

## 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

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

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

**Organisation:** Wales & West Utilities Ltd.

**Representative:** Richard Pomroy

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

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

0501 - Support

0501A - Support

0501B - Support

0501C - Support

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

Prefer 0501B.

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

All the Modification Proposals achieve the required aim; the question is which is best. 0501 has the virtue of simplicity but does not allow Bacton Shippers enough scope for adjustment. 0501A and 0501B differ on the degree to which shippers at Bacton can adjust their capacity at the two new ASEPs. 0501A starts from the principle that the contractual arrangements have changed and therefore Shippers at Bacton should be able to return all the capacity they currently hold whereas 0501B has a more limited mechanism. 0501C also seeks to return Bacton Shippers to a position where the impact of the change on them is minimised. Both 0501A and 0501C allow adjustments by existing Bacton Shippers. The likely reduction in entry capacity revenue would need to be recovered from Shippers in general and the mechanism for this would be by means of the TO commodity charge which will impact all Shippers. Without any quantitative evidence on the likely impacts, which we acknowledge are difficult to estimate, we think that the effect on non-Bacton Shippers

should be minimised. For this reason we prefer 0501B which has a more limited capacity return mechanism than 0501A and does not have the complexity of 0501C.

**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?*

We do not agree that 0501C is User Pays, while it is true that it has implementation costs whereas 0501, 0501A or 0501B do not, its sole purpose is to enable the continued delivery of an existing service.

*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?*

The option to flow is one of the features of 0501C that aids Bacton Shippers and seeks to restore flexibility. If it does not impose additional costs on non-Bacton Shippers then it is beneficial.

*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)?*

The Shipper should be obliged to offer the capacity back to the market in advance of the Gas Day otherwise it is obtaining flexibility at zero cost while sterilising 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?*

0501C offers more ability to hand back capacity than 0501A which offers more ability to hand back capacity than 0501B. We therefore think that the impact on the TO commodity charge will be greater for 0501C than 0501A which in turn will be greater than for 0501B. Given that this will affect Shippers at ASEPs other than Bacton we believe that this effect should be minimised as far as possible as it imposes a net cost on these Shippers.

**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)?*

The issue which is being dealt with by these modifications is about how to respond to a regulatory change in an equitable way so that Bacton Shippers and other Shippers are not unduly impacted by the change. Unfortunately the relevant objectives relate more to economic efficiency than economic equity.

Relevant objective (g) positive for 0501 0501A 0501B 0501C

Relevant objective (b) positive for 0501A 0501B 0501C (0501C > 0501A > 0501B)

Relevant objective (d) positive for 0501A 0501B 0501C (0501B > 0501A > 0501C)

We think that for relevant objective (b) 0501C is better than 0501A which is better than 0501B as in that order they are more likely to give an outcome that gives an economically efficient allocation of potentially scarce resource. For relevant objective (d) the order is reversed because giving too much flexibility to hand back capacity to Bacton Shippers may be detrimental to securing effective competition by imposing too much cost on non-Bacton Shippers owing to increases in the TO commodity charge required to balance NTS revenues.

### Impacts and Costs:

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

None, WWU is not directly affected by these 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)?*

They need to be implemented as soon as possible to ensure the UK complies with the relevant EU Regulation 984/2013.

### Legal Text:

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

We have not looked at the legal text

### 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 requirement to split the Bacton ASEP and the decision on how to apportion the physical capacity between the new Bacton UKCS ASEP and the Interconnector ASEP are not within the scope of these modifications. We recognise the major impact these decisions have on whether physical capacity is a scarce resource (and hence acquires a positive price) at the new ASEPs.