



Ofgem
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Sent by e-mail to: Clement.Perry@ofgem.gov.uk

12th December 2013

Dear Sir/Madam,

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

Gazprom Marketing & Trading Limited (GM&T), as an active shipper on the GB gas network welcomes the opportunity to respond to Ofgem's open letter on applying the Capacity Allocation Mechanisms (CAM) network code at Bacton. This response is not confidential.

There are two key points in this open letter; whether to apply a 2-TSO or 3-TSO bundling regime, and how to treat entry capacity at Bacton split into a new set of entry points.

Attached to this letter are responses to the specific questions raised in the open letter, however the position of GM&T can be summarised as below.

GM&T does not see it as appropriate to enforce non-fungibility between UK Continental Shelf (UKCS) entry capacity and entry from Europe via the interconnectors IUK and BBL. In particular for existing capacity holders, this will forcibly devalue shipper's contractual holdings without any clear benefit or compensation, and also runs the risk of creating artificial constraints at Bacton.

GM&T would seek National Grid NTS to work with industry to formulate a regime which would preserve as much of the current flexibility in entry capacity as possible to minimise implementation of EU network codes undermining well functioning elements of the UK transmission system.

When bundling capacity in the case where capacity becomes available on both sides of an interconnection point (IP), GM&T would favour the 2-TSO bundle. This more closely reflects the current operations of the interconnectors, and there appears to be little benefit to applying a less flexible 3-TSO bundle.

For any additional information regarding GM&T's response to this open letter, please feel free to contact me directly.

Yours faithfully,

Ric Lea

Regulatory Affairs

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- 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.**

GM&T agree that it is necessary for the UK to implement CAM at Bacton and Moffat in order to be compliant with the requirements of EU law. However, this compliance can be achieved in a way which is more flexible than the Ofgem proposal outlined in the open letter. The key aspect of this is the lack of fungibility between entry from UKCS and from The Netherlands and Belgium.

- 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?**

GM&T do not necessarily agree that a 3-TSO bundle gives a benefit for lower cost of doing business in terms of nominating against fewer products. This is not a material benefit, and nominating against an extra bundled product does not act as a barrier to entry or hinder competition.

- 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 IUK and BBL would be best placed to give a view.

- 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?**

The balancing network code states that “This Regulation shall be applied taking into account the specific nature of interconnectors.”

GM&T therefore see the issue of interconnectors being balancing zones as moot given this allows the relevant NRAs, including Ofgem to not oblige interconnectors to implement aspects of the balancing network code; to do so would not be appropriate given that they are a point-to-point pipeline rather than a mesh network.

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

Ofgem’s recent report on the price responsiveness of interconnectors¹ demonstrates a good level of price responsiveness. Given this, it would seem sensible to implement bundling in a way which most closely resembles the current regime. This would suggest a 2-TSO bundle.

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

GM&T favour a 2-TSO bundle for the reasons explained in the answers to questions 2-5.

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<http://www.ofgem.gov.uk/Europe/Documents1/Interconnector%20Flows%20Further%20Analysis%20Next%20Steps%20FINAL.pdf>

- 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?**

GM&T sees it as reasonable that the interconnectors should apply a bundling regime which is most accurately reflected by their physical operations and business models. However, as there are potential risks associated with two different bundling regimes being implemented, early and open communication must be maintained to that a mutually beneficial solution can be reached between TSOs and shippers.

- 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 key disadvantage is in the detriment to flexibility the current proposals will bring about compared to the current well functioning market. This is elaborated upon in the subsequent answers below.

- 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. GM&T agree in principle to implementing the EU network codes at the minimal required level, given the UK gas market is the most mature and liquid wholesale gas market in Europe.

- 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.**

GM&T agree that there is a need to split arrangements at Bacton for CAM and UNC entry auctions. However it is not appropriate that there be no fungibility between UKCS entry capacity and EU entry capacity.

- 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?**

Both this option and the reverse are two extremes which have the potential to cause artificial constraints at Bacton and de-value existing capacity holdings by requiring shippers to surrender the optionality to nominate flows from any of the possible sources against this capacity. Provided there is the maximum amount of flexibility between entry products, GM&T is indifferent to the allocation process of the new baselines.

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.

GM&T are indifferent to whether one or two EU IPs are established, however once existing long term interconnector capacity contracts expire and capacity is bundled, it would appear that there would be little need for a second EU IP.

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?

No. GM&T is strongly opposed to capacity not being fungible between UKCS and EU entry. CAM requires that the maximum possible amount of capacity is made available to competing shippers². Forcing non-fungibility puts this requirement at risk through creating artificial constraints and stranded assets. Therefore while capacity being non-fungible is strictly compliant, it undermines the spirit and aim of the EU network codes to promote competitive cross-border trading. It is the view of GM&T that the proposed flexibility may be preserved while still being compliant with CAM – see answer to question 16 below.

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

GM&T does not agree with the proposal that existing holders of NTS entry capacity at Bacton should be forced to assign that capacity to a specific route with no flexibility. Existing capacity holders have purchased this capacity at a price which includes extrinsic value in its optionality, i.e. being able to nominate against this capacity via the most cost efficient route. The proposal outlines in the open letter removes this value, with no clear benefit to shippers or competition in the GB gas market. As previously stated, an element of flexibility must be preserved in the arrangements at Bacton.

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?

Flexibility can be preserved through an aggregate over-run regime, the basis for which is provided for in the UNC.

GM&T propose that on a daily basis, National Grid NTS assess the nominated flow of a shipper entering gas at Bacton compared to their aggregate holdings at Bacton (UKCS entry + entry via IUK + entry via BBL). If flow at each point is less than their aggregate holdings, then an over-run charge of 0 (zero) should be applied.

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

GM&T cannot provide an answer at this time.

² CAM network Code, Article 9, para1: The maximum technical capacity shall be made available to network users, taking into account system integrity, safety and efficient network operation



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 changes to the UNC to accommodate implementation of CAM would ideally come in to force on 1st October 2015 in line with the new gas year. GM&T wish to impress upon Ofgem the need to ensure therefore that sufficient lead time is given to enable the code modification process to progress in a way which is able to take consideration of Ofgem and the neighbouring NRAs and TSOs.