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Dear Clem

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
October 2013

We thank you for the opportunity to comment on the options set out in this open letter. This response is provided on behalf of RWE npower, RWE Generation SE and RWE Supply and Trading GmbH.

We have responded to each of your consultation questions on the following pages. However, in summary our view is as follows:

Ofgem has identified two GB-specific issues relating to the Bacton gas terminal that arise from implementing the CAM Network Code. The open letter sets out the options for each issue, explores the advantages and disadvantages of each option and sets out Ofgem's preferred approach.

Regarding future mechanisms for selling Bacton capacity, although we recognise Ofgem's rationale for favouring Option 4: Split Entry Capacity, we think that Option 2: Capacity Reduction, merits further consideration. Whilst not fully convinced at this stage that Option 2 is indeed practical or feasible, we do not think it should yet be ruled out as it may be a way of ensuring that NTS entry capacity can continue to be used and allocated largely as is, at least until 2018.

If you require any additional information or wish to discuss any aspects further, please do not hesitate to contact me.

Yours sincerely

By email so unsigned

Charles Ruffell
RWE Supply & Trading GmbH
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ANNEX 1: Response to detailed 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**.

See our answers below.

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?**

Yes, we broadly agree with the advantages and disadvantages of the two options that Ofgem has presented. Also, the 2 TSO bundle option is probably easier to implement, at least until such time as the existing long-term capacity contracts at IUK and BBL expire. Bearing in mind the limited benefits that may be expected to arise from bundling in this interim period, this advantage should not be underestimated.

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.**

Our understanding is that the 3 TSO bundle is a hub-to-hub capacity product, which would require nominations in to equal nominations out on an hour by hour basis, so this approach would not allow a linepack service to be accommodated.

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 have no firm views on this at the moment.

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

Interconnectors, particularly IUK, and shippers using these pipelines have demonstrated their ability to react quickly and efficiently to price signals over many years under the unbundled regime currently in place. Neither the 2 nor 3 TSO bundle is likely to make any significant improvements in this respect. What should be avoided is a situation where bundling makes the situation worse and to this extent we think that in the period to 2018, a 2 TSO bundle is preferable. Post 2018, hub to hub trading under the 3 TSO model may be the most effective way for shippers to react to price differentials.

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

We have a preference for the 2 TSO bundle, at least until 2018, as it is easier to implement and causes the least risk of disruption to existing contract holders' rights. It therefore represents the most likely opportunity for the UK to be compliant with the CAM Network Code from November 2015, at least in respect of Bacton. However, under either model we would not expect there to be any significant quantities of bundled capacity available GB-BE or GB-NL until such time as the existing IUK and BBL long term capacity holdings expire.

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 that interconnectors should ultimately choose the bundling model subject to meeting the requirements of CAM as they are best placed to understand the implications for their shareholders and stakeholders. We are not unduly concerned about each interconnector choosing different options provided that each of them can be efficiently incorporated alongside the current NTS entry regime. National Grid, and the TSOs in Belgium and Netherlands, have an important role to play in facilitating the implementation of CAM, but should not be able to dictate rules or impose bundling options unreasonably if more efficient options exist.

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 of the various options that Ofgem has presented. However, the extent to which inconsistencies between the CAM and UNC auction processes and timetables rule out Option 2 (capacity reduction) should be considered in the context of how the PRISMA platform creates a bundled product and what bundled products are likely to be made available in practice.

Our understanding is that PRISMA simply matches the maximum amount of entry and exit capacity made available to it by TSOs either side of an interconnection point and offers it as a bundled product in a specific auction. However, the obligations and rights associated with that capacity remain the same as for unbundled capacity, as it not a single product contractually. So presumably it would be possible for National Grid to withdraw any entry or exit capacity offered on PRISMA which does not bundle (because there is not an equivalent amount available from IUK or BBL) or sell in each specific auction, and offer it back as unbundled NTS entry capacity in the next forthcoming UNC auction.

If, in reality, bundled products are only likely to be available on a day-ahead basis until 2018, it may be that the easiest option would be to continue with UNC auctions as normal and then simply pass any unsold Bacton entry capacity to PRISMA to be bundled with any day-ahead IUK or BBL exit capacity released under CMP. The day-ahead UNC capacity auctions precede the day-ahead CAM auctions. But even if longer duration entry capacity products are offered by IUK or BBL pre or post 2018 this approach may still be possible, although it would be hard to envisage it working for within day capacity. Option 2 would have the added advantage of not having to split the baseline, at least before 2018, and retaining the current flexibility associated with Bacton entry capacity. Provided shippers understood that any entry capacity remaining unsold at Bacton after each of UNC auction would be passed across to PRISMA to potentially be bundled with available IUK and BBL exit capacity, they should be in a position to effectively assess the costs, benefits and risks of bidding in the UNC and CAM auctions and react accordingly.

Whilst not fully convinced at this stage that Option 2 is indeed practical or feasible, we do not think it should yet be ruled out as it may be a way of ensuring that NTS entry capacity can continue to be used and allocated largely as is, at least until 2018.

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 strongly believe that CAM auctions should not be extended beyond the scope of CAM and only implemented for capacity at Interconnection Points.

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

Yes, we broadly agree. Whilst it is impractical within the CAM implementation timescales to change the timescales for the core QSEC, AMSEC, RMSEC auctions, and not necessary to comply with the CAM code, making minor changes to the UNC daily capacity auction timescales (including for interruptible capacity) may be a way of making Option 2 a practical and feasible option, at least until 2018.

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.

To the extent Option 2 is not, in reality, practical or feasible, we think that there is a need to split the Bacton ASEP whilst recognising that the reduction in flexibility and treatment of existing entry capacity bookings at the Bacton ASEP need to be satisfactorily resolved.

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?

This appears to be the only practical way of meeting the CAM requirements for maximising the offer of bundled capacity at the Interconnection Points by optimising technical capacity. However, it must be recognised that allocating the residual of the current Bacton baseline to the UKCS ASEP runs the risk of introducing constraints at the UKCS ASEP, depending on future flows. We are not in a position to quantify the extent of this risk.

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.

The capacity allocated to the European IP ASEP is proposed to be the technical capacity of each interconnector. The aggregate available capacity at the European IP ASEP will be the same whether or not it is divided between the two interconnectors. On this basis, we would support the approach based upon a single European IP ASEP as it may give both NGG and shippers more flexibility when managing entry capacity. However, a single European IP ASEP may complicate the process of bundling capacity under PRISMA and if so this may be a reason for treating each interconnector separately.

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 we do not agree. The reality is that regardless of whether the Bacton baseline is split or not, the physical amount of gas that can be delivered to Bacton on any day remains the same, so National Grid should ensure that the contractual arrangements at Bacton allow for the same degree of fungibility as now.

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

The guiding principle should be that existing contract terms and conditions are honoured. Beyond that, it may be appropriate for shippers to split their holdings between the two proposed entry points if the baseline is ultimately split. The ultimate decision will be influenced by the relative prices between the two entry points, which will require clarity about the likely impact of the Tariff Framework Guideline.

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 stated above, the physical amount of gas that can be delivered to Bacton on any day is unchanged and historically this has never exceeded the baseline. National Grid should therefore look to develop a free entry “wheeling” service, or to amend the overrun arrangements, such that if the baseline is split and the total quantity of a shipper’s inputs at Bacton from various sources is less than its combined UKCS and European IP entry capacity holdings, it is not penalised, even if its flow at one of the two Bacton entry points exceeds its capacity holding at that specific point.

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.

Shippers already have the right to acquire or relinquish NTS exit capacity at Bacton under the UNC. However, in order to ensure compliance with CAM these may need to be amended to prevent any shipper using these rights to secure an exit capacity holding at Bacton beyond the expiry date of the existing long-term capacity contracts at IUK and BBL.

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.

TSOs should reflect on stakeholders views and develop practical options that can be implemented in time for November 2015 as part of the "concept documents" they are due to publish in Q1 2014. These options can then be reviewed by UNC and IUK/BBL shippers, before any necessary UNC or contract amendments are raised. It may well be that options which are introduced to meet the November 2015 bundling deadline are inappropriate or could be improved upon post 2018, when the existing IUK/BBL long term capacity contracts will have expired, but this should be addressed at a later date.