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Dear Clement,

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

E.ON welcomes the opportunity to comment on this important CAM implementation issue. As an existing capacity holder at Bacton we welcome the formal engagement of all affected parties and the opportunity to develop a process which ensures the minimum of disruption to the current market arrangements, whilst ensuring compliance with the European Network Codes.

Ofgem Questions:

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.

We believe that any of the options proposed by Ofgem will result in a considerable loss of flexibility compared to current arrangements, where capacity at the Bacton ASEP can be utilised for UKCS or interconnector flows without restriction (subject to capacity availability / holdings). Our view is that the "least worst" of Ofgem's proposals would be to combine the two interconnectors as one ASEP ("European ASEP") and assign UKCS flows to another ASEP ("UKCS ASEP").

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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?

The relevant advantages / disadvantages seem to be captured.

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.

The interconnectors are best placed to comment on this issue.

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?

and

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

and

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

Whilst the 3 TSO model has simplicity as its main advantage, we believe that one key benefit of a 2 TSO model is the possibility to use the (existing) linepack service (on IUK)¹. Under a 3 TSO model it is unclear what would happen to this service. If a 3 TSO model restricted access to the existing IUK linepack service, it would likely reduce the overall flexibility available to both the UK and Belgian markets. Conversely, one significant risk of a 2 TSO model is Shippers not being able to match up the two capacity products required, leading to additional stranded capacity or complicated over-subscription and buy-back arrangements. On balance, our initial view is that a 2 TSO model is preferred; however, we are unable to commit to a final view until we have seen the actual bundling model proposals from both IUK and BBL.

Whatever model is chosen, it is imperative that the shorthaul tariff continues to apply at Bacton. However, we note that in a bundled capacity world, the basis of calculation may need to be reviewed to ensure it remains 'fit for purpose'. This could be examined in Ofgem's current Gas Transmission Charging Review.

¹ We are not aware of any plans by BBL to introduce such a service at present.

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?

In light of the different business models currently employed by both of the interconnectors, it is reasonable to expect them to adopt different approaches and we do not believe this would necessarily be problematic for Shippers. Regardless, it is unclear whether Ofgem can “force” a particular course of action by the interconnectors, in any case.

One important issue that needs further consideration is; if both interconnectors choose to adopt a different model, is it possible to maintain a single European ASEP, as proposed by Ofgem? If different bundling models are adopted, this would surely also require different charging arrangements at each interconnector? If so, then we struggle to see how a single European ASEP can be maintained. This issue needs to be considered as part of Ofgem’s current Gas Transmission Charging Review.

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?

Yes we broadly agree with the advantages and disadvantages listed. See also our answer to Question 6, above.

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. Our position remains that the focus of this review and of the Ofgem Gas Transmission Charging Review should be on implementing CAM (and ultimately the Tariffs Code) at interconnectors only. The existing arrangements for all other domestic points work well and Ofgem must avoid unnecessary “gold plating” when implementing European Legislation.

In addition, we believe it would be virtually impossible to achieve this within Ofgem’s stated deadline of 1 November 2015, given the implications for long-term capacity holders and the need to “unwind” existing, commercially significant contracts, which underpin Shippers’ various business models.

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

If this means changing the timings of auctions at all domestic points, then yes, for the reasons outlined above.

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.

Splitting the Bacton baseline would seem appropriate.

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?

From a Shipper's point of view, the settling of baselines for NGG has always lacked transparency and as highlighted by the Ofgem Entry Baseline Review in 2007/8 can be highly contentious and commercially significant, if set incorrectly. Only Ofgem and NGG have the complete picture with regards to system capability and will need to carefully model the impact of any proposed course of action at Bacton. Shippers do not have the capability to do this.

In principle, we agree that assigning capacity to the interconnector ASEP(s) first is a sensible course of action, but that leaves open the question of whether the remaining baseline capacity will be sufficient to accommodate demand for UKCS flows. There is a significant risk of creating artificial scarcity of capacity or congestion if the baseline is set incorrectly. For instance, we note that in some periods a large amount of Bacton Entry Capacity has already been sold (in Q1 2016, 66% of Bacton entry baseline is already sold). Based on the proposal of splitting the baseline firstly to meet the maximum technical capacity of IUK and BBL, this means if existing holders of capacity chose to allocate all their capacity to the UKCS ASEP, it would exceed the (new, proposed) baseline. This could make the process required to manage existing bookings very complicated.

13. Do you agree that a single European IP ASEP approach is appropriate (i.e., 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.

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 ability to transfer capacity between ASEPs to help address the future loss of flexibility at Bacton, but are concerned that this relies on NGG bringing forward as-yet undefined and inevitably complex proposals. Further detail from NGG is required.

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

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?

As a starting point, it is important that the views of existing capacity holders are sought on where they would like to allocate existing capacity holdings at Bacton and are provided with an option to surrender holdings, if necessary. To be clear, it would not be appropriate for the TSO (or Ofgem) to decide how to allocate existing holdings.

Whilst it is important to set out a clear process in advance, our strong preference is that Shippers are able to leave the actual decision on how to allocate their existing holdings across the ASEPs as late as possible before the implementation deadline. This is so that the commercial decision best reflects prevailing market conditions. We see no advantages from implementing these changes early.

In addition, it is not clear from the proposals whether this will be a “one-off” decision or a rolling, annual process, for example. The latter model, whereby Shippers are given an annual opportunity to reaffirm or adjust their holdings across the Bacton ASEPs, could be one way of minimising the loss of flexibility compared to current arrangements.

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.



We have no particular view at this time.

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.

Licence changes should only be progressed once Shippers have had the chance to view and be consulted on the bundling model proposals by the interconnectors. In addition, we would expect to see the final proposals from IUK and BBL prior to us making any decision on how to split our existing holdings between the proposed Bacton ASEPs.

We hope you find our comments helpful. If you have any comments or questions in relation to this response, please do not hesitate to contact me on T: 02476 181421.

Yours sincerely,

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