

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: Oil & Gas UK

Representative: Marshall Hall

Date of Representation: 12 February 2015

Do you support or oppose implementation?

0501 Oppose

0501A Support

0501B Oppose

0501C Support

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

501A or 501C

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

501 does not meet any of the legitimate concerns of existing capacity holders which arise from the enforced splitting of capacity at Bacton and should be rejected as completely inappropriate. Among the three versions which do seek to address such concerns and to mitigate the effects of splitting, 501A and 501C are the most attractive options to achieve, as far as possible, the relevant objectives. The case for 501B is not convincing since it does little to preserve the value of existing capacity holdings and nothing to preserve flexibility.

501A offers simplicity through the option to return capacity without penalty but does not permit the retention of any of the fungibility and trading flexibility which exists at

Bacton today. 501C offers greater complexity but will allow some flexibility to be retained through an aggregate overrun regime. Preserving flexibility may entail higher costs but this alone should not disqualify it; the incremental costs should be assessed against the expected value of preserving flexibility.

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, we do not agree that 501C should be considered as a User Pays Modification. The splitting of Bacton capacity has been imposed on the GB regime and 501C deserves to be seen as a sensible attempt to mitigate the adverse consequences of the change.

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?

501C will preserve the flow optionality for existing long-term capacity holders and will help to mitigate the adverse consequence for gas trading arising from the unwelcome need to split the existing Bacton ASEP. This is consistent with the principles of efficient access to network capacity and efficient gas market operation.

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)?

We believe that in cases where it is possible to purchase only bundled IP capacity, a rebate for the UKCS entry capacity is reasonable and appropriate. The rebate should not be made dependent on further conditions.

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 not possible to assess this effect in advance since it will depend on the extent of any return of Bacton capacity, the extent of future capacity bookings and, of course, the outcome of Ofgem's proposed reform of the GB regime (GTCR) and the final EU TAR network code.

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

No, provided the *value* of flexibility and optionality is incorporated in the assessment of the competing Mods.

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)?

We broadly agree with the assessment of the Draft Mod Report. All four Mods ensure EU compliance (objective (g)). However, only Mods 501A and 501C promote the efficient and economic operation of pipeline systems (objective (b)) and effective competition between suppliers (objective (d)).

Impacts and Costs:

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

501C may entail some higher 'one-off' transition costs than 501A because of the need to adapt IT systems but the difference in post-development operating costs has not been presented as significant. The assessment of the Mods should seek the best available cost-benefit relationship, not necessarily the lowest-cost solution.

Implementation:

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

All four Mods seem to be compatible with CAM compliance by 1 November 2015.

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).

The problem of CAM compliance at Bacton appears to be unique in the EU. The proposed capacity split between the new UKCS and IP ASEPs gives undue preferential access to entry capacity to the interconnectors over UK supply sources (storage and non-storage). The setting of the baseline capacity levels and the procedures which govern possible future substitution of capacity away from the UKCS ASEP will have an impact on the value and relative merit of the proposed Mods. We recommend that in addressing this issue, Ofgem adopts a precautionary approach and seeks to preserve as much of the flexibility in the existing GB regime as reasonably possible in order to retain gas trading flexibility, NBP market liquidity and UK supply security.