

David McCrone
Wholesale Markets Policy – EU Gas
Ofgem
9 Millbank
London
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16 January 2015

Dear David,

RE – Statutory consultation on proposed licence modifications to facilitate the implementation 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.

General Comments

We continue to agree that implementation of the Capacity Allocations Mechanisms (CAM) Network Code will require separate treatment for gas entering GB at Bacton via the UKCS and Interconnection Points (IPs) and that splitting the Bacton Aggregated System Entry Point (ASEP) to achieve this is a pragmatic and transparent solution.

Such a solution does, however, raise important questions that we and other industry parties have been debating for several months at industry workgroups, particularly the workgroup charged with developing the competing UNC modification proposals (0501/A/B/C). One of these proposals will need to be implemented to ensure that the Bacton ASEP split is properly implemented before CAM comes into force in November 2015.

The debate continues and differing views prevail. This latest consultation addresses some of these questions and in some cases the views expressed are welcome. Nevertheless, there is no escaping the fact that the introduction of CAM is a backward step with regard to the efficient access to NTS entry capacity and in the possible treatment of current capacity holdings of shippers at the Bacton ASEP.

We have the following specific comments:

Capacity Substitution

In our response to the June 2014 consultation we raised a concern about whether unutilised entry capacity at the new Bacton IP ASEP would be readily substitutable or whether it might be tied-up, and hence not readily substitutable, due to the capacity bundling requirements with adjacent TSOs' capacity.

It is helpful that you have listened and responded to this concern by essentially saying that the current substitution rules will continue to apply at Bacton entry points. In our view it is important that capacity can be accessed efficiently, in a manner that avoids the unnecessary sterilisation of existing system capacity or the inefficient provision of incremental capacity.

Handing Back of Capacity

You refer to the development of a number of competing UNC modification proposals to give effect to the splitting of the Bacton ASEP under the Uniform Network Code. We have been fully engaged in the development of these proposals and are the proposers for UNC Mod 0501A.

In the consultation document you have said that the “*consequences of handing back or terminating capacity without penalty are significant*”. We think that it is more appropriate to take the view that it is the imposition of modifications to purchased capacity products and the changing of contractual terms that is significant (perhaps from a legal as well as a commercial perspective). We understand the concerns that you have expressed about the handing back of capacity but you have yet to quantify the possible impact on users and consumers.

We are also of the view that, without appropriate mitigating measures such as having an opportunity to hand back capacity, shippers who currently hold long term entry capacity at the Bacton ASEP will essentially be penalised through having to pay for an inferior product.

The competing modification proposals will provide you with the opportunity to more clearly and fully justify your views when you come to make a decision on which, if any, is to be implemented.

Setting the Baselines for the New ASEPs

It remains to be seen whether the method you propose for setting capacity baselines for the two new Bacton ASEPs will be fully compliant with Article 6 of the CAM Regulation. In the event that immediate demand for capacity at the UKCS ASEP exceeds the baseline capacity level then arguably the setting of the new IP ASEP baseline as proposed may in fact be “*detrimental to the offer of capacity at other relevant points*”. Capacity substitution might offer a solution to such an outcome but the long lead times for substitution to take effect, and the possible employment of capacity retainers, will be limiting factors.

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

Yours sincerely,

Graham Jack
Commercial Manager