

Clement Perry
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Dear Clement,

Application of CAM at Bacton

Thank you for giving SSE the opportunity to respond to the specific questions raised by Ofgem in relation to the open letter, our responses are included below. SSE believe that in all EU network codes, GB should seek to maximise the benefits of EU harmonisation for customers, reduce costs and strive for minimum implementation to minimise burdens as outlined in HM Government Transposition Guidelines on Implementation of EU Directives¹. Although this consultation focuses on Bacton we are also keen to know how the Moffat Interconnector point will be treated by Ofgem with respect to CAM.

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?

SSE agrees with the advantages and disadvantages identified. We consider that the three TSO bundling option will confer the greatest advantage or least disadvantage. This is because it will avoid classification of interconnectors as balancing zones and allow for lower transaction costs of bundled products due to simpler product definition and use. As a Shipper SSE prefers uncomplicated bundling rules that permit transportation from one hub to another hub through the purchase of one bundled capacity product. We do not see the benefit of a two TSO option which would permit UK production to flow directly onto the Interconnector whereby avoiding exit costs, because it has not been used since 2005.

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 consider the two TSO model to be a disadvantage when considered as a balancing zone due to extra administration costs. The only proposed advantage is linepack but the amount available is low and will be limited at high flow rates.

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

The three TSO model would be less detrimental due to only having to buy one bundled unit of capacity that entitles the holder to flow gas. The two TSO bundle will require the purchase of two bundled units, one of which, may not be available.

¹ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/229763/bis-13-775-transposition-guidance-how-to-implement-european-directives-effectively-revised.pdf

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

Overall we consider the advantages and disadvantages described by Ofgem to favour implementation of the three TSO bundling option. We consider treating the Interconnectors as “Balancing Zones” due to there being two TSOs with two associated capacity products to be an unnecessary complication when trading gas hub to hub.

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 meet CAM and the objectives of the access rules and that we should strive for efficiency and what works best for the market. We have stated our concerns over the complexity of two TSO bundling due to the creation of additional balancing zones and trading of additional bundled capacity products. Complexity leads to greater cost which ultimately is borne by customers. Our concerns would be even greater if different options for bundling were chosen by each of the interconnectors because the industry will have to manage different processes for each interconnector.

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)?

SSE strongly believe that for all EU network codes, that GB should follow Government guidelines and strive for minimal implementation.

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

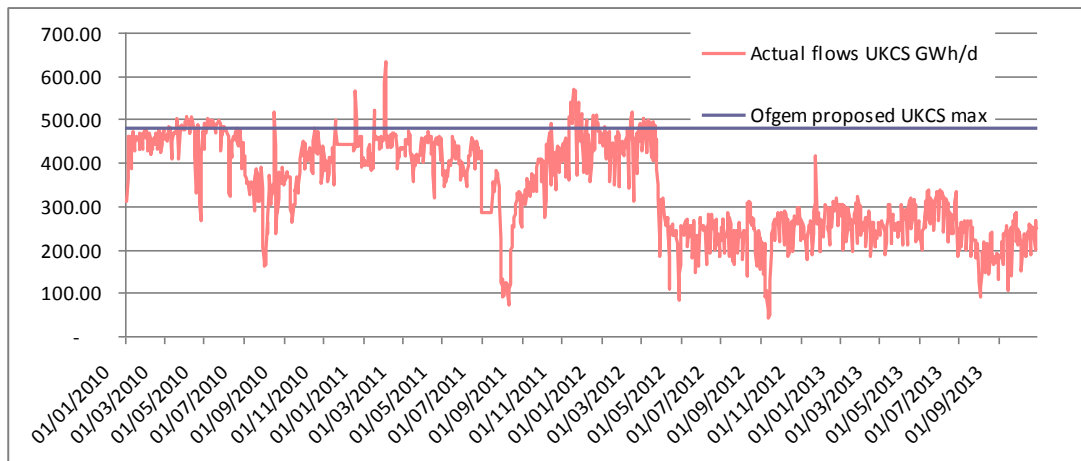
We do not see the need to change UNC auctions as the goal is for minimal implementation of CAM, which only applies to Interconnector points. Nor do we consider it practical to change UNC auctions in the CAM timescales.

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.

We agree that Bacton capacity should be split between the UKCS and interconnector points.

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?

The requirements of CAM are clear in Article 6 of the regulation “ that maximum technical capacity shall be made available to network users”. Therefore, after complying with this regulation the remainder of the capacity can be made available to the UKCS, under the UNC auction processes. The graph below shows that this is unlikely to cause constraints.

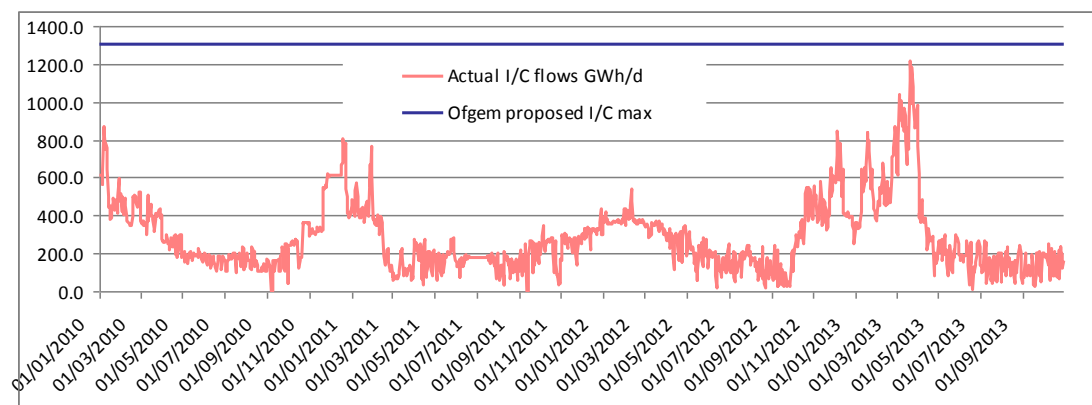


Do you agree that a single European IP ASEP approach is appropriate (i.e., no further division of capacity between the two interconnectors)? If not, please explain why you consider that there should be two European IP ASEPs.

It would be preferable to arrange implementation to provide as much flexibility as possible and combining capacity to a single Interconnector achieves this objective. However, this is counter to CAM Regulations where bundled capacity cannot be re-sold as unbundled capacity (Article 19, paragraph 8 & 9). It would require the national TSOs of the Netherlands and Belgium to breach this regulation and agree to transfer capacity.

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?

It could be beneficial to have capacity fungible between the UKCS entry ASEP and the Interconnector, to avoid sterilisation of unused capacity and maximise flexibility. However, because of the above CAM Regulation and because interruptible capacity has to be offered on the day for I/Ps and domestic points it is difficult to see how this could be achieved. The graph below shows that due to high peak usage the amount of spare “peak” capacity is not great but that this occurs only infrequently. Therefore, a mechanism which allows capacity to be transferred would be helpful to avoid sterilisation of capacity, but we cannot see how this will be compatible with CAM.



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

Where long term entry capacity contracts are for the UKCS they should be honoured. In the first instance Shippers should be able to tell NGG how they want their bookings allocated to either IPs or the domestic UKCS. Where bundling does not make this possible then the right to return the capacity at no cost is required.

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?

It would be preferable to arrange implementation to provide as much flexibility as possible by combining capacity across Interconnectors and Bacton UKCS. However, this is counter to CAM where bundled capacity cannot be re-sold as unbundled capacity Article 19, paragraph 8 & 9.

In addition, the charging arrangements for Interconnectors and domestic points will need to be treated differently to comply with the EU codes on Tariffs, therefore, it is not clear what charge would be applied if capacity were to be swapped between different capacity bundles.

If you would like to discuss any of the points raised please do not hesitate to contact me.

Yours sincerely

Jeff Chandler
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