

GB Implementation of CAM Network Code

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ofgem

Agenda

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|---------------------------------|-----------|----------------|
| • Introduction | 15 mins | Richard Miller |
| • Bundling: 2 vs. 3 TSO | 1 hour | Clem Perry |
| • CAM and Bacton entry capacity | 1 ½ hours | David McCrone |
| • Next Steps | 15 mins | Richard Miller |

Purpose of this afternoon

- The Capacity Allocation Mechanism (CAM) Network Code must be implemented by 1 November 2015
- CAM brings significant changes to the way gas capacity is allocated and nominated at GB Interconnection Points (IPs)
- 2 GB-specific issues relating to Bacton:
 - I. How capacity products should be bundled (i.e. 2 TSO or 3 TSO bundle)
 - II. How capacity at Bacton should be treated
- Ofgem published Open Letter on 31 October 2013 setting out: (i) options for each issue; (ii) advantages and disadvantages of each option; (iii) Ofgem preferred approach and rationale; (iv) Ofgem current thinking on next steps
- This afternoon is focused on hearing your views

2 vs. 3 TSO Bundling under CAM

Clem Perry

Background

- CAM introduces new rules for the sale of cross border transmission capacity
- Currently, shippers transporting gas between markets have to buy separate exit / entry capacity at each interconnection point. CAM requires that this capacity be bundled into a product with standard duration across each IP, using a central booking platform (e.g. PRISMA)

2 TSO Bundle

- Any shipper wishing to flow gas from, say, NL to GB, would buy 2 products: GTS exit – BBL entry; BBL exit – NGG entry

3 TSO Bundle

- Any shipper wishing to flow gas from, say, NL to GB, would buy 1 product: GTS exit – BBL entry – BBL exit – NGG entry

Reason for 2 vs. 3 Debate

- CAM NC defines ‘Interconnection Point’ as: “...a physical or virtual point connecting adjacent entry-exit systems or connecting an entry-exit system with an interconnector, in so far as these points are subject to booking procedures by network users”. This suggests a **2 TSO bundle**
- Gas Target Model envisages integrated gas market where shippers can buy a single, hub-to-hub capacity product, rather than a series of ‘exit’ and ‘entry’ capacity products. Further, the CAM NC talks about “taking into account the specific nature of interconnectors when bundling”. This suggests a **3 TSO bundle**

2 TSO Bundle

- **Advantages**

- I. Linepack flexibility: Accommodates a variable inventory (linepack) service
- I. UKCS production: Better accommodates UKCS production arriving direct to interconnector (IC)

- **Disadvantages**

- I. Congestion: Risk that having bought one product (e.g. GTS – BBL) shipper is then unable to obtain second product (e.g. BBL – NGG). We note potential of CMP mechanisms (oversubscription / surrender) or secondary market to address this
- I. Balancing: 2 TSO bundle could see ICs classified as balancing zones, with associated implementation costs and potential obligations under the Balancing Network Code.

3 TSO Bundle

- **Advantages**

- I. Lower shipper transaction costs: Shipper buys and nominates against fewer capacity products

- **Disadvantages**

- I. UKCS production: Shippers flowing gas to the continent via a UKCS pipeline direct onto an IC would have to pay for capacity they would not use (e.g. NTS exit)
- II. Delays benefits of CAM implementation: Long term entry or exit contracts could prevent any bundling for some time
- III. Higher TSO IT capital costs: Creating a “unique-in Europe” 3-TSO bundling platform could incur higher IT capital costs for TSOs than the “off-the-shelf” 2-TSO bilateral interface

Ofgem's Current View

- Under the CAM NC, both the 2 TSO and the 3 TSO options appear CAM compliant and both approaches have merits

Our Current View: ICs should propose which option they will implement and cover this in the concept document, taking into account:

- Their individual business models
- CAM requirements
- Objectives regarding access rules in their interconnector licences
- Views of the market

Future mechanism for selling entry capacity at Bacton

David McCrone

Consequences of CAM on Bacton Entry capacity

- The Bacton ASEP is unique within GB in that gas enters both from Europe and UKCS
- CAM applies to IPs only and not to domestic production
 - This means that from November 2015, capacity for gas entering at Bacton from Europe would be sold under procedures reflecting CAM, and from UKCS would continue to be sold using the existing domestic arrangements under the UNC
- Doing nothing could be inefficient if capacity is unnecessarily oversold and might restrict price signals for incremental capacity
- The current auction timings prevent CAM and UNC auctions being run consecutively or on a competing basis

Our Current View: The most appropriate solution is for baseline entry capacity at existing Bacton ASEP to be split. CAM and UNC auctions would be held independently of each other

Options for Splitting Capacity at the Bacton ASEP

- We have considered three options for splitting capacity at the Bacton ASEP

Based on technical capacity of European ICs

- Meets CAM by ensuring maximum technical capacity is provided for bundling
- Maximises potential for flows from Europe
- Might restrict available entry capacity at the UKCS ASEP

Based on maximum flow predictions from UKCS

- Would provide maximum potential for flows from UKCS
- Does not meet CAM as capacity at European ASEP could be insufficient
- Dependent on accurately predicting future flows from UKCS

Based on existing holdings and historical flows

- Could be user led or based on historical flows
- Would allow for wider input and be based on historic demand
- Past flows do not necessarily reflect future requirements

Our Current View: The Bacton ASEP should be split so that the European ASEP receives the sum of the maximum technical capacities of the two ICs

Is there a need for a further split at Bacton?

- CAM suggests a de facto split given that products are to be bundled
- However CAM makes allowances for the special nature of ICs which could allow an exception to be made

IUK and BBL combined

- Compliant under CAM due to the special nature of ICs
- Aggregate capacity under our preferred split is same under one or two IPs

IUK and BBL separate

- Compliant with CAM network code

Our Current View: Both options would work in theory. Provided that the capacity available is the maximum technical capacity of both ICs, a further split might not be necessary.

Treatment of Entry Capacity at Bacton

- Long term entry capacity bookings exist at Bacton post-November 2015
 - These have been booked with Bacton as a single ASEP and an understanding that shippers can choose their route into GB
- CAM means that there will be two regimes for selling capacity at Bacton
 - Entry capacity at one ASEP should not be fungible
 - If capacity was to be fungible between all Bacton entry points, NGG would be unable to determine what remained unsold at each ASEP
- Other developments may result in a material difference between the products available at each Bacton ASEP (eg, Tariff Network Code, Ofgem's Gas Transmission Charging Review)

Our Current View: Entry capacity should not be fungible between the two Bacton ASEPs. This will require existing long term holdings to be split. We are committed to exploring with stakeholders how this can be achieved. We will also ask NGG to explore ways to maximise flexibility at Bacton in the future.

Treatment of Exit Capacity at Bacton

- The enduring annual GB exit capacity product provides rights on an ongoing basis until the holder requests a reduction
 - This is contrary to the standard capacity products required under CAM and revisions required at IPs
- Our view is that CAM will require changes to the current enduring exit capacity rights at Bacton
 - For example, once existing long term capacity contracts on IUK expire in 2018, all unsold Bacton exit capacity onto IUK will be offered as a bundled product with IUK capacity
 - This could mean that shippers wishing to flow from NGG onto IUK would hence hold Bacton–IUK exit capacity twice unless they reduce their Bacton–IUK exit capacity enduring rights
- **We welcome the views of shippers** currently holding this capacity as to whether they will choose to maintain their existing enduring Bacton-IUK exit rights post 2018, and if not the process they would like to see regarding end dating of these contracts

CAM Implementation Next Steps

Richard Miller

Next Steps: 2 Stage Implementation

Stage 1: TSO led concept document

- Sets out all cross-border issues (bundled capacity products, changes to CMP, nominations, etc)
- April 2014 – May 2014: TSOs consult
- June 2014: TSOs submit to NRA for opinion
- September 2014: NRA give opinion

Stage 2: Changes to industry documentation

- NGG leads: UNC changes,
- ICs lead: access rule changes, charging methodology changes, interconnection agreement changes etc
- NRA approval of IC and NGG documents (where required)
- Licence changes

Timeline for Splitting Bacton Baseline

- Splitting the Bacton Baseline (i) UKCS ASEP and (ii) European IP ASEP requires NGG licence change.
 - Change could be made in Spring 2014
 - Would precede positive opinion of concept documents by NRAs
- Wait for NRA favourable opinion on concept documents first?

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