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Andrew MacFaul
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Ofgem
9 Millbank
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1 December 2009

Dear Andrew,

Response to "Gas Entry Capacity Substitution Methodology – Initial Impact Assessment"

Interconnector (UK) Ltd ("IUK") would like to thank Ofgem for allowing this opportunity to respond to the Initial Impact Assessment relating to the Gas Entry Capacity Substitution Methodology.

Whilst recognising and agreeing in principle the requirement for fully utilising the network, IUK has continued concerns regarding National Grid's proposed methodology and the manner of its introduction. IUK shares the view widely expressed by market participants that by removing large quantities of capacity from particular entry points in exchange for increasing the capacity by a lesser proportion elsewhere reduces the security of supply to the UK. The ability of IUK to deliver flexibility to the market through the provision of bi-directional flow at Bacton during unforeseen market events would be in jeopardy if capacity destruction due to substitution occurs at Bacton.

The fundamental difference at the Interconnector Bacton entry point compared to other entry points in the system becomes evident when calculating the level of swing activity offered by IUK. The supply of continental gas to the UK market through the Interconnector does not prevail only during the winter months when demand forecast and the market price pre-determine such action well in advance. Throughout the year shippers take advantage of having the ability to import gas into the UK, secure in the knowledge that capacity is made available on a very prompt basis when required. The removal of supply flexibility removes the freedom for shippers to react quickly and decisively at a point of entry where flow can be incidental and long term forecasting virtually impossible. With that scenario a resulting shortage of gas supply then seems a likely outcome.

The suggestion that shippers should look to book in advance large quantities of long term entry capacity that will remain inactive for a large part of the year surely defeats the objective of the proposed capacity substitution process. And by enforcing this substitution process the attractiveness of the GB gas market to non-UK based suppliers will be threatened along with the competitiveness experienced under the current regime. This surely will reduce the resilience of the system against unforeseen constraints.

In conclusion, the underlying fact that little or no support is being offered by the industry to capacity substitution amounts to a tangible concern for all involved. The common view being that the potential benefit resulting from the substitution process will be eliminated with any slight increase in wholesale prices, yet there appears to be no substantive analysis regarding these consequences. This highlights whether the research and analysis undertaken within the Impact Assessment before introducing such a significant new process has been comprehensive enough to provide the answers required prior to implementation.

IUK does not consider this response to be confidential.

Yours sincerely

DARREN REEVE
Commercial Manager