear Jan,

Thank you the opportunity to respond to the consultation on Transport & Tariff Model Changes, ExxonMobil International Limited is responding on behalf of its gas shipping entity ExxonMobil Gas Marketing Europe Limited.

We wish only to address brief comments identifying our preferences against options in the questions raised in the consultation, as follows.

Q1. LRMCs are calculated from:

(b) Option 2.

ExxonMobil supports Option 2, (a Transportation model of the NTS excluding spare transmission capacity and including a backhaul benefit equal to the avoided cost of reinforcement) because we believe that this is the model that most accurately reflects the operating practice of the network and provides the most cost reflective method of calculation. With directional flows on the NTS increasingly likely to change, we believe that including a backhaul benefit is appropriate.

Q2. NTS Capacity Prices are determined from:

(b) Option 2.

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We believe that a single year Supply & Demand forecast is the most appropriate way of determining NTS Capacity Prices in a liquid gas market like the UK. We believe that long term forecasts will prove to be inaccurate and result in distortions of pricing and a ten year forecast is inconsistent with the capacity purchase timeframe.

Q3. Baseline Entry capacity prices are determined by:

(b) Option 2.

We support the principle of baselines being retained, and adding mechanisms that will allow substitutable capacity to be allocated to the entry point where there is a clear demand (at long term auctions). We therefore believe that using the Transportation Model which takes the TYS Base Case and uses Entry Point specific analysis, with an overall supply demand balance being achieved by supply substitution, will more accurately determine the appropriate prices to be charged for Baseline Capacity.

Q4. Views are invited as to whether the relevant supply level referred to in Q3, used to determine Baseline Entry Capacity prices should be;

(b) Option 2a.

Using 2a for the supply level will be more realistic as long as that did not provide any opportunity for NGG to limit its obligations in relation to firm capacity already sold, where that might be higher.

Q5. Incremental Entry Capacity prices are determined by:

(b) Option 2.

We believe that it is appropriate to use a single charging model for Baseline Entry capacity prices and Incremental Entry Capacity prices. At the same time we would like to stress again that we believe that all methodologies for determining Entry Capacity prices should be designed to achieve;

1. A framework to secure long term pipeline investment to provide access to market.
2. A clear basis on which an entry capacity investment decision can be made, and
3. Confidence that the economic basis for future entry capacity requirements will remain predictable.

We trust that NGG will take these points into consideration when finalising the Transportation model.

Q6. Entry and Exit LRMCs be calculated from:

(a) Option 2.

Q7. LRMCs are converted into prices using the annuitisation factor set out in National Grid's NTS Transportation Licence

We agree.

Q10. The combined Transport and Tariff model used by National Grid NTS to determine NTS Capacity Prices, to be made publicly available.

To aid transparency, we agree that the Transport and Tariff model should be made publicly available to enable users to replicate charges. However, we once more raise our concern that providing access to a sophisticated network model does not overcome the significant information advantage that the Transmission Owner retains and which could be misused to restrict capacity release at individual entry points.

Q11. The Incremental Entry Capacity price determination methodology is included within the Gas Transmission Transportation Charging Methodology.

We agree.

Q13. This proposal (NTS GCM 01) is implemented for price determination in relation to all entry capacity auctioned from 1st April 2007.

We agree.

Yours sincerely
Joy Chadwick
Senior Regulatory Analyst