

Ofgem Open letter: Options for implementing the EU Capacity Allocation Mechanism Code at the Bacton Entry Point

Consultation Response

Energy UK is the Trade Association for the energy industry. Energy UK has over 70 companies as members that together cover the broad range of energy providers and suppliers and include companies of all sizes working in all forms of gas and electricity supply and energy networks. Energy UK members generate more than 90% of UK electricity, provide light and heat to some 26million homes and last year invested over £10billion in the British economy.

Energy UK welcomes the opportunity to provide comments on this open letter. We recognise that the implementation process for the CAM code is challenging given the number of parties involved when compared to reforms that are contained within GB. However wider stakeholder engagement is an important aspect of this process since ultimately the parties actually operating the new processes will be the ones that deliver the benefits of the third package objectives to consumers.

We hope that a similar engagement will be adopted with respect to the Moffatt interconnection point.

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.

GB Shippers currently enjoy significant flexibility in the use of entry capacity at the Bacton ASEP. It may be used for UKCS production or for flows from the Netherlands or Belgium via the BBL or IUK pipelines. None of the potential options provide anything close to this level of flexibility. Whilst we understand that the level of flexibility will reduce with the implementation of the CAM code, we have concerns that in order to retain some degree of flexibility, capacity that was previously shared between these three routes will now need to be booked individually and this could lead to higher aggregate bookings. This in turn could lead to higher costs and potentially contractual congestion.

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?

Energy UK broadly agrees with the advantages and disadvantages, whilst noting the following additional comments:

2 TSO bundle:

A 2 TSO bundle would appear to require the interconnector to be a balancing zone, which would seem to imply the provision of; a daily balancing regime using standard balancing products with cost reflective imbalance charges and for any linepack flexibility services to be offered on a transparent and non-discriminatory basis. However we recognise that the Balancing Code Recital 8 allows for account to be taken of the specific nature of interconnectors – albeit it is not entirely clear what way this will give the interconnectors in practice. We consider that there needs to be a greater understanding of this.

We note a linepack / inventory service is currently offered by IUK but not BBL. We acknowledge that IUK currently provides an inventory service that could support a more rapid response to price differentials. At the work shop on 25th November IUK reported that the maximum quantity available is 4Mth/day depending on operational conditions declining to zero under high flow conditions. IUK also reported that it favours a 2 TSO bundle and that within day obligations will be used to support balancing. At this time it is also difficult to assess whether the inventory service will be available to both short and long term capacity holders. We would anticipate providing further comment when additional detail is available in the concept document.

We agree that a 2 TSO bundle more readily facilitates by-pass of the transmission system. The short-haul tariff was designed to discourage this, and we seek assurances that the short-haul tariff will persist for UKCS gas entering at Bacton and subsequently flowing to IUK. We note the SILK pipeline by-passes the transmission system and again seek information on the materiality of this given that it does not appear to have flowed gas for some time.

3 TSO bundle:

Simplicity of trading between hubs would seem to be the main advantage of the 3 TSO bundle, with lower transaction costs from a shipper perspective and none of the complexities and potential costs of the BBL and IUK pipelines being balancing zones. This could lead to more efficient trading across borders.

We note the disadvantage that a 3 TSO bundle would prevent direct entry from the UKCS to an interconnector, but would be concerned if the existence of a pipeline, which has not been used for some considerable time, were to unduly influence the way in which CAM is implemented. We would prefer that the short-haul tariff is maintained in GB. We recognise that the 3 TSO bundle may require bespoke system arrangements, e.g. in PRISMA and would welcome some information on the materiality of this issue.

Timescales for bundling, this is noted as an issue. Information on existing bookings has only been provided late in the consultation period, further analysis is required to determine the expected quantities of fully bundled capacity that can be made available from CAM implementation in the initial short and long-term auctions and beyond. We recognise this will depend on how existing capacity bookings are attributed to each ASEP at Bacton.

Furthermore there needs to be a better understanding of the allocation of unbundled capacity once CAM is implemented.

Essentially the choice of a 2 or 3 TSO bundle should consider the benefits of a 2 TSO bundle with inventory service and within day obligations against the apparent simplicity of a 3 TSO bundle, both in the short and longer term against the implementation and ongoing costs for TSOs and shippers for each option.

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 see how this could be offered under a 3 TSO model

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?

Classifying the interconnectors as balancing zones could be an opportunity if this provided or allowed for more rapid response to price differentials between hubs by shippers, however this would need to be weighed against the additional complexity this would bring. It is difficult to comment further until

there is better understanding as to how the interconnectors would comply with the balancing code in this scenario and what that would mean for shippers.

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

Reacting to price differentials can take place for different durations along the curve but it is in the short term when delivery becomes physical. In respect of responding to price differentials in the short term views may well depend on individual shippers' business model and capacity holdings. Shippers that already hold capacity rights may be indifferent to a 2 or 3 TSO bundle or could prefer a 2 TSO bundle with linepack / inventory service, since additional capacity may not need to be purchased in order to flow gas. However shippers that do not hold capacity would need to secure capacity dayahead or within day, these parties would be likely to favour a 3 TSO bundle as only one capacity product would be needed in order to respond to the price differential between hubs.

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

Energy UK Members are divided in their views as to whether a 2 or 3 TSO bundle would be preferred. Some consider the 2 TSO bundle would allow for more flexibility whilst others favour the simplicity of one hub to hub product that a 3 TSO bundle would provide.

Most consider that more understanding of the balancing zone issue and PRISMA implementation costs is needed. They would also like greater clarity over operational issues and timescales in which bundling may be achieved before expressing a preference.

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 principle we are not concerned if the interconnectors were to opt for different approaches so long as this is the most efficient outcome, is compliant with CAM and other codes and if the development and evolution of that decision has been reached in an open and transparent manner including consultation with stakeholders. Clearly any decision also needs to be consistent with the wider objectives of the 3rd package with respect to facilitating cross border trade in the interests of consumers.

However it is possible that shippers may face higher implementation costs if there were different approaches across the different interconnectors.

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?

Energy UK broadly agrees with the identified 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, implementing CAM auctions at other ASEPs may also lead to changes in the capacity products being offered and the type of auction undertaken.

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

Energy UK does not consider this to be necessary in order to comply with the CAM code.

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.

Energy UK agrees that splitting the Bacton ASEP is the most appropriate way of implementing CAM albeit we note this leads to a significant reduction in the flexibility available to shippers flowing gas 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?

Energy UK considers this is too simplistic since Regulation 715/2009 requires maximum capacity to be made available at all Relevant Points such that the Bacton UKCS ASEP should also receive its technical capacity as its baseline rather than just that which remains after the technical capacities of the two interconnectors have been met.

We also have concerns that disaggregation of Bacton capacity could lead to artificial scarcity and the risk of price escalation should this cause contractual congestion to arise.

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.

Energy UK's understanding of the proposals seems to imply that the European IP ASEP is effectively split in two since IUK ASEP capacity and BBL ASEP capacity will not be interchangeable so we do not fully understand this. However, if having a single European IP ASEP makes it easier for NGG to maintain existing flexibility for shippers we would support it.

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?

Ideally Energy UK Members would like to see more flexibility between capacity holdings at Bacton however it is difficult to see how this could be achieved given the nature of the bundled products required by CAM.

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

Energy UK considers that an initial starting point would be for the views of existing capacity holders to be sought on where they would like to allocate existing capacity holdings along with an option to surrender holdings. This may meet the needs of shippers more closely than any arbitrary allocation approach and could potentially facilitate earlier bundling of capacity. We recognise that there could be some complexity arising from needing to price tag holdings but do not consider this to be insurmountable.

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?

Energy UK would support the development of ways to deliver flexibility across the total Bacton ASEP. Initial thoughts include applying the overrun regime across the ASEPs in aggregate and the allocation of interruptible capacity by over nomination. We would welcome more discussion on how this may be achieved.

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 ending of these contracts.

Energy UK is not a holder of NTS exit capacity at Bacton-IUK, but we consider a UNC modification to end date such holdings on 30 September 2018 would be the most appropriate way forward and would facilitate bundling of such capacity. Similar processes were utilised during the implementation of UNC Mod 90, when DM customers were moved onto firm capacity.

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.

Clarity on the timetable and processes for all changes associated with CAM implementation would be desirable. Clearly this licence change will need to consider other changes that may be required in similar timescales to avoid overlapping consultations and duplication of effort.

12 December 2013

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