

## 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.*

12 February 2015

#### **Consultation close out date:**

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

**Organisation:** Perenco UK Limited (Perenco)

**Representative:** Andrew Sanders

**Date of Representation:** 12<sup>th</sup> February 2015

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

0501 - Oppose

Modification 0501 creates a loss of the option value which currently exists under the current regime – ie ability to adapt use of the product as markets change.

Modification 0501 creates the potential allocation of capacity at an entry point that has not been chosen

In short Modification 0501 removes the value of the original strategic of the current and replaces it with it a less flexible product at the same price.

0501A – Support

Modification 0501A is a simple approach which will be easy to implement.

Modification 0501A addresses the loss of the strategic value of the current capacity in a limited way. The loss of option value is countered by capacity holders being able to “reset the strategic clock” and take decisions going forward taking into account the significant changes caused by the division of the ASEP. The value created by this example of Bayesian decision making goes in some way to negating the loss of optionality.

Given the magnitude and “one off nature” of the change in addressing capacity at Bacton Perenco does not believe that implementation of Modification 0501A sets a precedent for the future.

## 0501B - Oppose

Modification 501B has the same drawbacks to Modification 0501. Essentially capacity holders are left with a significant amount of an inferior product on the same terms in other respects.

## 0501C – Support

Modification 0501C is a modification that comes close to preserving the properties of the current product. It is more complex than the other modifications precisely for that reason because it seeks to replicate those properties precisely.

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

Prefer 0501A or 0501C

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

Modifications 0501A and 0501C protect the value of the original long term product in different ways. Modification 501A allows a “one off reset”. Modification 0501C retains much of the flexibility.

Modifications 0501 and 0501B will discourage long term strategic decisions eliminating the long term price signals that National Grid require. Implementation of arbitrary arrangements when regulatory requirements dictate a change reinforces short to very short term behaviour.

### **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?*

Perenco does not believe it appropriate for Users to pay for modifications which merely preserve rights for which they have already paid.

*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?*

Modifications 0501C preserves the optionality of the original product.

*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)?*

A rebate is reasonable if a User has no other option to obtain the services it requires than by buying a bundled service. The physical capacity used does not change. If capacity is required it is still available to the system under the use it or lose it arrangements.

*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 predict over the length of time that the legacy arrangements are contracted for what the impact on the commodity charge will be. The impact will be dependent on the following

- (i) amount of capacity handed back;
- (ii) the difference in price at which legacy capacity was purchased and the price of capacity under the new arrangements;
- (iii) any increased revenues derived from sales of capacity over and above that currently contracted
- (iv) whether this will have a material impact on National Grid's cost of running the system

**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)?*

### **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***

Perenco considers that the impacts outlined in the Industry Workgroup Report of 9th January 2015 summarise the arguments for and against each Modification's facilitation of compliance with Relevant Objective b).

Perenco believes that Modifications 0501A and 0501C are favourable in terms of facilitating compliance with this Relevant Objective, whereas Modifications 0501 and 0501B are not.

**d) Securing effective competition between shippers**

Perenco considers that the impacts outlined in the Industry Workgroup Report summarise the arguments for and against each Modification's facilitation of compliance with Relevant Objective d).

Perenco believes that Modifications 0501A and 0501C are favourable in terms of facilitating compliance with this Relevant Objective, whereas Modifications 0501 and 0501B are not.

**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**

Perenco considers that the impacts outlined in the Industry Workgroup Report appropriately summarise the arguments for and against each Modification's facilitation of compliance with Relevant Objective g).

Perenco believes that all Modifications are favourable in terms of facilitating compliance with 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)?*

No significant costs forecast in respect of any of the Modifications

**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 Modifications are implementable within the timeline required by CAM (1<sup>st</sup> 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).*

No further comments