

NRAs' Open Letter



Call for evidence on the use of the gas interconnectors on Great Britain's (GB's) borders and on possible barriers to trade

Interconnector Analysis

Industry Workshop, 21 November 2012

Darren Reeve, Commercial Director



Introduction

Interconnector

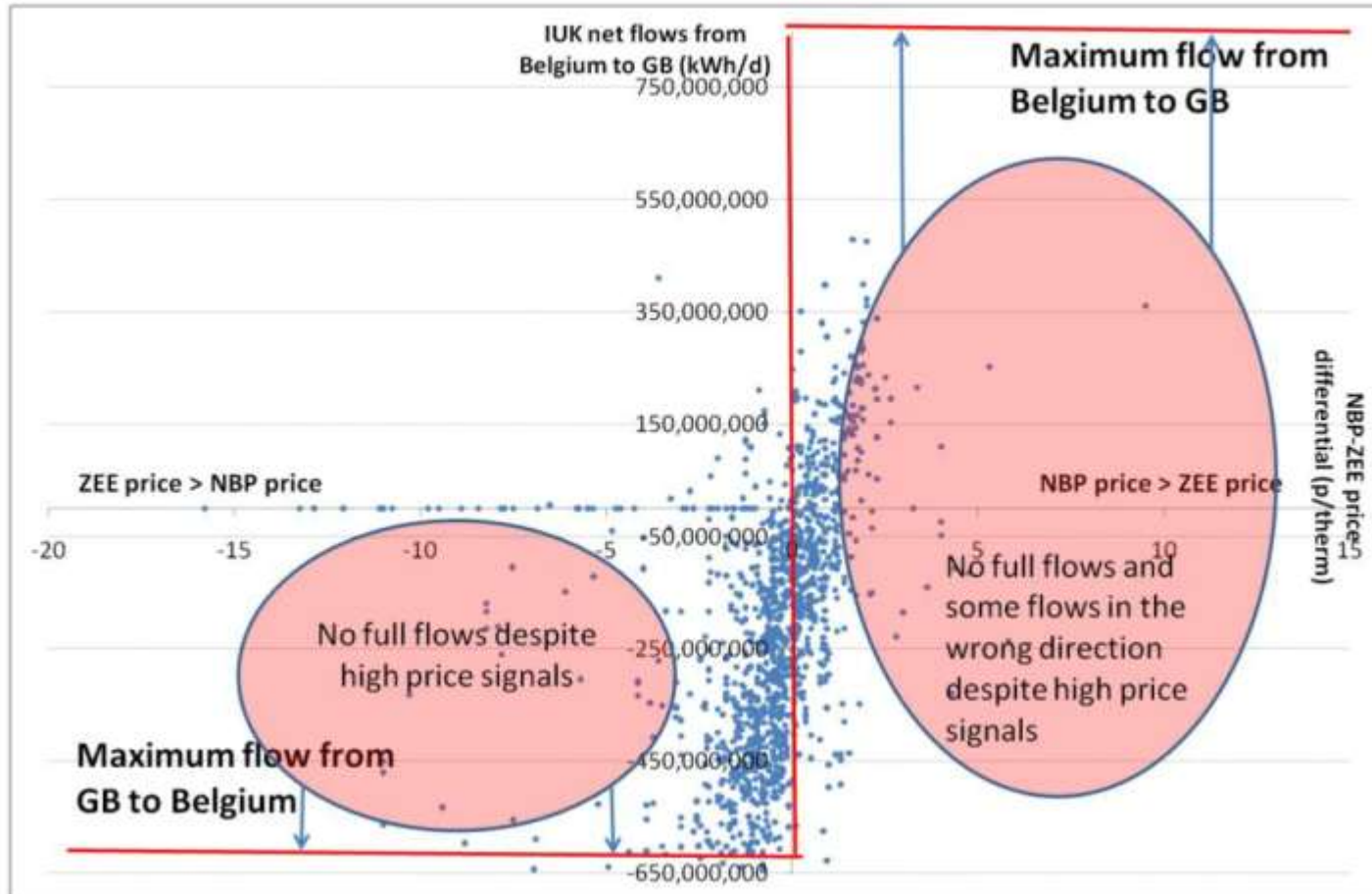
- Provides pipeline capacity
- Customers nominate their flow requirements
- Offers considerable within day flexibility

Key Messages

- Nominated flows through Interconnector are highly efficient
- There is a clear bias to UK Exports
- Have identified the reason for the bias

	Import Capacity	Export Capacity
Interconnector	810 GWh/d 34,000 MW	630 GWh/d 26,000 MW
Electricity Interconnector	500 to 2,000 MW	

Figure 1: Gas flows on IUK between GB and Belgium



Flow vs Price Data

Interconnector Flows

- Actual flow is measured

Day Ahead Price Data

- Many prices are actually assessed several days in advance
 - Sunday, Monday, Bank Holidays

Several Sources of Price Data

- NRAs: Bloomberg (average of 3 broker prices)
 - Interconnector: Heren (price assessment at 16:30)
 - Eclipse*: Spectron (average price within a window)
- } Good Alignment

Flows

Actual, Measured, Accurate

compared
against

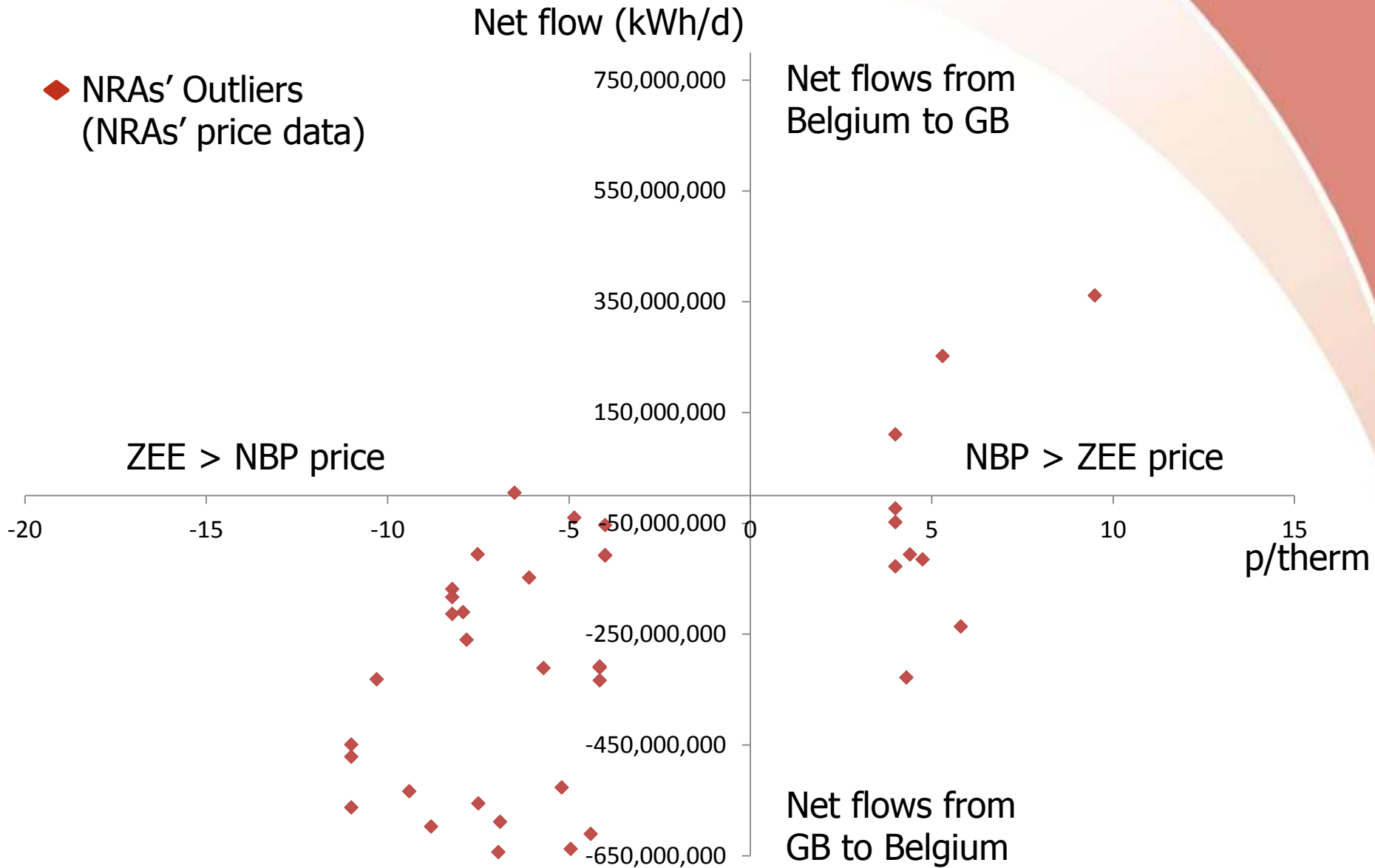
Prices

Assessed, Day(s) Ahead

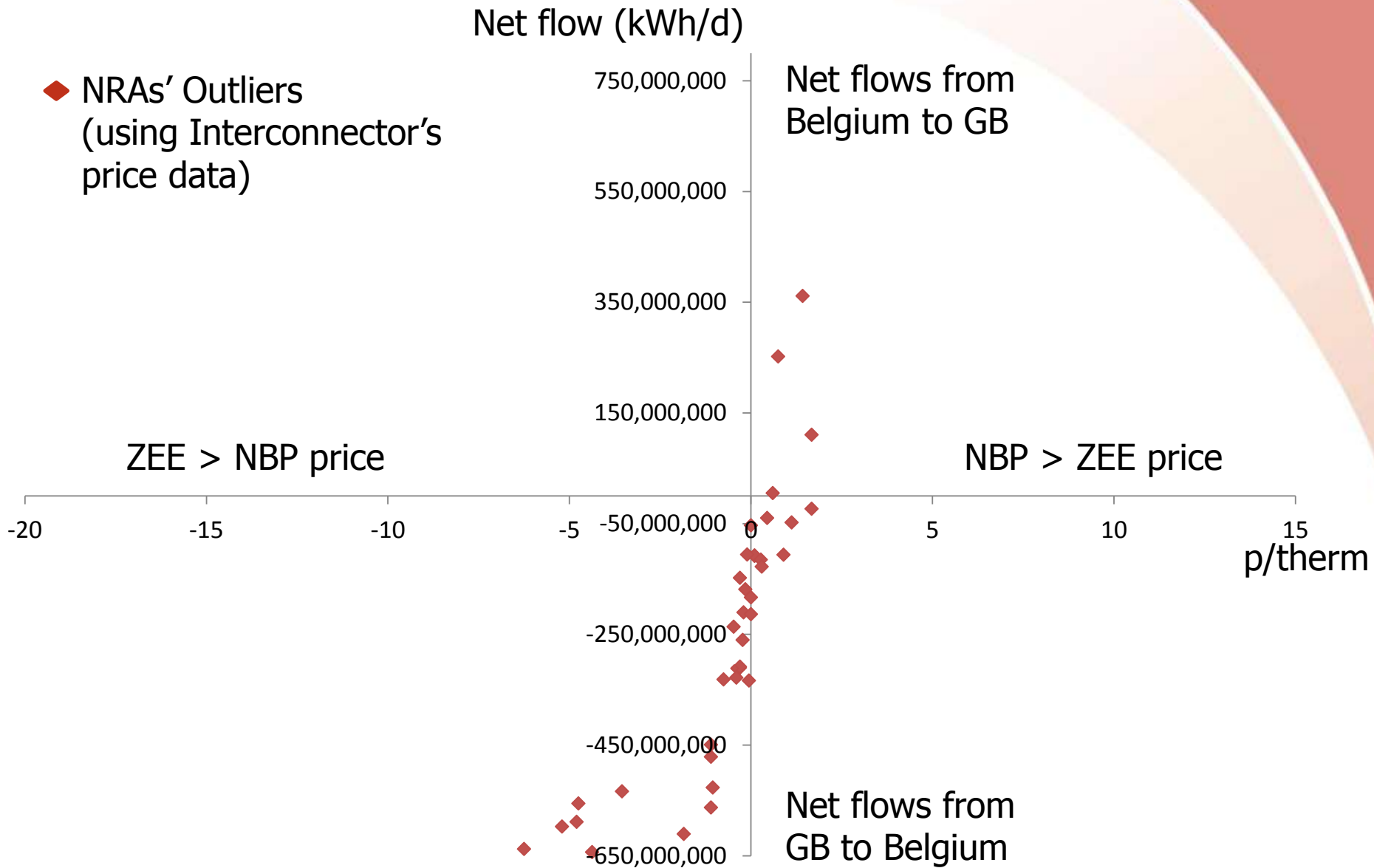
* Interconnector have commissioned Eclipse to undertake independent analysis

NRAs' Outliers

◆ NRAs' Outliers
(NRAs' price data)



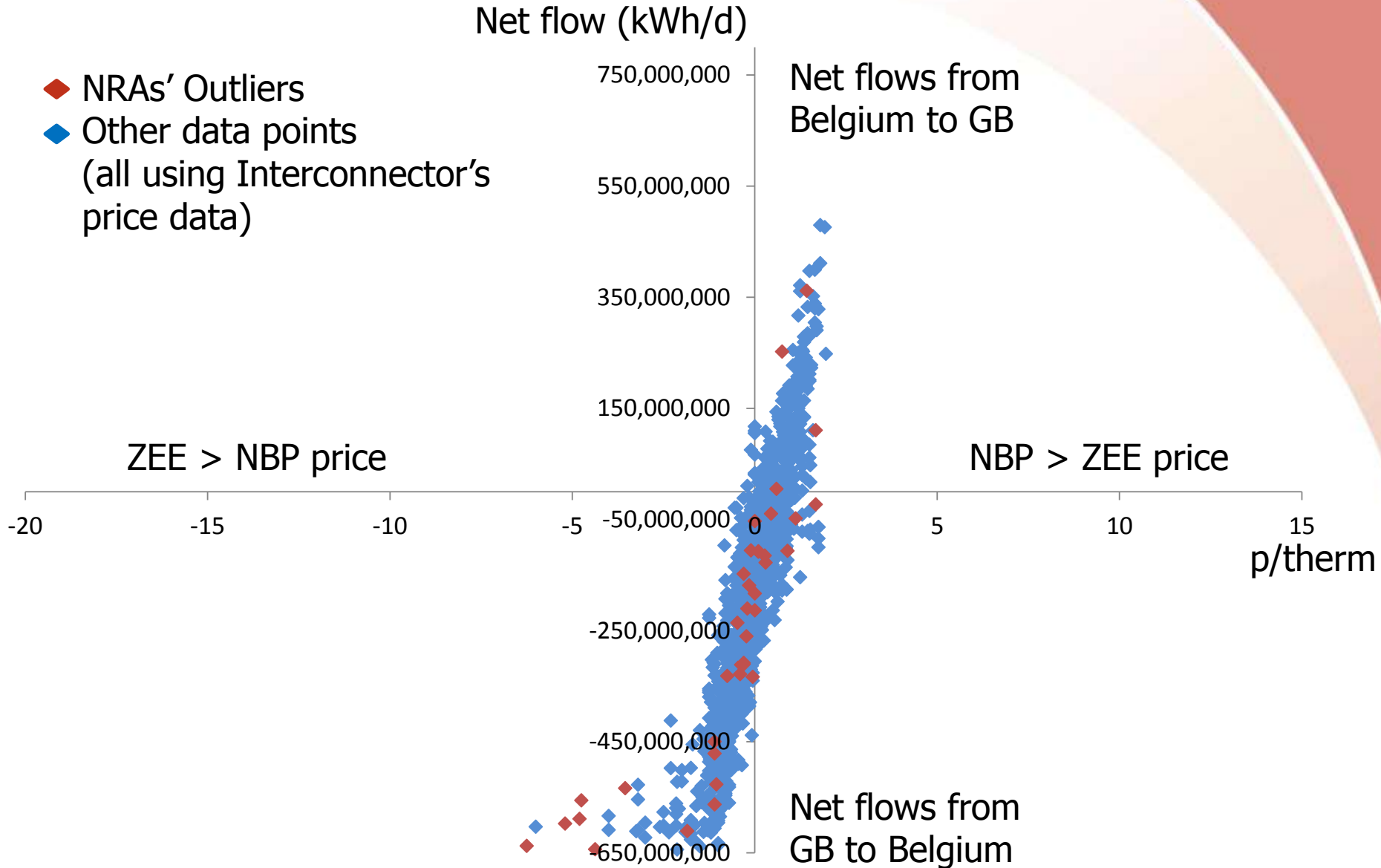
NRAs' Outliers





Interconnector Analysis

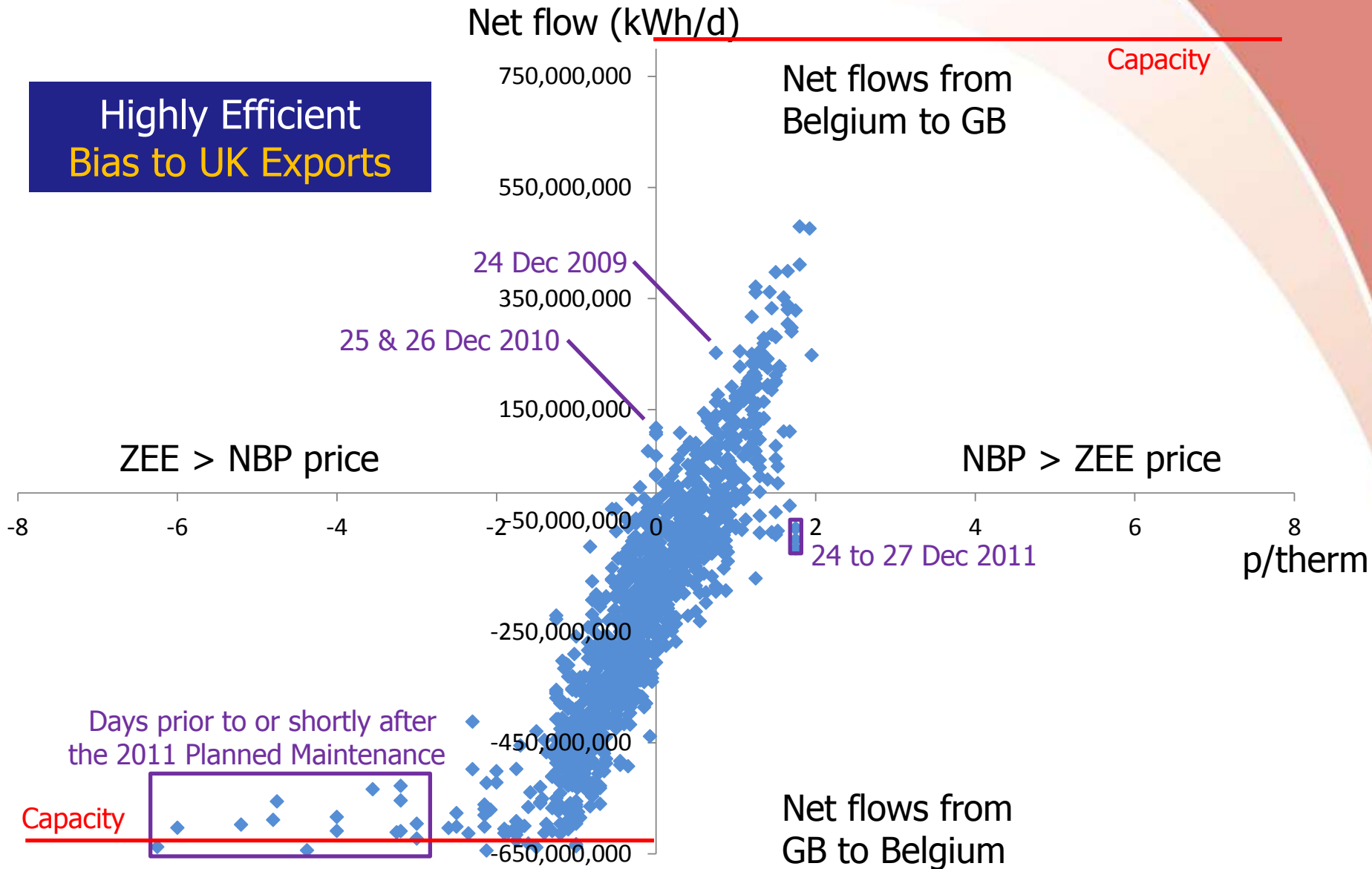
- ◆ NRAs' Outliers
- ◆ Other data points
(all using Interconnector's price data)





Interconnector Analysis

Highly Efficient
Bias to UK Exports

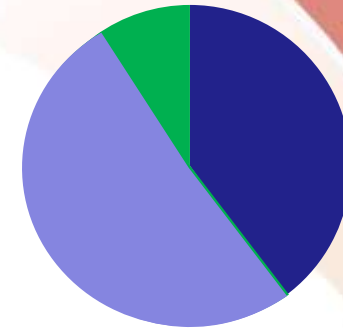


Zero reserve prices for short term capacity

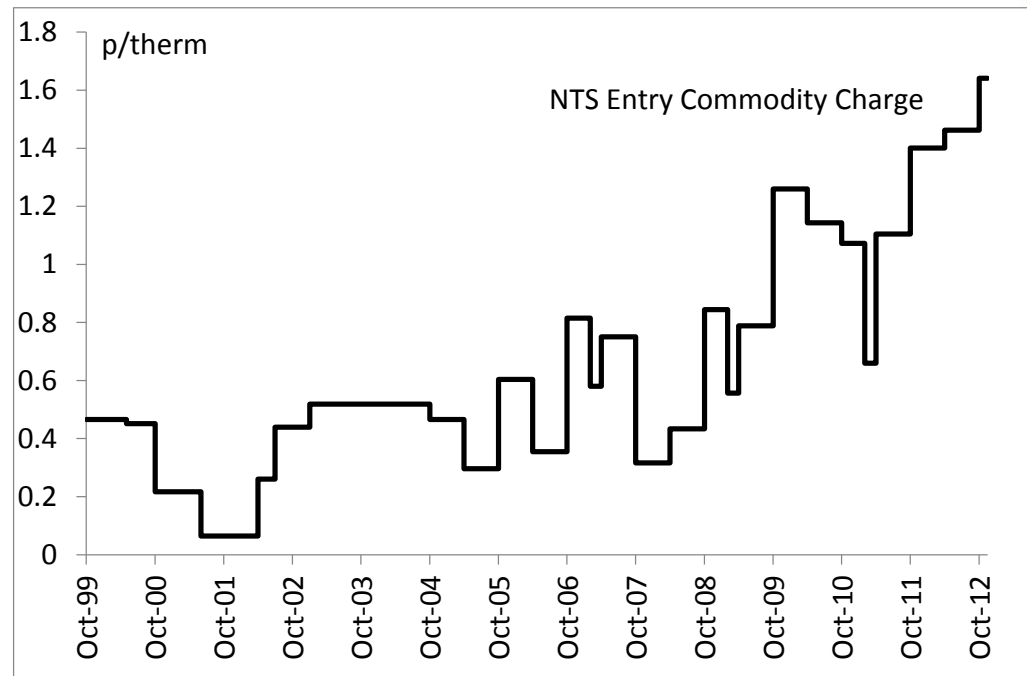
- Under-recovery on capacity

Escalating NGG commodity charges

- Recently increased by a further 29%
- Shippers can opt to utilise the NTS Optional Commodity (Short-Haul) Tariff

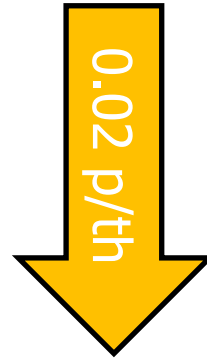


- Capacity
- Capacity Under-Recovery
- Commodity



Capacity under-recovery
Increasing incentive to avoid
high commodity charges

Flow Decision



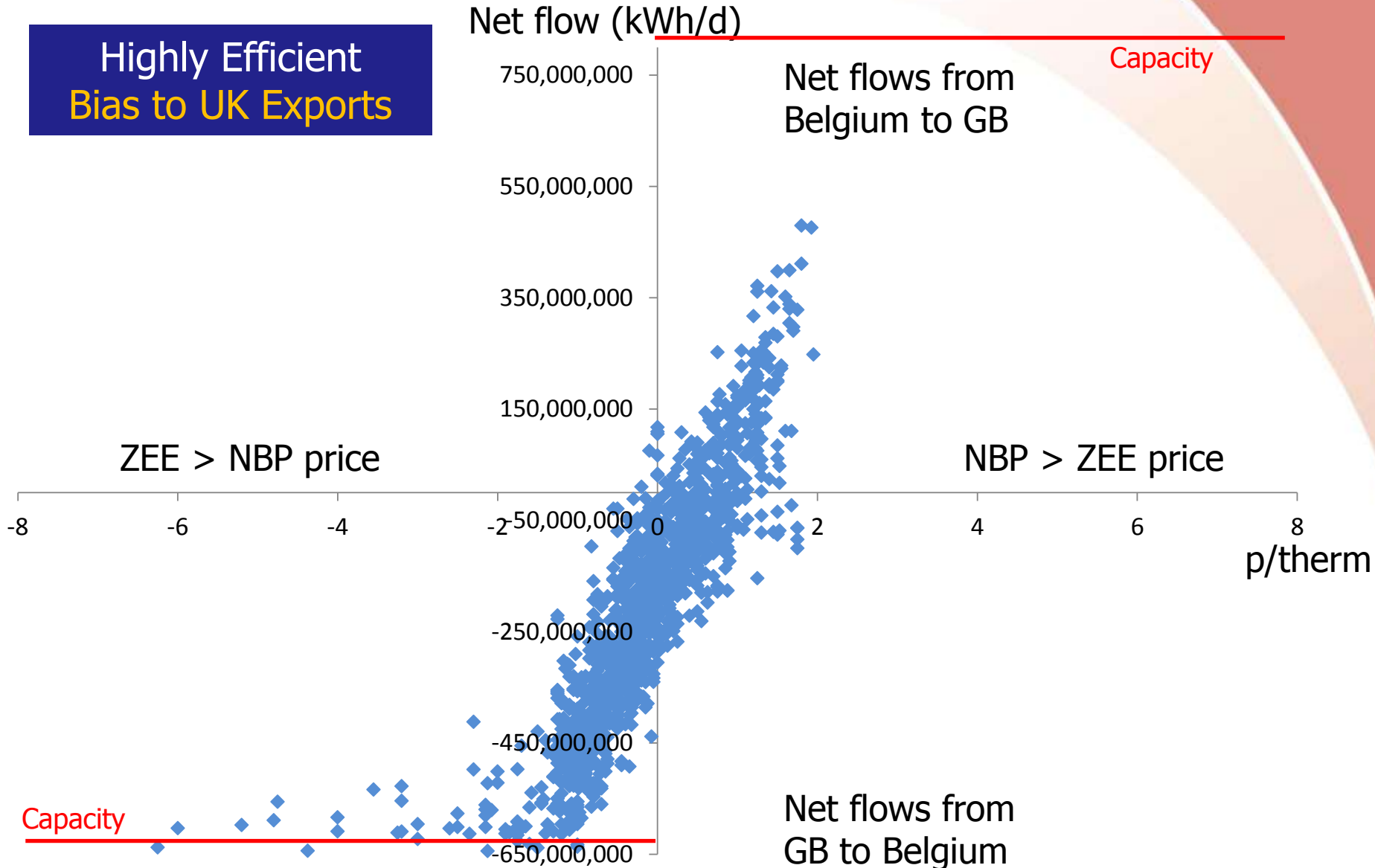
Currently:

~1 p/th incentive to ship Beach gas to Zee
AND ~2 p/th required for UK imports
Unintended consequence of zero reserve prices for capacity



NBP to Zee Price Differential

Highly Efficient
Bias to UK Exports



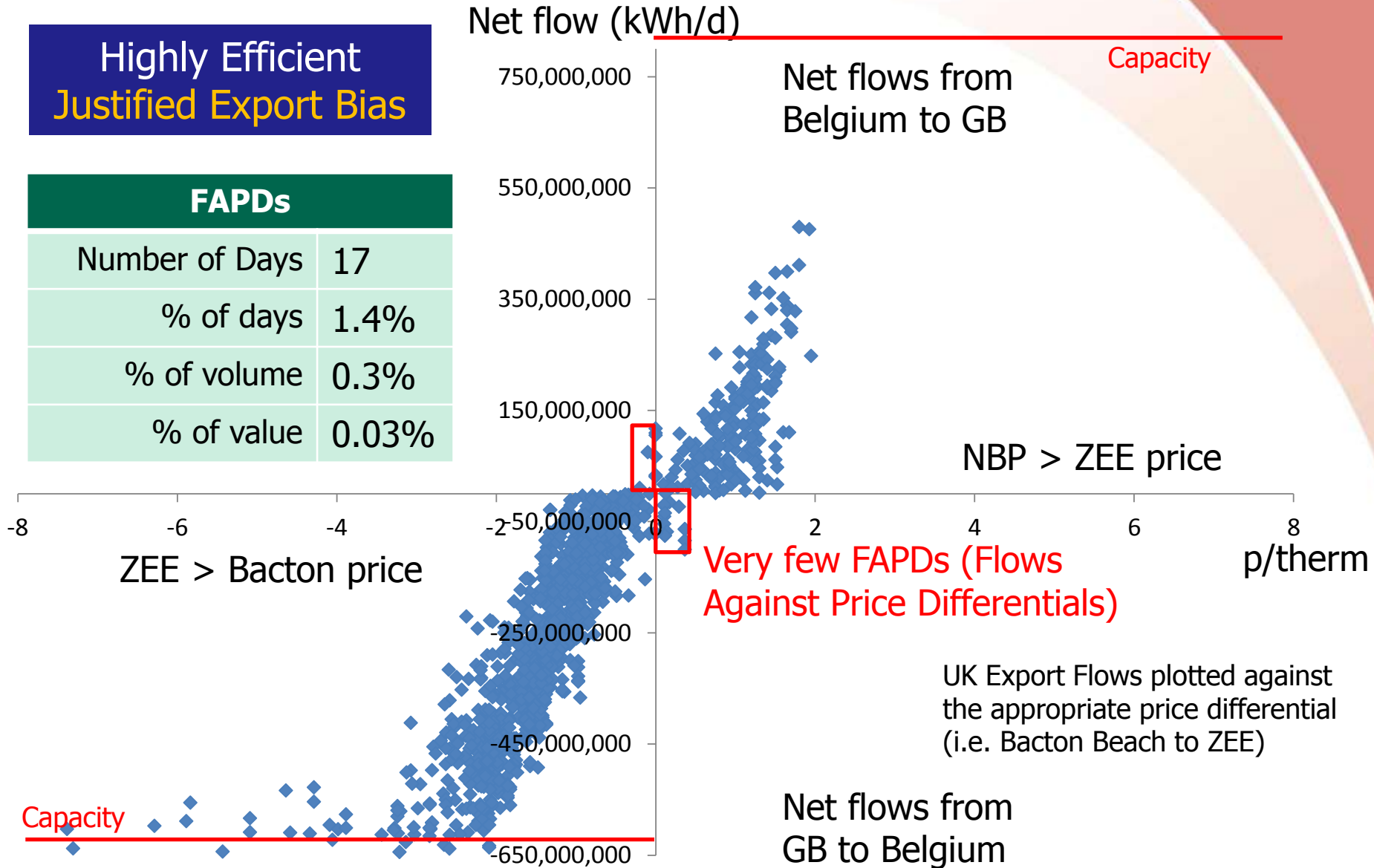


Appropriate Price Differential

Highly Efficient
Justified Export Bias

FAPDs

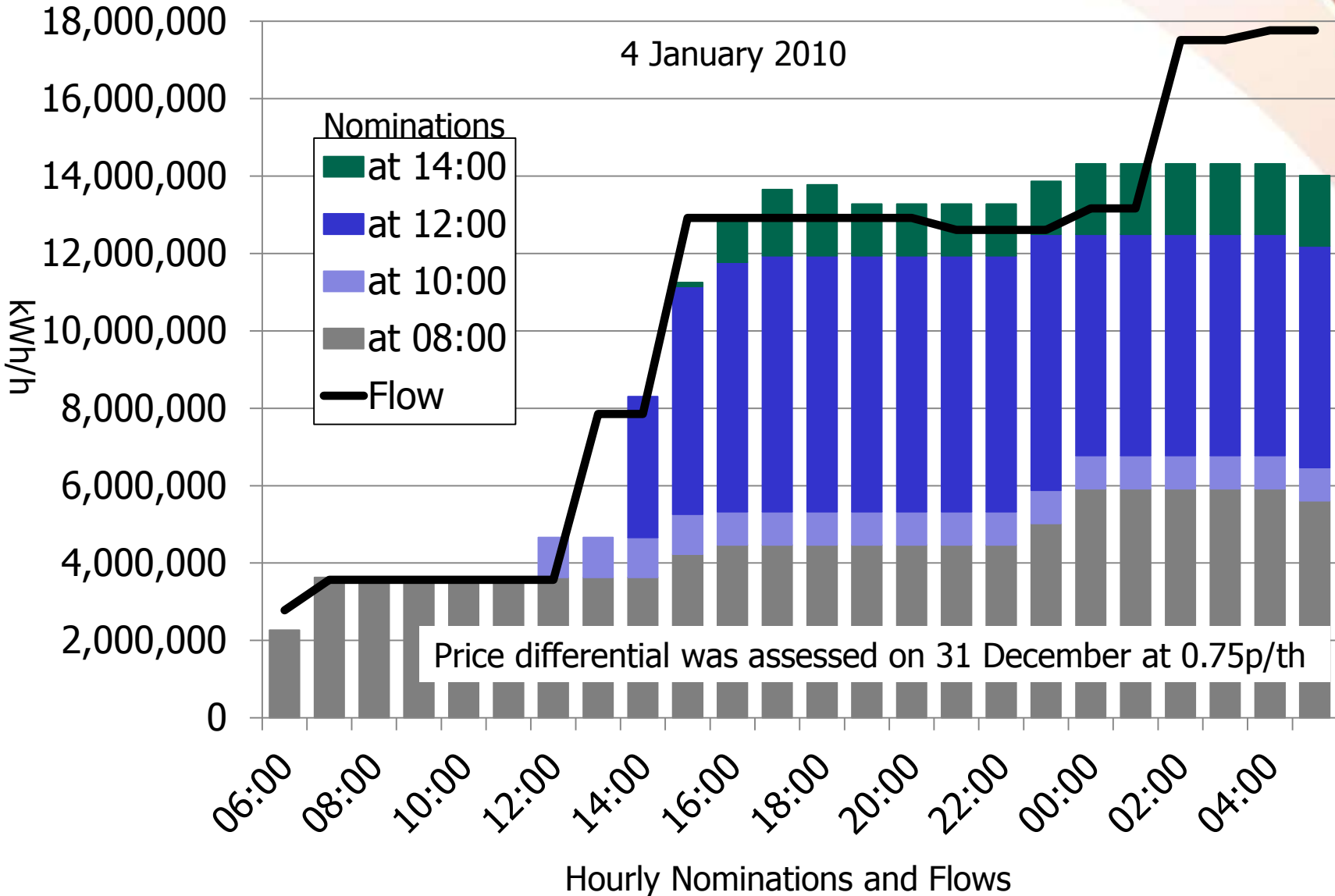
Number of Days	17
% of days	1.4%
% of volume	0.3%
% of value	0.03%





Within Day Renominations

Increasing Interconnector nominations following GB supply issues (and a gas balancing alert)





Conclusion

IUK provides a highly flexible service

- Many companies own capacity
- Active secondary market

Analysis demonstrates Interconnector flows are efficient

- NRAs' analysis does not provide a sound platform for further policy interventions directed at interconnector pipelines

Distorting effect of high commodity charges in GB

- Creates a bias to GB exports via the Interconnector
- Results from the under-recovery of NGG capacity charges

High (and rising) commodity charges are within
the NRA's power to address

Would bring GB more in line with Continental Europe

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