



October 2020

Pre-Mod discussion

*An aggregate overrun regime for Original Capacity held at the
Bacton ASEPs*

About Water Wye Associates



Waters Wye Associates (WWA) is a dynamic, independent energy consultancy specialising in the economic, regulatory and technical aspects of electricity, gas and renewable markets

Our mission is to deliver tangible benefits to our clients in all projects we undertake.

Background

UNC 0501CV



UNC 0501CV was raised by Eni in May 2015 in response to UNC 0501V. These proposals (along with two others) set out alternative ways to deal with the split of the Bacton ASEP as a result of the implementation of the EU CAM Code.

UNC 0501CV contained numerous components including an aggregate overrun regime.

Ofgem approved UNC 0501V. In its decision letter, it made a number of observations related to the introduction of an aggregate overrun regime:

Next Steps

...However, we recognise the possibility that future UNC changes could remove these existing market mechanisms. If such changes to the UNC occurred, then there could be benefits for existing Bacton entry capacity holders and a furthering of effective competition between shippers from a flexibility mechanism similar to the one that is proposed under UNC501CV (whilst addressing our concerns with this proposal as set out previously). We therefore encourage industry to raise a further modification if they see a risk that future UNC changes would not allow for the existing market mechanisms to be used to flow flexibly at the current cost.

https://www.gasgovernance.co.uk/sites/default/files/ggf/UNC501V_UNC501AV_UNC501BV_UNC501CV_decision.pdf

Outline of proposal

Justification



UNC 0501CV included an aggregate overrun regime at the Bacton ASEP's whereby an entry overrun charge at an ASEP would only be applied on User flows which exceed total capacity bookings at Bacton IP and Bacton UKCS ASEPs. This new Modification will adopt this aspect of UNC 0501CV

In respect of the Bacton split and referring to Ofgem's UNC 0501V Decision:

- *“Set against that, we consider that UNC501CV, when compared with UNC501V, marginally better facilitates the relevant objective of securing of effective competition between shippers. This is because the aggregate overrun mechanism would be a means of re-establishing the flexibility that existing Bacton capacity holders have to enter the NTS from any supply source. However, as a corollary of the points made above, we consider that, in the current regulatory environment, the beneficial impact of avoiding reduced flexibility via this mechanism is minimal, given the availability of other market mechanisms.” p6*
- *“In our IA, we stated that, currently, with large amounts of unused capacity at Bacton, there was a very high likelihood that shippers that had their capacity reallocated to one of the two new entry points at Bacton could, under the existing charging arrangements, buy within-day or interruptible capacity at the other new entry point at an auction with a zero reserve price. Therefore the outcome is similar to having the current flexibility that existing shippers have, ie no extra capacity charges to flow from all sources of gas arriving at Bacton. We did not receive any evidence to suggest that this is not currently possible given the current UNC provisions on charging and large amounts of unused capacity at Bacton. Therefore we do not consider that implementing CAM by splitting Bacton and reallocating existing capacity in line with UNC501V leads to significant flexibility (and therefore financial) loss to existing capacity holders under the current UNC provisions.” p11*
- *“Some respondents to our IA, however, said that the availability of capacity at a zero reserve price may not be possible in the future regulatory world and referred to TAR and the GTCR. The final TAR text is still in development and we have not made a final decision on GTCR.³² In making a decision on UNC modification proposals we assess the changes against the current UNC baseline. This currently requires zero reserve prices to be used at interruptible and within-day firm entry capacity auctions.” p11*

Outline of proposal

Justification



It is clear from Ofgem’s decision regarding UNC 0501V that it is of the view that the aggregate overrun regime (referred to as the flexibility mechanism) proposed in UNC 0501CV better facilitates the relevant objective of securing effective competition between shippers than UNC 0501V

It is also clear that on this single aspect of UNC 0501CV that the UNC baseline at that time meant that UNC 0501V did not result in any “significant loss of flexibility” (referring to an abundance of zero-priced capacity).

The implementation of UNC 0678A has changed the baseline as zero-priced capacity will no longer be available *ergo* based on Ofgem’s logic, the tariff changes will result in a significant loss of flexibility to those Users whose capacity was split between the newly formed ASEPs

The Modification will be raised to action Ofgem’s recommendation set out in its UNC 0501V Decision

UNC Proposal

Summary of the solution



The proposal will seek to preserve the level of flexibility acquired by purchasers of Bacton entry capacity prior to the split into the Bacton IP and Bacton UKCS ASEP's in light of the implementation of UNC 0678A

- Where capacity was acquired at the Bacton ASEP prior to the Bacton split on 1 November 2015, it will be classified as Original Bacton Capacity.
- Following the split, the Original Bacton Capacity will maintain this status when allocated to either Bacton ASEP
- An Entry Overrun Charge will only be applied at a Bacton ASEP where in each case:

$UDQ_{IP \text{ or } UKCS} > \text{User's Fully Adjusted NTS Entry Capacity}_{IP \text{ or } UKCS} + \text{Original Available Bacton Capacity}_{\text{booked at the alternative Bacton ASEP}}$

UNC Proposal Examples



In the examples below, the Shipper holds 50 units of Original Bacton IP Capacity and 100 units of Original UKCS Capacity. The Shipper has also booked 50 units of “standard” capacity at Bacton UKCS

UDQI IP	UDQI UKCS	Cap Holding IP (Original Bacton)	Cap Holding UKCS (Original Bacton)	Original Available Capacity IP	Original Available Capacity UKCS	Overrun
0	200	50 (50)	150 (100)	50	0	0
50	200	50 (50)	150 (100)	0	0	50
100	100	50 (50)	150 (100)	0	50	0
75	75	50 (50)	150 (100)	0	75	0

Note that standard capacity is allocated against flows before Original Available

Our leadership team



Lisa Waters

Founding Director

Lisa is an economist with over 20 years' experience in the energy sector. She has worked for the Energy Intensive Users Group (EIUG), independent gas supplier V-is-on gas and Dynegy. Prior to entering the energy sector, Lisa worked at the CBI. Lisa leads on electricity sector work, though she also has a detailed knowledge of the UK gas market.

Lisa is currently an industry expert on the Imbalance Settlement Group under the BSC. She has significant lobbying experience, including giving evidence to Select Committees in the Commons and Lords, and representing EU gas customers at the Commission's Regulatory Forum meetings.



Nick Wye

Founding Director

Nick is an economist with over 20 years' experience in the energy sector. Earlier in his career, he has worked for TotalFinaElf Gas and Power, a gas producer, a trader, a supplier, an independent pipeline owner/operator and has experience of working at all levels of the supply chain including offshore projects, gas shipping issues and end user supply. He has also been involved in asset deals, both in the power and gas markets, in the UK and continental Europe.

His work on the boards of several European trade associations and committees has given him an in-depth knowledge of most European markets. Despite his knowledge of the power sector, Nick leads on gas market projects and has considerable expertise in gas storage.



Gareth Evans

Director

Gareth is an astrophysicist with over 15 years' experience in the energy and financial sectors. He began his career at Elexon, working subsequently for Total Gas & Power and UBS, where he helped to inaugurate its European power and gas trading, overcoming the associated regulatory and compliance issues.

As a result he has direct knowledge of the entire supply chain for both UK and European power and gas markets, plus experience of dealing with all their relevant stakeholders, including regulators, suppliers, shippers, generators/producers and European bodies.

Gareth Evans is chair of ICoSS, which is the trade body for independent non-domestic retail energy suppliers.

How to contact Waters Wye Associates

13 Thornton Hill | London | SW19 4HU

email: info@waterswye.co.uk

