

## Representation

### Draft Modification Report

#### **0501 0501A 0501B 0501C – Treatment of Existing Entry Capacity Rights at the Bacton ASEP to comply with EU Capacity Regulations**

0501 – Treatment of existing Entry Capacity Rights at the Bacton ASEP

0501A – including capacity return option

0501B – including a restricted capacity return option

0501C – including a capped capacity return option and an aggregate overrun regime

*Please note that if you wish your representation to be treated as strictly confidential please clearly mark it as such.*

**Consultation close out date:** 12 February 2015

**Respond to:** enquiries@gasgovernance.co.uk

**Organisation:** Centrica Storage Limited

**Representative:** Antony Miller

**Date of Representation:** 12 February 2015

#### **Do you support or oppose implementation?**

0501 - Oppose

0501A - Support

0501B - Support

0501C – Neutral

#### **If either 0501, 0501A, 0501B or 0501C were to be implemented, which would be your preference?**

501B.

#### **Please summarise (in one paragraph) the key reason(s) for your support/opposition.**

CSL proposed modification 501B on the basis that it provides the minimum acceptable threshold for mitigating the negative consequence on existing Bacton Users from how the TAR NC is being implemented in GB. This is because 501B will ensure that existing Bacton users will not be forced to hold and pay for entry capacity at one of the newly created ASEPs that they do not want to use. Modification 501B is also likely to have the least redistributive impact on network charges of the alternative modifications.

However, given the continuing uncertainty regarding the arrangements that will apply at IPs under the TAR NC, CSL considers that modification 501A, which allows

existing Users to return all 'residual' Bacton capacity may ultimately provide a more efficient long term outcome for the utilisation of capacity and network cost recovery.

Working on the assumption that these matters are unlikely to be resolved before the Bacton reallocation process, Users cannot possibly make a fully informed decision about how to reallocate their existing Bacton Capacity.

**Modification Panel Members have indicated that it would be particularly helpful if the following questions could be addressed in responses:**

*Q1: Do you agree Modification 0501C should be considered a User Pays Modification; if so do you agree with the proposed split for recovering costs?*

No.

The aim of 501C is to maintain, as far as possible, the existing entitlements of Bacton Users to use their capacity across both IP and UKCS entry points. Users would have factored this entitlement when booking Bacton Entry Capacity and therefore have paid for this ability. Further, this amendment is attempting to ensure that Users at Bacton are not disadvantaged compared to other network users where the fungability of booked entry capacity is not being impacted on by the TAR NC.

*Q2: Do you have any specific views on the optionality to flow (as proposed by 0501C) following the proposed creation of the Bacton and IP ASEPs?*

CSL agrees that optionality to use entry capacity across the different system entry points is a factor that Users will take into consideration when valuing entry capacity. The changes proposed at Bacton to implement the TAR NC will reduce this optionality for some Users.

However, CSL is not in a position to predict whether the net benefits of the proposed overrun arrangements will be positive overall. In likelihood, the limitations on using the overrun facility and overall utilisation of the service may not justify the costs to operate the service and the additional complexity it adds to the UNC.

*Q3: 0501C proposes that shippers with Bacton UKCS Residual Capacity, and that need to buy Bacton IP bundled capacity in order to flow via an interconnector, should receive a rebate for the additional Bacton capacity that was purchased. What are your views on whether the shipper should offer one of the elements of the Bacton capacity back to the market in advance of the particular gas day in order to receive the rebate? Conversely, what are your views on providing a rebate if the shipper retains the optionality to flow via both routes (whether or not they actually choose to do so)?*

As noted above, CSL is sympathetic to the aims of modification 501C in that existing Bacton Users should not be doubled charged for using Bacton. Most of these Bacton Users, would have purchased their entry capacity at Bacton well before the TAR NC was envisaged and could therefore not predict that regulatory change would destroy the fungability attached to their booked capacity.

*Q4: What do you think the impact will be on the TO entry commodity charge of the possibility to hand-back capacity in each of the alternatives 0501A, 0501B and 0501C?*

It is reasonable to expect that there will be some redistribution of networks costs should some Users return Bacton entry capacity under any of the proposed alternative modifications.

However, it is unreasonable to expect that any Network Users can predict what the cost or implications on the Network may be. Individual users do not know: who holds capacity, how those users use their capacity, or how much those users agreed to pay for that capacity. Further, Users cannot predict how much of the returned capacity is likely to be rebooked.

The only parties that may have been able to complete and present such analysis are Ofgem and National Grid. CSL notes that no such detailed analysis was provided to the workgroup during the development of the alternative modifications and hence could not be included in the draft modification report.

Returning to the premise of the question, even if Bacton capacity is returned and there is some redistribution of network charges, it is not evident that such a redistribution would necessarily be inefficient, inequitable or detrimental to competition or the operation of the network.

Finally, CSL considers that the efficiency and equity of network charging arrangements will be determined by the outcomes of the NC TAR and Ofgem's transmission charging review to a far greater extent than any of the proposed alternative modifications.

**Are there any new or additional issues that you believe should be recorded in the Modification Report (please specify by each modification)?**

No.

**Self Governance Statement**

*Do you agree with the Modification Panel's decision that these modifications should not be self-governance modifications?*

Yes

**Relevant Objectives:**

*How would implementation of one of these modifications impact the relevant objectives (please specify by each modification)?*

Relevant Objective B:

501: CSL considers that this modification is likely to have a **negative** impact on this objective. CSL agrees with the concerns raised in the draft modification report that implementation of this modification would undermine the User Commitment principle where long term bookings are used to signal investment in the NTS Network. Further, implementation of 501 is likely to result in existing Bacton Users being allocated capacity that becomes stranded in a commercial sense, and may also delay capacity bundling at the IP.

501A: CSL considers that this modification is likely to have a **positive** impact on this objective. First this modification is likely to facilitate bundling of capacity at the IP as some Users are likely to return capacity that can be used for bundling purposes.

Further, this modification is likely to ensure Users retain confidence in the User Commitment principle underlying long term capacity booking as Users will not have to attach a significant risk premium associated with unforeseeable regulatory change. In addition, the capacity that is returned which is subsequently rebooked would be priced in accordance with the relevant products characteristics which will result in more efficient long run allocations.

501B: CSL considers that this modification has a **positive** impact on this objective. CSL proposed this modification on the basis that it would ensure that Users are not forced to accept unwanted capacity at one of the new ASEPs. This in turn would be more likely to allow for capacity bundling at the IP and reduce the likelihood of User's having capacity which is stranded in a commercial sense.

This modification would reduce the amount of previously booked capacity that could be returned which in turn would mean that there is less change to distribution of network charges. CSL does, however, agree that this modification does not fully address the issue of lost value, and efficient capacity utilisation of a result of capacity not being fungible.

501C: CSL agrees that this modification is likely to have a **positive** impact on this objective similar to those outlined in relation to modification 501A. However, CSL considers that 501A should be preferred. This is because the complexity and necessary limitation associated with the proposed overrun arrangements designed to address loss of fungibility of Bacton capacity are likely to be of limited benefit. In the long run it would be more efficient to allow Users to book capacity at the IP and UKCS ASEPs in accordance with the underlying characteristic of the respective products.

#### Relevant Objective D:

501: CSL considers that this proposal is likely to have a **negative** impact on this objective. CSL agrees that as Users will face uncertain prices and be required to hold products with characteristic completely different to the capacity originally booked that those Users are being placed at a competitive disadvantage to other shippers on the network and relevant to Users booking capacity at the two new Bacton ASEPs post 1 November 2015.

501A: CSL considers that this proposal is likely to have a **positive** impact on this objective. As noted in the Draft Modification Report, this proposal would allow for appropriate pricing signals aligned with the relevant products characteristics, and better ensure competition between shippers, as the shippers would be bidding for capacity on a like for like basis.

501B: CSL considers that this proposal is likely to have a **positive** impact on this objective. This modification would ensure that existing Bacton Users have the ability to reduce the potential negative impacts of being required to hold capacity at an unwanted ASEP, and potentially result in less redistribution of network costs relative to modifications 501A and 501C.

501C: CSL considers that this proposal is likely to have a **positive** impact on this objective. However, as noted in relation to Objective B, modification 501A is more likely to deliver the relevant positive impacts with less cost and complexity.

Relevant Objective G:

CSL agrees that all the proposed modifications have a **positive** impact on this objective

**Impacts and Costs:**

*What analysis, development and ongoing costs would you face if one of these modifications were implemented (please specify by each modification)?*

CSL will face additional costs if modification 501 is implemented. These costs will be associated with implementation and administration and training costs associated with the PRISMA platform required for managing capacity at interconnection points.

**Implementation:**

*What lead-time would you wish to see prior to one of these modifications being implemented, and why (please specify by each modification)?*

Given that Bacton must be split by 1 November 2015, the relevant modification must be implemented in sufficient time for Bacton Users to understand the proposed arrangements and determine how it and any parties the User has transferred entry capacity will want their Bacton entry capacity allocated.

**Legal Text:**

*Are you satisfied that the legal text will deliver the intent of each of these modifications?*

Yes.

**Is there anything further you wish to be taken into account?**

*Please provide any additional comments, supporting analysis, or other information that that you believe should be taken into account or you wish to emphasise (please specify by each modification).*

CSL strongly believes that the implementation of any modification that does not allow for the return of Bacton capacity will have a long run detrimental impact on the GB User Commitment model for long term capacity booking. This is because investors need a reasonable level of certainty when committing millions of pounds over long periods. No Bacton User who booked long term entry capacity before 2012 could have reasonably predicted the level of change or potential significant impact on their entitlements or costs due to the implementation of the Third Energy Package and the subsequent TAR NC. If the Panel and ultimately Ofgem do not provide for capacity return it is extremely unlikely that Users will be willing make long term commitments to entry capacity in future.