

Consultation on the modification of relevant United Kingdom legislation and licence conditions to ensure Great Britain's compliance with the European legislative definition of gas day

Consultation Response

Energy UK is the trade association for the energy industry. We represent over 80 members made up of generators and gas and electricity suppliers of all kinds and sizes as well as other businesses operating in the energy industry. Together our members generate more than 90 per cent of the UK's total electricity output, supplying more than 26 million homes and investing in 2012 more than £11 billion in the British economy.

Energy UK welcomes the opportunity to provide comments to Ofgem's consultation. However we note that whilst the legislative and licence changes may seem relatively minor and may well achieve compliance from a regulatory perspective, the consequences of these changes and how they are effected in other industry arrangements cannot be ignored particularly where there may be commercial consequences which could have a detrimental impact on the gas wholesale market.

There have been extensive discussions involving all sectors of the industry over a substantial period of time but today with only a year to implementation it remains unclear whether all supporting industry processes will be working to the new gas day. It seems likely that there will be a mismatch between onshore and offshore gas days from a physical viewpoint even if a transitional workaround is progressed. This is likely to lead to a mis-allocation of gas at domestic entry terminals. It has been argued that any misallocation will be small since fields tend to produce to a flat profile, but whether this will continue remains uncertain.

Energy UK recently asked National Grid to undertake some high level analysis of the parties to which gas is allocated at domestic entry points. Around 70% is allocated to producer affiliated shippers, 20-25% to the large vertically integrated supply companies with the remainder going to other shippers. The values vary between terminals. Given the large proportion allocated to producer affiliated shippers the potential for mis-allocation could be considered a producer issue, however we have concerns that if any misallocations were to become material or simply to avoid the risk of such costs that producers may in future prefer to sell gas at beach entry points or seek an additional premium for NBP delivery. This in turn would increase the costs to shipper / suppliers and ultimately customers. In addition NBP liquidity could be reduced, which could reduce the attractiveness of GB as a destination for uncontracted supplies and spot LNG cargoes which at times of high demand could present a challenge for security of supply. Energy UK and its member are concerned that these issues which are separate from legal compliance are not being fully addressed by Ofgem and DECC in a joined up manner in order to find a way forward in time for implementation in autumn 2015.

We provide comments against the questions listed below;

Question 1:

Do you agree that the identified legislative amendment to the definition of gas day in the GB Regulations is sufficient to align GB legislation with the EU legislative definition of gas day?

Yes, but there is more to be considered than legislative changes

Question 2:

Do you agree that amending the Directions is necessary following any change to the definition of gas day in the GB Regulations?

This may be appropriate however we consider gas transporters to be better placed to provide a view on this as they are the recipients of the Directions.

Question 3:

Do you consider that any other GB legislative amendments are necessary to comply with the EU definition of gas day ?

This is a rather open ended question our ability to contemplate other potential legislative amendments is limited and we look to Ofgem and DECC to ensure that the gas sector is compliant with all relevant EU legislation.

Question 4:

Do you agree that the identified modification to the gas shipper licence is sufficient to comply with the EU legislative definition of gas day?

Yes but there is more to be considered than legislative changes

Question 5:

Do you agree that the identified modifications to the gas transporter licence are sufficient to comply with the EU legislative definition of gas day ?

Question 5(a):

With regard to the identified changes to the definition of "Formula Year"/"formula year" and associated time periods in SSC A3(1) and Special Condition 1A.4 of the gas transporter licence, do you agree with the changes proposed to remain consistent with the CAM/BAL gas day definition?

In general yes, although gas transporters are best placed to comment on this. We also consider that thought needs to be given to the timing of consultations and implementation of changes in respect of Special Condition 1.A.4 'Subscript n' (page 12) where there is a reference to changing the gas day for permit arrangements. The PARCA licence consultation contemplates the removal of permit arrangements. The concern is that Ofgem should not conduct multiple consultations on the same part of the licence.

Question 5(b):

With regard to Special Conditions 3D.35 and 3D.36 of the gas transporter licence, do you agree with our reasons for not proposing any changes?

Yes, we understand that these timings were considered during UNC modification 461 discussions

Question 6:

Do you agree that no modifications to the gas interconnector licence are necessary to comply with the EU legislative definition of gas day?

It would be helpful if Ofgem could explain why it believes no change is required to the gas interconnector licence, perhaps it is simply that there is no specific reference to the time of the gas day and compliance will be achieved through working in a manner consistent with the UNC.

Question 7:

Do you agree that no modifications to the gas supplier licence are necessary to comply with the EU legislative definition of gas day?

It would be helpful if Ofgem could explain why it believes no change is required to the gas supplier licence, perhaps it is simply that there is no specific reference to the time of the gas day and compliance will be achieved through working in a manner consistent with the UNC.

Question 8:

Do you consider that any additional licence modifications are appropriate to comply with the EU legislative definition of gas day, eg any references to “working day” or “business day”?

Please include any additional changes you have identified in your response.

Energy UK has not identified any further changes.

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