

12 December 2013



BG GROUP

Clement Perry
OFGEM
9 Millbank
London SW1P 3GE

by e-mail (as requested) to: Clement.Perry@ofgem.gov.uk

Dear Mr Perry,

Options for implementation of CAM at Bacton Entry Point

BG Group plc (BG) acknowledges Ofgem's implementation of the Capacity Allocation Mechanism (CAM) Network Code by 1st November 2015.

However BG never considered that it was helpful for cross border points to include offshore Interconnector pipelines between countries. Furthermore, we consider that gas flows at Bacton are efficient and we are not convinced there are any problems with the current mechanisms for capacity allocation.

Ofgem need to ensure that CAM does not make Bacton more complicated, less flexible or less efficient than it is today. In addition Ofgem need to ensure that CAM does not disadvantage Bacton versus the interconnection points with Norway at both Easington and St.Fergus.

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

Please see the responses to the questions below.

- 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?*

There is a disadvantage to both models that is not captured in Ofgem's letter which is that CAM will probably encourage shorter term bookings of capacity, rather than the long term bookings prevalent today. A bundle of capacity across 2 or 3 TSOs will be a bigger financial commitment than the current situation whereby a long term interconnector capacity holder can opt to buy Bacton entry capacity or exit capacity in the Netherlands or Belgium only when it is economic to do so. This will mean that for new bookings of capacity, buyers will need to be more confident than in the past that the cost is justified. Inevitably this will mean the trend evident in markets like Germany of shorter bookings will continue. In Germany we have seen that this trend has led to regulated capacity prices increasing significantly each year as TSOs

struggle to capture their regulated returns. These prices rises continue to discourage long term bookings of capacity. Ofgem need to consider that once the long term bookings expire on IUK in 2018 and BBL largely in 2016 new bookings are likely to be shorter term. This could lead to security of supply problems and more volatile NBP prices.

- 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.*

No, we do not consider it is practical.

- 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?*

No opinion.

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

Until the existing long term capacity has expired in the IUK and BBL pipelines it is more important for NBP/Zeebrugge and NBP/TTF gas flows that unbundled National Grid entry (and exit) capacity remains available at Bacton than a 2 or 3 TSO bundled product.

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

The 2 TSO model. The arguments for the 2 TSO model and against the 3 TSO model far outweigh those that support the 3 TSO model. However Ofgem should allow the pipelines to switch between the two models (with appropriate lead times) if their adopted models fail to lead to efficient gas flows or circumstances change.

- 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 interconnectors?*

Interconnectors should be able to choose and whilst consistency would be preferable it is not critical and may have the advantage of comparing how the two models work in practice. Interconnectors should be willing to change which model they adopt if their choice proves to have unintended negative consequences.

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

The primary disadvantage is that existing long term bookings would no longer have the flexibility to be used for different purposes at Bacton. The resulting UKCS ASEP and European IP ASEP entry capacity is not the product that was originally purchased. Therefore any shipper with Bacton entry capacity beyond 1st November 2015 should have the right to terminate any such capacity. Precedent exists for such terminations with regards to Network Code implementation as Gasunie Transport Services has granted shippers the right to terminate any interruptible capacity they hold beyond January 2014 as part of CMP implementation.

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)?

Whilst consistency is attractive we do not see this as critical.

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

For bundled capacity or interconnection point unbundled capacity it is critical for auctions to be at the same time as those for neighbouring markets.

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.

BG recognises that it has been decided there should be a split at the Bacton ASEP, but does not welcome the reduced flexibility for existing long term bookings.

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 at 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?

Gas flows at Bacton in the last twelve months would suggest that splitting Bacton entry capacity to allow for maximum BBL and IUK technical capacities is sensible. However it is critical that National Grid make appropriate volumes of interruptible capacity available at Bacton UKCS and Bacton European IPs to allow for maximum flows of UKCS gas. Should Elgin Franklin production return to its former levels 481.4 GWh/d may not be sufficient for Bacton UKCS and it will need to have access through UKCS interruptible capacity.

In addition the four Bacton UKCS sub-terminals should not be sub-divided into four separate entry capacities given that some upstream flows can land at more than one sub-terminal. The same logic applies at all the other UKCS entry points.

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.

Yes – always assuming IP ASEP capacity is useable interchangeably for both BBL and IUK; however, we note exit capacity is currently separated.

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?

BG recognises the difficulty of fungibility, however the loss of flexibility available today is not welcome.

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

Holders of existing long term Bacton entry capacity (beyond 2015) should have the right to terminate all or some of their contracts. In addition capacity holders should have annual rights (in advance of the annual auctions) to switch retained (and/or new) capacity between the Bacton points

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?

Interruptible capacity is the primary requirement. Periodic re-setting of the baselines may also be appropriate if circumstances change e.g. if new sources of UKCS production require additional capacity beyond 481.4 GWh/d then arguably GB's security of supply would be better served by switching capacity from the European IPs to Bacton UKCS.

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.

BG does not hold enduring Bacton-IUK exit rights.

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.

BG's preferred implementation date would be no sooner than is necessary and not effective before the implementation date for CAM.

Yours sincerely,
David C Evans
Acting Director European Gas Marketing, BG Group