

David McCrone
Wholesale Markets Policy – EU Gas
Ofgem
9 Millbank
London
SW1P 3GE

8 August 2014

Dear David,

RE – Facilitating the implementation of aspects of the capacity Allocation Mechanisms Network Code in Great Britain

This response to the above-referenced consultation is on behalf of the Centrica group of companies, excluding Centrica Storage Limited.

We welcome the opportunity to continue our engagement with Ofgem and the industry on the emerging proposals for how the capacity Allocation Mechanism and other European codes will be implemented in Great Britain. The current consultation will hopefully lead to a timely understanding of the new arrangements, in particular with regard to entry capacity at Bacton. We recognise the need for early clarity in order that a number of related UNC Modification proposals can be developed with greater certainty.

With the exception of the information contained in the attachment, this response is non-confidential. The information contained in the attachment should be treated as highly confidential; it has been provided by way of reply to Question 4 in the consultation document.

Question 1: Do you agree with our proposal to only implement the CAM network code in respect of the allocation of entry and exit capacity on the NTS at IPs?

We agree that this is a proportionate and pragmatic proposal. It does, however, raise some concerns about the possibility of discriminatory treatment of entry and exit points on the NTS in terms of both the capacity products being offered and the form and scale of tariffs that may be applied to them. It would also be helpful to have some clarity on whether the substitution of capacity from an IP system point will be less likely than for non-IP system points due to capacity bundling. These issues come into particular focus for entry capacity at Bacton.

Question 2: Do you agree with our proposal to split the Bacton ASEP into a UKCS ASEP and IP ASEP?

It seems inevitable that the Bacton ASEP will need to be split to ensure compliance with CAM so that capacity can be accurately identified and accounted for when bundling it with interconnector capacity. The likely application of different tariff structures for IPs and non-IP system points probably supports the need for a split.

Question 3: Do you agree with our proposal to create one single IP ASEP, with the baseline capacity set at the sum of the maximum technical capacity for the IUK and BBL interconnectors?

The advantage of a single IP ASEP is the retention of some of the flexibility in the use of Bacton entry capacity and this would therefore be helpful. This could, however, result in the need for competitive capacity auctions where shippers wanting to access BBL and IUK capacity compete for entry capacity at Bacton. This adds some complexity. Overall, though, our preference is to have a single IP ASEP as proposed.

We have reservations regarding the intention to set the baseline capacity for the IP ASEP equal to the sum of the BBL and IUK maximum technical capacities. Whilst this approach would lend itself to maximising the bundling of capacity at the IP(s) it runs rough-shod over the UKCS ASEP. At the very least Ofgem should consider and comment on the true technical capacity of the UKCS ASEP and to what extent it is impacted by the suggested approach for setting the IP ASEP baseline figure. It is inconceivable that we should allow the development of a situation where production gas from the UKCS cannot be delivered to Bacton because of a possible over-allocation of capacity to the IP ASEP. As alluded to in our response to Question 1, we are concerned that the ability to substitute capacity away from the IP ASEP may be constrained due to the bundled nature of IP capacity, i.e. once the NTS entry capacity is tied to interconnector capacity then the ability to substitute it to the UKCS ASEP might be compromised if the unbundling of capacity is not permitted, even if the capacity is not being utilised.

Question 4: If you are a holder of entry capacity at Bacton after November 2015, please provide details of entry capacity holdings after this date. Please also provide details of how you would choose to assign these capacity rights following any split of the Bacton ASEP (ie, into a UKCS and IP ASEP)?

Please refer to our confidential attachment.

Question 5: Do you agree that no change is required to the existing licence obligations relating to NTS exit capacity in order to facilitate the implementation of the CAM network code?

Arguably, the BBL and IUK exit points should be combined into a single exit point to correspond with the suggested establishment of a single IP ASEP at Bacton. This would future-proof capacity arrangements under CAM.

Question 6: Do you agree that there is a need to amend the definition of Off-peak Exit capacity in NGG's NTS licence?

Yes, this appears to be appropriate.

Question 7: Do you agree with the proposed changes to NGT's NTS licence that we have set out in appendix 3?

The changes look sensible although we do not like the term "Interconnector Capacity" as this might be confused with capacity booked on the interconnectors themselves. We would prefer, instead, either the term "IP Capacity" or "Interconnection Point Capacity".

Question 8: Do you consider that some form of transitional arrangement is required? If so, do you consider that our proposals, as set out in this document, meet these requirements?

It would be sensible for the licence to recognise the need for transitional measures so long as they do not compromise the full implementation of CAM.

Question 9: Are there any other changes to NGG's NTS licence (or any other licence) that you consider are required to facilitate the implementation of CAM?

Yes, we believe that the licence should require NGG to offer a one-off opportunity to shippers to hand back currently contracted entry capacity at Bacton – because the contractual arrangements, the capacity products and the tariff structure, are being changed. This will also be conducive to the efficient implementation of CAM in that any capacity handed back will be immediately available for bundling when CAM comes into effect.

We note that paragraph 4.6 of the consultation document maintains Ofgem's view that enduring NTS exit capacity needs to be end-dated. We agree with this requirement but, for consistency and for equal treatment of capacity at interconnection points, such an opportunity also needs to be provided for entry capacity at Bacton.

We further note Ofgem's view in paragraph 3.49 that parties should seek their own legal advice regarding existing contracts. However, the UNC is not a true commercial contract in the sense that parties can freely negotiate terms – ultimately, changes to the contract are subject to a decision by the Authority. We believe it is therefore incumbent on the Authority to assess the legal basis of implementing CAM as proposed without allowing shippers the opportunity to withdraw or amend some or all of their affected capacity holdings in the light of the new arrangements. The fact that we have raised an alternative proposal to UNC Modification Proposal 0501 should not distract from the legal question.

Please contact me if you would like to discuss this response.

Yours sincerely,

Graham Jack
Commercial Manager