

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, an aggregate overrun regime and a rebate for certain bundling charges.

Consultation close out date: 12 February 2015

Respond to: enquiries@gasgovernance.co.uk

Organisation: National Grid Gas Transmission

Representative: Matthew Hatch

Date of Representation: 12 February 2015

Do you support or oppose implementation?

0501 - Support

0501A - Oppose

0501B - Oppose

0501C - Oppose

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

Preference 0501.

Please summarise the key reason(s) for your support/opposition.

National Grid NTS has brought forward Modification 0501 in accordance with a proposed amendment to its Transporter Licence. This has now been confirmed by the Ofgem Final Decision Letter published on the 10th February 2015 and expected to be effective from the 8th April 2015, to facilitate the implementation of the Capacity Allocation Mechanisms network code (CAM) at the Bacton ASEP. Whilst the alternate Modifications are conducive to making the principle change at Bacton i.e. the splitting of the current Bacton ASEP into two new ASEPs, which National Grid NTS supports, this specific element is outweighed, in our opinion, by our concerns about some of the additional aspects the alternates propose. The inclusion of a capacity return option and the retention of some of the rights associated with the

initial capacity purchased, has to be considered alongside the rights of other current system Users and future Users of the NTS.

The aspects introduced by the alternate Modifications which are in addition to splitting Bacton into two new ASEPs are:

1) Unrestricted hand back of capacity (0501A)

Hand back would undermine the User commitment principle.

The quantity of capacity handed back could significantly affect collected revenues. This would therefore have an upward impact on the future TO Entry Commodity charges which are applicable for all Users at all NTS entry points.

2) Restricted hand back of capacity (0501B & 0501C)

a) Hand back is allowed to the extent to which a User will not be able to utilise the capacity, if it is reallocated to the point where the User did not want it (0501B).

b) Hand back up to a limit related to the revised baseline split (0501C).

Hand back would undermine the User commitment principle.

Whilst the restriction could be considered as a more proportionate response, this could still impact future TO entry commodity charges, although it is likely to have less of an impact than unrestricted hand back.

3) Overrun arrangements across ASEPs (0501C).

National Grid NTS can see that this aspect of the Modification may address the loss of current flexibility by allowing Users to utilise capacity at either of the two new ASEPs, and can acknowledge the potential benefits to Users of an aggregate arrangement. However 0501C conveys specific rights to a limited subset of Users and consequently we have concerns with regard to the operation of different arrangements for different Users.

4) Rebate of bundling charges (0501C).

This proposes to compensate a User at Bacton with reallocated capacity rights, should it purchase bundled IP capacity. As presented it neither encourages a User to buy a matching quantity of unbundled capacity (should it be available), nor does it require any capacity purchased to be utilised to qualify for the rebate. It is National Grid NTS's view that the bundling requirements are a consequence of CAM implementation and do not arise because of the need to split the Bacton ASEP.

As part of the proposal if Users choose the optionality to flow at each ASEP this may cause:

- a. A potential impact on investment signals – where it appears that capacity is required in excess of the baseline at either or both of the ASEPs that is then at odds with subsequent flows.
 - b. The potential sterilisation of capacity at one or both of the interconnectors and ASEPs.
 - c. The potential perception of competitive advantage for existing Bacton Users with reallocated capacity over those Users that subsequently book capacity from 1st November 2015 and have no reallocated capacity.
 - d. Potential negative effects on new market entrants.
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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?

In line with the User Pays Guidance Document it is National Grid NTS's view that 0501C should be considered as a User Pays Modification as it requires changes to Xoserve core systems and business processes, over and above those required to implement the CAM requirements. Dependent on when IT systems, associated with 0501C, can be delivered there may be a need to manage the process offline until the system functionality could be delivered as part of a future EU release. National Grid NTS would not normally operate regime changes offline due to the potential risks inherent with offline processes. The User Pays charge would be made up of costs for the interim offline processes and for the IT systems solution.

National Grid NTS has developed Modification 0501 based on a one off process that does not necessitate IT system changes. National Grid NTS has stated from the outset and throughout the 0501 Development Workgroups that, in its opinion, having regard to the User Pays rules, Modification 0501C fits within the definition of User Pays. Furthermore only a sub set of GB Users (those with residual rights at Bacton) would benefit from this Modification and on that basis costs associated with this should be targeted accordingly:

- 100% of the charge should be attributable to shipper Users who are confirmed as holding Re-allocated Capacity at the Bacton (UKCS & IP) ASEPs. Each User should bear its proportion of the total charge in accordance with its total holding of re-allocated capacity, as adjusted by relevant transfers, compared to the total holdings of re-allocated capacity, across the entire Modification 0501C re-allocation period. This will be calculated upon completion of the re-allocation process.

In circumstances where a User or a Transporter does not agree with a Modification being User Pays it would be normal for the User or Transporter to raise an alternate Modification amending the User Pays element. Due to 0501C being raised as an alternate to 0501, this was not an option for National Grid NTS on this occasion. Consequently, in line with 12.8.1 of the Modification Rules, National Grid NTS has sought a view from Ofgem by submitting a proposed change to the Agency Charging Statement¹.

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?

Currently Bacton Users utilise the entry capacity product that they have purchased to flow across the various Bacton sub-terminals. It is a clearly stated aim of 0501C to

¹ "12.8.1 The Transporters may decide to seek a View from the Authority:

(b) in respect of the proposed funding arrangements for a User Pays Modification Proposal, at any stage prior to a determination under paragraph 7.2.3(a)(iii)."

preserve those rights for existing long term capacity holders. The significance or not of that flexibility is for each holder of entry capacity to articulate for themselves. Interested parties have different priorities and hence each of the alternate proposals has a different focus. National Grid NTS is neutral to the specific issue of optionality with regard to an aggregate overrun at this specific ASEP. However we have a number of concerns relating to the combination of an aggregate overrun combined with the other elements of 0501C.

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)?

In relation to 0501C unutilised reallocated Bacton capacity at either of the two new Bacton ASEPs, can be used to offset the National Grid NTS element of a bundled product charge, not solely at the Bacton UKCS. This point as we understand it was raised and discussed within the workgroup. It was suggested that at the point that a User chooses to purchase bundled capacity e.g. (at the IP) then it should then surrender capacity (at Bacton UKCS) that it does not require, back to the market. This has not been proposed as part of Modification 0501C. It is difficult to assess how much bundled capacity would be purchased (and be eligible to receive a rebate) as a result of implementation of 0501C. However, it is apparent that an amount up to and including the aggregate re-allocated capacity at both ASEPs could be purchased as bundled capacity at the IP and thus eligible for rebate where the corresponding quantity of reallocated capacity is subsequently unutilised. This question has arisen out of a concern that capacity could become sterilised as a result of the existence of the 0501C rebate. It is National Grid NTS's view that if unbundled capacity is available the User should buy it rather than buying bundled capacity. The Modification does not enforce this and in this respect could be viewed as inefficient.

There are potential solutions to these concerns but it would be very challenging to develop new Modifications, provide the system functionality to support them and implement within the timescales required. Creating a rebate that only applies in certain circumstances will add complexity and is not part of the current Modification.

This outcome is an impact of CAM implementation and bundling itself, it does not arise because of the need to split the Bacton ASEP i.e. if a User wants to flow gas through any IP then bundled IP capacity is the primary capacity mechanism and even if the Bacton ASEP was not to be split (e.g. the whole of the Bacton ASEP designated as an IP) this would still be the case. The proposal for a rebate accompanies a view that a User with reallocated Bacton capacity should be compensated if it purchases bundled IP capacity, because they have had to buy Bacton capacity twice to prevent diminution of existing contract value.

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?

Any hand back of capacity will to a greater or lesser extent (depending on the quantity of capacity to be returned) increase the TO Entry Commodity charge to all system users at all ASEP Entry points on the NTS and it is important to highlight this, especially as non Bacton Users would be affected by these alternate Modifications.

Every £10m reduction in Entry Capacity Revenue would result in 0.0016 p/kWh increase in the TO Entry Commodity Charge, based on the Commodity Charge which is applicable from 01 April 2015. This equates to a 4% increase in the TO Entry Commodity Charge applicable from 01 April 2015. The information provided to the Workgroup was based on the TO Entry Commodity Charge applicable for 01 October 2014 and equated to 6%.

Each affected party may take a view regarding these impacts based on their own position at Bacton, their position at other Entry points and their own position with regard to hand back and future requirements at each of the Bacton ASEPs.

Capacity hand back would undoubtedly impact charging volatility. The timing of the charge setting and when the hand back takes place, dictates when the increases would take effect.

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

None.

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?

Modification 0501 has been raised with the aim of splitting the Bacton ASEP into two separate ASEPs, the purpose of which is to comply with EU Capacity Regulations whereby UKCS remains under UNC arrangements and IPs are under the new EU Capacity Regulation. It has been designed to respond to the unique structural changes needed to deliver CAM. In taking this approach National Grid NTS has considered the impact on other NTS Users and considered the impact that any such Modification might have on the future actions of existing and new Users.

It is the view of National Grid NTS that Modification 0501 and the specific Bacton ASEP splitting element of the three alternate Modifications are consistent with Relevant Objective g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.

National Grid NTS does not share the views expressed by the proposers of the alternate modifications in relation to furthering the following relevant objectives:

- b) Coordinated, efficient and economic operation of
 - (i) the combined pipe-line system, and / or
 - (ii) the pipe-line system of one or more other relevant gas transporters.
- d) Securing of effective competition.

National Grid NTS believes that any positive benefits stated in the Draft Modification Report, in relation to these relevant objectives have not been sufficiently evidenced in relation to how they may be accrued. It is National Grid NTS's view that, in any event, they may be outweighed due to the potential negative impact on User Commitment (if capacity is handed back) and the impact that may have on TO Entry Commodity charges and the possibility that capacity could become sterilised. Should 0501C be implemented existing and new users at Bacton would have different rights associated with their booked capacity. Consequently the overall impact on these two relevant objectives would be negative.

Impacts and Costs:

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

There are no system development costs associated with Modifications 0501, 0501A and 0501B. There are systems development costs associated with the implementation of Modification 0501C. A ROM has been published for Modification 0501C and it indicates that a system solution would cost in the order of £415,000 to £490,000. This solution would not be delivered in time for October 2015 and could be planned for release during 2016. An interim offline solution would be considered between November 2015 and implementation in 2016, with a cost not expected to exceed £50,000.

An associated draft ACS has been provided to Ofgem.

Implementation:

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

The European Commission has specified the Regulation on Capacity Allocation Mechanisms will apply from 01 November 2015.

Processes associated with splitting Bacton will commence (subject to Ofgem direction) following the completion and allocation of the 2015 QSEC Auction.

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).

No.
