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Dear Rob

CAM open letter response on the “Options for Great Britain’s implementation of the European Union Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems (Regulation 984/20130) at the Bacton Entry Point”

We welcome the opportunity to respond to the “Options for Great Britain’s implementation of the European Union Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems (Regulation 984/20130) at the Bacton Entry Point” open letter. This response is provided on behalf of National Grid, as National Grid Gas in its role as owner and operator of the Gas Transmission System in Great Britain.

We have provided a summary of National Grid’s views on the key areas of our response below. A full response to the questions raised in the open letter is provided in Annex 1.

We believe that it is helpful to have debate on the options; however we are mindful that the implementation of the CAM Regulation within the set timelines is already challenging. Given IS system analysis needs to be initiated in January-2014 and we have commenced work to understand the potential systems costs of splitting the Bacton ASEP, landing on an agreed solution as soon as possible is imperative. We also recognise that there is a cost and complexity trade off in agreeing solutions that work for all, and we should be mindful of the need to balance any additional costs of complexity against expected industry benefits.

Bacton Split

We believe the current Bacton Aggregated System Entry Point (ASEP) needs to be split commercially to accommodate the new EU arrangements and allow a bundled product to be sold.

We recognise that this will have an impact on our customers who currently hold NTS Entry Capacity and / or flow gas at the Bacton ASEP and it is National Grid’s view that there are a number of areas that will need to be considered regardless of which option from those detailed within Ofgem’s letter, is implemented.

We consider that of the options outlined in the Ofgem open letter, splitting the existing Bacton ASEP based on the European Interconnection Point (IP) technical capacity is the most appropriate.

Any option needs to consider :

- Whether any split could be viewed as unduly discriminatory between those holding NTS Entry Capacity / seeking to flow gas at the Bacton European IP and / or at the Bacton UKCS ASEP;

- The potential impact on current contractual arrangements both under the terms of, and outside, the Uniform Network Code and;
- How existing holdings of entry and exit capacity should be treated.

2 or 3 way Bundle

We consider that it would be useful for Ofgem to set out in more detail what is foreseen by a 3 way bundle, i.e. is it an Entry / Exit product between TSO 1 and the interconnector together with an Exit / Entry product between the interconnector and TSO 2 or an Entry / Exit product between TSO 1 and 2 (without direct interconnector involvement). This may aid understanding of the potential operation of a 3 way bundle.

With regards to a two or three way bundle, whilst we have no strong preference it is our understanding that a two way bundle may afford Shipper's more flexibility, is supported by existing PRISMA functionality and is potentially less complex for Shippers to operate under such a regime. We do not believe that operating a regime on the GB side that provides for both a 2 and 3 way bundle is appropriate as this would mean operating two regimes at the different IPs¹ and would again create further cost, complexity and risk.

European IP


We have no strong preference regarding creating either a single European IP or two individual European IPs, however we understand that a single European IP ASEP may afford greater flexibility for Shippers.

Existing Holdings

As stated above, a Bacton split would impact our customers' current long term NTS Entry Capacity holdings but we also recognise that Enduring NTS Exit Capacity rights are not in the spirit of the CAM Regulations. Therefore we are happy to work with the industry to explore potential options to address this issue.

If you have any questions then please do not hesitate to contact me on the details above, or Steven Fisher (steve.r.fisher@nationalgrid.com – 01926 653428) or Matthew Hatch (matthew.hatch@nationalgrid.com – 01926 655893).

Yours sincerely



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¹ We recognise that the open letter is addressing key questions at the Bacton ASEP but any solutions need to consider the impact at Moffat.

Annex 1

- 1. We would welcome the views of shippers regarding which of the potential options discussed in this document will provide the greatest level of flexibility that you are seeking, subject to the requirements of the CAM network code.**

As National Grid is a transporter this question is not applicable.

- 2. Do you agree with the advantages and disadvantages of the 2 and 3 TSO bundle options as presented? Are there any further advantages or disadvantages to be considered?**

National Grid is not a Shipper and as such does not have detailed knowledge of the services offered by Interconnectors, but based on our understanding National Grid agrees with the advantages and disadvantages as laid out within the open letter. Although we note:

- that to facilitate either type of bundle National Grid believe that all the relevant TSOs would need to have signed up to a common European platform to facilitate the sale of such capacity; and
- that the gas target model is non binding and is to be reviewed during 2014.

National Grid recognise that the Balancing Code raises the issue as to whether the interconnector has a balancing zone or not (recognising that derogations are allowed under the Code) but we are unclear as to how the issue only materialises under 2 way bundling and how a 3 way bundle would mean that interconnector could not be classified as a balancing zone.

A 3 way bundle may also create additional complexity with regards to the nomination process as all three TSOs may, depending on the design of a 3 way bundle, need to be involved and this will require additional operational links between the three TSOs.

From National Grid's perspective, irrespective of whether a 2 or 3 way bundle is chosen, it would be preferable to implement the same option at all EU IPs within GB. The provision of both options:

- would create additional complexity in both the design and operation of systems and processes. This would need to be considered in the context of the ability of all parties to deliver CAM for a 1st November 2015 implementation;
- would create the potential for multiple regimes within the Uniform Network Code which would allow different regimes for different IPs. This may have unintended consequences with regards to influencing which IP Shippers may wish to flow at;
- could also be viewed as inefficient in delivering flexible systems / processes when only one option may ultimately be used. Consideration also needs to be given to the recovery and targeting of implementation costs;
- would not, at this stage, accommodate the potential for IPs being able to move from a 3 way bundle to a 2 way bundle and vice versa as this would create an additional level of complexity.

- 3. Do you consider that it would be possible for a 3 TSO approach to accommodate a linepack service (as currently offered by IUK)? If so, please provide details as to how this could be facilitated.**

National Grid is not in a position to answer this question as we do not have detailed knowledge of these services and how they operate.

- 4. To what extent do you consider the classification of interconnectors as balancing zones as an opportunity, rather than a disadvantage, of the 2 TSO model?**

Our comments regarding balancing zones are detailed in our response to Question 2.

- 5. Which of the bundle options (2 or 3 TSO bundle) would best enable shippers to react to price differentials between hubs?**

We believe that this question is best answered by Shippers.

6. Do you have a preference for a 2 TSO or 3 TSO bundle? If so, please provide the reasons for your preference.

National Grid believe that a 2 TSO bundle is most appropriate as this would provide Shippers with greater flexibility. However this would need to be considered with any potential options regarding fungibility (see response to Question 14 to see our specific answer on fungibility).

7. Do you agree with our current view that interconnectors should choose the bundling model subject to meeting the requirements of CAM and the objectives of their access rules? Would you have any concerns if different options for bundling were chosen by the two connectors?

Our concerns relating to different bundling options being chosen are detailed under our response to question 2.

8. Do you agree with the advantages and disadvantages of the various options in respect of the future mechanism of selling entry capacity at Bacton? Are there any further advantages or disadvantages to be considered?

For each of the options National Grid has set out some additional thoughts that we believe should be considered.

Option 1 NGG manages any constraint

National Grid agrees with the issue Ofgem raised regarding the impact that this may have on Users signalling any incremental entry capacity requirement. Selling the baseline twice may also require, from a GB perspective, the technical capacity definition to be reviewed. This option would also potentially impact the release and constraint risk at other nearby ASEPs and as such competition in the area. Such an option may increase constraint costs, and as such will have an impact on Shippers and ultimately end consumers and we therefore do not believe this is an efficient solution. The sale of additional baseline would increase the risk of constraint costs, although the materialisation of such costs would be dependent on a number of other factors (e.g flows at Bacton, flows at other ASEPs / exit points, plant availability etc). This could also have an impact on recovering allowed revenues with more capacity available potentially at a discounted reserve price and as such charges could be impacted. Consideration would also need to be given to the substitution and trade and transfer rules.

It should also be noted that National Grid (and the other TSOs) may reject a flow nomination in an exceptional event where the nominated or re-nominated quantity/ies exceeds the User's Entry Capacity Entitlement or Exit Capacity Entitlement (as applicable) at the individual IP. We would still need to know at which IP the nomination was made and as such the IP against which the capacity is held.

Capacity reduction and competing auctions

National Grid agrees with Ofgem regarding the timing of the auctions and this would be likely to require a Uniform Network Code (UNC) modification to change the timings of GB auctions to bring them in line with the CAM auction timings, as well as considering how the different GB and EU products and durations could work together. This would be likely to involve greater change for the exit regime where the long and medium term products are provided for via an applications process within the GB regime, rather than auctions as detailed within CAM. Ofgem also highlight that such a solution would require links between the European and GB platforms. National Grid's initial view is that both of these issues would lead to greater complexity both from a UNC and systems perspective.

Split Entry Capacity

It is National Grid's view that if current entry capacity is split then undue discrimination needs to be considered. With regards to the European Regulation National Grid believe that the intent is to maximise IP flows but that this should not be to the detriment of domestic points.

- 9. Do you agree that, for the time being, CAM auctions should only be implemented in respect of capacity at IPs (and not extended beyond the scope of CAM)?**

National Grid agrees that the CAM auctions should only be implemented at EU IPs.

- 10. Do you agree that it would be impractical to seek to change the timings of UNC auctions within the CAM implementation timescales?**

National Grid agrees that it would be impractical to change the timings of UNC auctions within the CAM implementation timescales as this would affect all ASEPs / NTS Exit Points, as detailed in National Grid's response to Question 8.

- 11. Do you therefore agree that there is a need to split the Bacton ASEP? If not, please provide details of how you consider CAM can be implemented without the Bacton ASEP being split?**

National Grid believes that to meet the CAM Regulations, specifically the bundling of capacity, the Bacton ASEP will need to be commercially split. However we recognise that this approach will have an impact upon Shippers particularly those with existing entry capacity holdings.

- 12. If your view is that there is a need to split the Bacton ASEP, do you agree that it is appropriate to allocate NTS entry capacity as Bacton to meet the maximum BBL and IUK technical capacities and leave the remainder to be sold as UKCS entry under the UNC auction? If not, what do you consider should be the allocation?**

Although National Grid believes that the CAM Regulation is not completely clear in this regard we are of the opinion that to meet the intent of the CAM Regulation the most appropriate way to split the Bacton ASEP is to do so based on the technical capacities of IUK and BBL. However any split needs to consider whether such a split is unduly discriminatory and as stated above we recognise that the splitting of the Bacton ASEP has an effect on Shippers and their current contractual arrangements.

- 13. Do you agree that a single European IP ASEP approach is appropriate (ie, no further division of capacity between the two interconnectors)? If not, please explain why you consider that there should be two European IP ASEPs.**

National Grid does not have a strong preference but on balance understand that a single European IP may provide a greater degree of flexibility for Shippers.

- 14. Do you agree that capacity should not be fungible between UKCS ASEP entry and European IP entry? If not, how do you consider such fungibility should be accommodated given CAM network code requirements?**

National Grid recognises that the lack of fungibility has consequences for Shippers but at this stage we are not aware of a solution that addresses this issue given the CAM Regulatory requirements. Therefore, currently we do not believe that capacity should be fungible. However, we are happy to work with the industry to potentially develop solutions but any potential solution must also consider the impact that this may have on the overall CAM implementation.

- 15. How should long-term (historical) entry capacity contracts at Bacton be dealt with?**

It is National Grid's view that Shippers should state at which revised Bacton ASEPs (UKCS ASEP or EU IP) the current Bacton entry capacity should be "re-allocated" to. A set of rules then needs to be detailed to define what happens should the requested Shipper aggregated value be greater than the baseline at each point (UKCS ASEP and EU IP).

- 16. What tools (either through the development of existing products or the introduction of new products) could be used to maximize the flexible use of overall Bacton entry capacity following splitting of the Bacton entry capacity into two ASEPs and capacity bundling under CAM?**

The development and introduction of any new products will increase the risk of the CAM Regulation not being implemented for November 2015. With regards to potential options these would need to be worked up more fully but we have detailed some possible options below:

- in the long term we believe that the current NTS substitution rules would continue to apply to the new Bacton ASEPs and this would enable unsold NTS entry capacity to move between points:
- potential for an aggregate overrun charge being applied across both the UKCS ASEP and EU IP, although the impact on CMP, Balancing and Interoperability would need to be considered e.g. the calculation of the overrun rate, nominations and long term UIOLI etc:
- potential utilisation of Day ahead Interruptible capacity, this would need to be considered in the context of the Tariffs Code and CAM auction rules if applied to the EU IP.

17. If you are a current holder of Bacton-IUK Interconnector exit capacity, we would welcome your views as to whether you will choose to maintain your existing enduring Bacton-IUK Interconnector exit rights post 2018, and if not the process you would like to see regarding end dating of these contracts.

As a TSO National Grid is not a holder of capacity and therefore this is a question for Shippers to respond to.

18. Please provide your views on your preferred timetable for taking forward the changes to the baseline capacity as set out in NGG's Gas Transporter Licence?

National Grid believes that any Licence change will need to be considered in the context of any other Licence changes (such as our proposed PARCA Licence changes) that are going through the consultation process in similar / same timescales as we understand that only one change to a specific section of the Licence can only be consulted upon at any point in time.

Any licence changes would need to be in place in advance of CAM implementation, therefore it would seem appropriate that the Licence changes should be completed and in place by summer 2015. This process will need to take account of the industry consultation process and associated timeline.