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Dear Rob

Re: Statutory consultation on proposed licence modifications to facilitate the implementation of the Capacity Allocation Mechanisms (CAM) Network Code in Great Britain issued 15 December 2014

Thank you for the opportunity to respond to this consultation.

Bacton splitting

We agree with Ofgem's proposal to split the Bacton Aggregated System Entry Point (ASEP) to create a separate Bacton UKCS and Bacton interconnection point (IP) ASEP. We believe that splitting the Bacton ASEP is the only option to enable the implementation of the CAM bundling requirements.

We also agree that it is appropriate to allocate NTS entry capacity at Bacton to meet the maximum BBL and IUK technical capacities (1297.8 GWh/day). We believe that this is necessary to meet the European Third Energy Package and Security of Supply Regulation requirements for TSOs to offer their maximum technical capacity at interconnection points. This requirement is also reflected under Article 6.1 (a) of the CAM code and Standard Licence Condition 19.3 of our Interconnector Licence, which states the licensee shall "promote security of supply by taking into account all economically reasonable and technically feasible demands for capacity on the licensee's interconnector". For the IUK exit/NGG entry bundle therefore, 803.4 GWh/day of capacity should be made available. This maximum technical capacity requirement applies equally to NTS exit from Bacton to IUK meaning the existing NGG exit capacity should also be maintained for bundling.

Our support for a single Bacton IP ASEP is caveated on the assumption that both BBL and IUK are provided their full technical capacity. Given that bundled CAM capacity will only be used in a bundled manner or resold on the secondary market as a bundled product this will effectively split the Bacton IP ASEP again. We see the advantage of the Bacton IP ASEP as primarily to allow existing NTS Bacton capacity holders the optionality to use their Bacton NTS capacity with either IUK or BBL capacity. Once this existing long term NTS Bacton ASEP capacity holding expires, the Bacton entry IP can be further disaggregated to a Bacton IUK IP and a Bacton BBL IP, consistent with the approach taken to NTS exit capacity.

Substitution

With respect to the possibility to substitute capacity away from the Bacton IP entry point, we question if the proposed Bacton IP ASEP can be compared directly with other GB entry ASEPs in the future, noting that different allocation, incentive and potentially tariff rules will be applied to the Bacton IP under the European Network Codes. We believe IP entry capacity should be treated in the same as IP exit capacity. Under the NTS exit substitution methodology, Ofgem has approved the ring fencing of IP exit capacity at Bacton and Moffat recognising NGG's obligations under the Security of Supply and European Third Package Regulations in terms of making maximum capacity available cross border. Given that the same principles apply to entry capacity, we disagree that is it appropriate to treat exit IP capacity and entry IP capacity differently in this respect. Bacton IP entry capacity should therefore also be ring fenced from the possibililty of subsitition.

If National Grid's NTS entry capacity were to be substituted away from the Bacton IP, it could reduce the amount of capacity available to be bundled with IUK. The resulting residual IUK capacity would be less attractive to the market. This could also have a potentially detrimental impact to GB security of supply as the sterilised capacity may not be maintained as available for GB supply. With the Interconnectors alone capable of using 73% of Bacton baseline entry capacity plus sizable UKCS production flows into Bacton, any substitution of capacity away from Bacton would have a detrimental impact on GB security of supply.

With a trend to more short term capacity bookings, in part due to a number of European policy initiatives designed to facilitate more short term cross border trade, we believe a cautious approach needs to be taken when considering the future demand for capacity and whether any capacity can be subsitituted from Bacton. We note that flexibility in gas infrastructure will become increasingly important to GB as indigeneous gas sources decline and power generation needs gas to back-up renewables. In this regard, it should be noted that existing Bacton capacity has been important in meeting additional supplies, often at short notice, during times of supply-stress; for example record IUK flows were delivered to GB at the end of the winter in March 2013 when a combination of low storage stocks, diversion of LNG and offshore production difficulties meant IUK alone provided in excess of 20% of GB daily gas requirement from continental gas markets. We therefore believe as a minimum, the interconnector capacity should be protected from any substitution.

If you have any questions about our response please do not hesitate to contact me. We look forward to seeing your final decision.

Yours sincerely

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