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Dear David

Statutory consultation on proposed licence modifications to facilitate the implementation of the Capacity Allocation Mechanisms Network Code in Great Britain

Thank you for this opportunity to respond to Ofgem's proposals for modifying Special Conditions 1A and 5F of the Gas Transporter Licence held by National Grid Gas Plc (NGG) in respect of the National Transmission System (NTS).

As CSL has previously indicated, it generally agrees that in order to meet the requirements of the Capacity Allocation Mechanisms Network Code (CAM Code) in Great Britain it is appropriate for the Bacton Aggregated System Entry Point (ASEP) to be split into at least two ASEPs - one accommodating the entry of gas from the UKCS gas and the other accommodating gas from from the continent via BBL and IUK interconnection points (IPs), and that the CAM Code requirements should only be applied to the IPs.

However, as Ofgem's is aware, this decisions will have significant consequences for those Users that purchased entry capacity at Bacton prior to the development of the CAM Code.

CSL's principal concern is that without any hand back option it is likely that existing capacity holders will be assigned at least some capacity to one of the new ASEPs that the User never intended to hold capacity at (most probably the IP). Given the proposed arrangements to provide the IP with its full technical capacity, this capacity holding will probably have no commercial value. Further, the current draft of the EU Network Code of Tariff Harmonisation will result in the Users with capacity at the IP facing increased uncertainty regarding their financial exposure associated with that capacity along with additional administrative costs associated with the need to use the PRISMA platform (rather than GEMINI) if it does decide to use or trade the capacity.

CSL is also concerned that the splitting of the Bacton ASEP will fundamentally change the fungibility of Bacton capacity and that this will have a corresponding negative impact on value.

CSL notes that Ofgem considers that options to maintain fungibility, such as proposed in Modification 501C may alleviate some of the loss in flexibility. From CSL's perspective, apart from the hand back element, Modification 501C is likely to have limited value, and would increase the costs and complexity associated with holding capacity at Bacton. While the fungibility provides value under the current arrangements, the fact that this fungibility would not apply to capacity traded after 1 October 2015 (as set out in the 501C

UNC modification), then it does not maintain the value of the Bacton capacity the User booked.

In addition, while CSL understands the logic for specifying that capacity at the IP ASEP be set at the technical maximum capacity, it questions whether such an approach does align with the commercial requirements for capacity. CSL notes that Ofgem has decided not to exclude the Bacton IP capacity being substituted to the UKCS. This may provide some comfort to those considering investment at the UKCS, but given the high degree of uncertainty with how these arrangements would work in practice particularly given the development of other European Network Codes.

To conclude, CSL considers that the changes to the Bacton ASEP to accommodate the CAM Code are unprecedented, and involve a high degree of complexity and uncertainty. Ofgem has stated that it believes there could be significant consequences if capacity could be handed back without penalty. However it has not explained or justified these consequences. CSL considers that if Ofgem does not allow some form of capacity hand back in relation to implementation of the CAM Code at Bacton the most likely consequence is that Users will attach a higher risk premium to long term entry capacity in GB, this is likely to lead to reduced long term bookings and increase the hurdles for new investments.

Finally, CSL considers that the extent of the changes to the commercial rights of existing Bacton capacity holders is so significant that not allowing for some form of capacity hand back could result in injured parties taking legal action.

Given this, CSL would hope that Ofgem reconsider its position on capacity hand back at the Bacton ASEP.

Your sincerely,

A handwritten signature in black ink, consisting of a stylized initial 'A' followed by a long horizontal line extending to the right.

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