

Ofgem Consultation on CAM Implementation at Bacton

Submission to Ofgem by Oil & Gas UK

Introduction

Oil & Gas UK is the principal industry association representing the offshore oil and gas exploration and production (E&P) industry in the United Kingdom, with over 400 members ranging from international oil and gas companies through independent operators and utilities with E&P subsidiaries to an extensive supply chain serving the upstream sector.

We offer the following comments on the options for implementation for the Capacity Allocation Mechanisms Network Code (CAM NC) set out in your letter dated 31 October and presented at the industry meeting on 25 November.

The treatment and allocation of capacity at Bacton

Ofgem's proposed splitting of existing undifferentiated entry capacity at Bacton into a domestic ASEP and a continental ASEP effectively gives priority to interconnection gas flows over domestic sources of gas by setting the baseline of the continental ASEP at the maximum technical capacity of the two interconnector pipelines.

In meeting the requirements of the CAM NC, it is essential that Ofgem does not inadvertently delay or compromise future development of existing gas reserves in the Southern North Sea (SNS), for which Bacton would in most cases be the most likely NTS entry point. The extension of the Small Fields Allowance and the introduction of the Large Shallow Water Gas Allowance and the Brown Field Allowance in 2012 have already triggered the sanction of the Cygnus gas field (due on stream in 2014) and others may follow in future years. Gas production from the mature SNS has been in steady decline for many years and the degree of 'swing' has also diminished. However, this trend may at times be reversed in the future as upstream fiscal policy become more responsive to the economics of the basin.

This point applies equally to storage facilities which may be developed in future years at depleted gas fields in the basin. The government decision in September 2013 not to provide any financial incentives for new UK storage capacity has diminished expected demand for Bacton entry capacity in the next few years but it would not be a surprise if domestic storage were to find itself back on the policy agenda again later this decade. CAM implementation should not erect artificial barriers to new gas field development or future storage projects in the SNS.

Bundling of capacity

On the issue of how to bundle capacity at IPs, we have a strong preference for 'two TSO bundling' at interconnection points (IPs) and note that this has been clearly expressed by IUK, operator of the only physical, bilateral UK-continent connection and the critical source of short-term flexibility to the GB market. In our view, Ofgem should seek, as far as possible, to implement a uniform 'two TSO bundling' solution for both IUK and BBL pipelines in order to achieve 'the consistency and simplicity in selling capacity across interconnectors' which it identifies in its letter of 31 October 2013.

Maintaining flexibility of capacity use at Bacton

However GB implements the CAM NC, there will almost inevitably be a regrettable loss of flexibility in the use of Bacton capacity. We urge Ofgem to seek a route to compliance with CAM which

minimises this loss of flexibility since it has been an important underpinning of efficient arbitrage and price-sensitive gas flows in the prompt gas markets of NW Europe. In discussion with National Grid and the industry, it may be possible to find ways to make available unbundled capacity in the day ahead or within day market (perhaps on an interruptible basis) when nominations to use bundled capacity at the IPs leave Bacton capacity under-utilised, thereby retaining some of the current flexibility.

Substitution of capacity between domestic ASEPs.

By splitting Bacton entry capacity into a domestic ASEP and a continental ASEP, there is a risk that holders of capacity at the new domestic ASEP may in future be more exposed to an unanticipated, adverse substitution of baseline capacity from Bacton to an alternative domestic ASEP. It may be desirable therefore to review the criteria for domestic entry capacity substitution, or the extent of possible substitution, in the process of CAM implementation.

In summary, we believe that the changes necessary at Bacton should ensure compliance with the CAM NC but should not go beyond the minimum required. The priority in CAM implementation should be to avoid unintended discrimination against domestic sources of gas from the UKCS and to preserve as much of the current flexibility in the use of Bacton capacity as possible.

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