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Dear Clement

**Options for Great Britain's implementation of the European Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems (Regulation 984/2013) at the Bacton entry point.**

Thank you for the opportunity to comment on proposals for implementing the Capacity Allocation (CAM) Network Code in GB. We welcome the focus on the specific issues relating to the Bacton gas terminal given the importance this will have to future GB market efficiency.

We ship gas in both the IUK and BBL pipelines and receive gas flows from the UKCS at Bacton. This response is sent on behalf of the Centrica plc Group, excluding Centrica Storage Limited.

**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.**

The two main issues discussed in the paper are:

1. bundling of capacity products and
2. the way in which Bacton entry capacity will be sold under the CAM regime.

For the bundling of capacity products for future bookings we believe that the 2 TSO bundle provides the greatest level of flexibility and seems consistent with IUK and BBL having been designated as TSOs.

With regard to the discussion of the future mechanism for selling entry capacity at Bacton, none of the identified CAM compliant options allows the GB market to maintain its current level of flexibility at Bacton. This flexibility is important to shippers as it allows them to manage their portfolios and respond to market signals efficiently. The proposal to split the Bacton ASEP is likely to lead to higher costs and contractual congestion, unless NGG can introduce a mechanism to mitigate the lost flexibility, whilst maintaining shippers' existing capacity rights.

Ideally, we would like the Bacton ASEP to remain as one entry point. We would prefer a virtual model, allowing NGG to comply with its bundling obligations, whilst continuing to offer Bacton's current physical flow flexibility to market participants. However, if a split is required, then limiting this to 2 ASEPs could allow NGG to offer more flexibility than under a 3-way split with separate IUK and BBL ASEPS.

We recommend that NGG provides an analysis of aggregated existing shipper bookings at the Bacton ASEP, expected UKCS flows and with any other relevant capacity data to help inform further discussions on implementation.

There are a number of issues that the open letter and stakeholder workshop have failed to consider fully. These include:

- Expectations of future UKCS production.
- How NGG would deal with a requirement to curtail capacity at Bacton. Would priority be given to IUK and BBL over the UKCS?
- The quantity of capacity that can be bundled, in the light of existing contracted capacity mismatches. (Ofgem provided some high level data close to the end of the consultation period.)
- The need for NGG to offer un-bundled capacity to meet the needs of existing capacity holders.
- Capacity substitution, both at Bacton and from Bacton to other ASEPS, has not been discussed. It is unclear which Bacton entry point would lose capacity.
- The future management of any NGG constraints impacting the Bacton area.
- The impact of TPA-exempt capacity contracts in the BBL Pipeline.

We would like to see a plan in Ofgem's conclusions document for these to be addressed.

**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?**

Centrica believes that Ofgem has accurately summarised the main advantages and disadvantages of the 2 and 3 TSO bundle options for future capacity sales.

The final version of the Balancing Network Code refers to the specific nature of interconnectors. Subject to consultation with shippers, this could allow IUK and BBL to comply with the code and without over-engineering a balancing regime or incurring excessive costs.

The paper does not discuss how existing capacity bookings will be operated alongside the 2 and 3 TSO bundle options. The aggregate capacity bookings by shippers in IUK and BBL exceed Bacton capacity bookings. This means that the interconnectors and NGG will be unable to bundle all un-booked capacity. NGG will need to offer unbundled capacity described in Articles 19.5 and 19.6 of Regulation 984/2013 to comply with its obligation to maximise capacity availability. This may be simpler under a 2 TSO bundle.

Substitution, which has yet to be discussed, may also be easier to apply on a non-discriminatory basis under a 2 TSO model (if the Bacton ASEP has to be split.)

The question of how BBL's TPA exempt capacity contracts will fit with the implementation of the EU network codes has not been addressed and needs proper consideration.

**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.**

This would be best answered by any TSOs proposing a 3 TSO approach.

**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?**

We support the 2 TSO model on the grounds that it raises fewer implementation issues (see Q6) and clearly allows a linepack service. If this question is about shippers being able to make use of flexibility in the pipeline then it is an opportunity. If this question relates to the interconnectors falling within the scope of the Balancing Network Code then a light approach to implementation could result in a neutral impact.

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

The 2 TSO bundle would allow shippers more options to react to price differentials between hubs e.g. by using the linepack flexibility to support using physical assets in the within-day market.

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

Based on current information, we prefer the 2 TSO bundle for the following reasons.

- It will be simpler and quicker to implement. Among other things, PRISMA does not need to make system changes to accommodate the 2 TSO model.
- It is more compatible with existing bookings
- It will allow the interconnectors to offer shippers linepack services.
- The 2 TSO model can accommodate direct access to an interconnector pipeline for UKCS gas production.
- The 3 TSO model could lead to more stranded unbundled capacity as TSOs can only bundle to the lowest amount of available capacity.
- The interconnectors have recently been designated as TSOs. The 3 TSO model could be open to legal challenge by the infrastructure owners and operators, which would be unhelpful.

We look forward to seeing IUK and BBL's detailed proposals for bundling in their respective concept documents.

**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?**

We agree with this approach, subject to a full shipper consultation process.

If different bundling options were chosen, care would need to be taken that this did not introduce discrimination or undermine any measure that could replicate the current Bacton ASEP flexibility.

**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?**

We broadly agree with the listed advantages and disadvantages.

**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)?**

Yes, we do not want to see CAM auctions extended to other IPs at this time.

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

Yes.

**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.**

Ideally, our preference would be not to split the Bacton ASEP and to find a virtual model which would allow NGG to comply with its bundling obligations, whilst continuing to offer the physical flow flexibility the Bacton ASEP currently possesses to market participants.

If there is a requirement to split the Bacton ASEP to comply with CAM, then creating a single European IP ASEP may make it easier for NGG to introduce the mitigating measures needed to compensate for the loss of flexibility currently available to shippers bringing gas into the GB market at Bacton.

**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?**

We would like to see further analysis from Ofgem and NGG to show that this would not create artificial constraints and costs on UKCS production entering the GB market at Bacton.

We are unclear about how much NTS entry “technical capacity” is actually available at Bacton, as opposed to baseline capacity. This has not been addressed in the consultation letter.

Ofgem should also take note of industry concerns that UK government forecasts of future UKCS production from the Southern North Sea are conservative. If NTS entry capacity at Bacton is allocated to meet the maximum BBL and IUK technical capacities, then this increases the risk of future artificial or physical capacity shortages and costs for UKCS production under certain circumstances.

**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.**

If there is a requirement to split the Bacton ASEP to comply with CAM, then yes it is appropriate. It could make it easier to manage existing unbundled capacity bookings and to introduce mitigating measures, compared with creating separate IUK and BBL ASEPs.

**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?**

We would like to see the fungibility of shippers’ existing Bacton entry capacity holdings maintained, as this was a key contractual feature of the capacity when it was purchased. The CAM network code does not require Member States to remove this flexibility from holders of existing capacity.

CAM requires future capacity sales to be made on a bundled basis (where capacity is available both sides of an IP) and does not allow shippers to break the bundle. We accept that such capacity can therefore not be fully fungible between the European IP and UKCS ASEP. However, we would like to see tools (as discussed in Q16) developed by NGG to avoid this creating artificial shortages or constraints at Bacton and avoid shippers having to pay for Bacton entry capacity twice.

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

This is a complex topic that will require further discussion with market participants.

Existing holders of entry capacity at Bacton contracted a product that can be used to bring gas into the NGG system from any of the 3 sources – UKCS, BBL and IUK. The CAM Network Code does not require existing capacity to be bundled and we therefore do not see a legal requirement arising from 984/2013 for shippers to permanently split their existing capacity between the UKCS or GB interconnectors.

If Ofgem decides that existing capacity has to be split between a UKCS ASEP and a European IP ASEP, how such capacity should be apportioned must be the decision of the capacity holder. However, the tools to maintain the current effective levels of capacity flexibility and availability at Bacton should be agreed before existing capacity holders are required to make any such decision. (Please refer to our answer to Q16 on potential tools.)

At the stakeholder workshop, shippers noted that future tariff structures would have an impact on their decision. Shippers will not be able to make efficient decisions without greater clarity on the outcome of the GB Transmission Charging Review and the EU Tariff Network Code.

**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 aggregate level of Bacton capacity available for use by GB shippers at any given time must not be artificially constrained by the implementation of CAM. Ideally, shippers should not be charged twice to use Bacton capacity they have already paid for, because it is linked to a particular route which is not the most efficient one on the day.

Centrica believes that existing tools, such as the overrun mechanism being applied only to a shipper's aggregate flows and capacity holdings, could be adapted to achieve efficient use of the Bacton entry point.

**17. If you are a current holder of Bacton-IUK Interconnector exit capacity, we would welcome your view 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.**

A UNC modification to end date enduring Bacton-IUK exit rights on 30 September 2018 could be used and would facilitate the implementation of a CAM compliant post-2018 regime for IUK.

**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.**

The questions that market participants have raised need to be properly addressed before any such changes are proposed to NGG's licence.

In relation to the global timetable, we encourage Ofgem to work with the other involved NRAs to ensure that regulatory opinions can be delivered in a timely manner following the submission of TSOs' concept documents.

Please contact me if you have any questions.

Yours sincerely

Helen Stack  
Commercial Manager