

Agency for the Cooperation of Energy Regulators
Trg republike 3,
1000 Ljubljana,
Slovenia

RE: Public Consultation on the Oil & Gas UK proposal to amend the Gas Network Codes CAM and BAL in order to retain the UK Gas Day - PC_2015_G_01

Dear Sir/Madam,

Thank you for providing us with the opportunity to submit our views on the definition of “gas day” that should apply to the UK and the Republic of Ireland (RoI). This response is submitted on behalf of the Centrica Group of companies, excluding Centrica Storage Limited. We do not consider this response to be commercially confidential and are happy for it to be made available publicly through the ACER web site.

Background to Centrica’s gas interests

Centrica is a major UK based energy company that operates across the value chain in both gas and electricity, in the UK and internationally. This response focuses solely upon our UK and RoI gas interests, excluding storage.

Through our British Gas and Scottish Gas brands we are the UK’s largest supplier of gas by supply point count, with around 8.9m customers, the majority of these being domestic customers. In 2014 we also completed the acquisition of the gas supply business of Bord Gais, the former incumbent monopoly supplier in the RoI. As a result we now also supply gas to around 680,000 homes and businesses in the RoI.

Our midstream business is responsible for our wholesale market operations including the origination of structured contracts to buy and sell gas produced on the UKCS, and imported by pipeline or LNG tanker. We are also an active trader in the UK wholesale market.

Our upstream exploration and production (E&P) business is one of the top gas producers on the UK continental shelf, with both operated and non-operated production interests. In addition, we wholly own and operate the two gas processing and delivery sub-terminals at our Morecambe Hub, which comprise the Barrow Aggregate System Entry Point (ASEP) where gas is delivered into the UK’s high pressure gas national grid.

Centrica's interests in the gas day issue

Centrica is a long established company in the UK gas market, being the original monopoly incumbent gas supplier prior to market liberalisation. We played a part in developing the rules for market competition, and were present when arrangements to underpin the UK's daily balancing regime were introduced. We therefore have first-hand experience of the problems that can arise where market rules are sub-optimal or misaligned.

In particular, during the early days of the UK's Network Code (i.e. late 1990s/early 2000s), rules governing the allocation of gas from producers to shippers were deficient. This caused tens of millions of pounds worth of gas to be wrongly allocated across industry participants. Centrica, as a major player, was materially impacted.

This experience directly led to the creation of the industry-wide claims validation agency Claims Validation Services Limited (CVSL) with contracts between producers (CVIA), and also between shippers (CVSA), being implemented. These processes have served the industry extremely well since then.

Centrica is now deeply concerned at the prospect of a reversion to arrangements which open up the possibility for significant volumes of misallocated gas, and all that this would imply.

Centrica's position on the proposed amendment

Centrica's overriding concern is to avoid a situation where there is a mismatch between the upstream gas day and the downstream gas day. We believe that upstream and downstream alignment is essential to avoid the risk of the industry relapsing into the position that previously existed (described above), where large volumes of gas were routinely misallocated, and shippers having little confidence in the volumes they were being provided with by producers on a daily basis.

Since the UK and RoI are already operating an aligned 06:00 upstream and downstream gas day, allowing the UK and RoI to remain at 06:00 is both the simplest and cheapest way of achieving this. An early decision on this amendment, however, is essential; our strong preference is for certainty within a matter of days. Commencement of our own investment plans for downstream compliance is imminent, and additional expenditure on an industry-wide administrative workaround solution, to bridge a misaligned gas day, is also now being planned.

In supporting UK and RoI alignment at 06:00, we are mindful of the intention of the EU codes in respect of establishing simple and accessible harmonised cross border trading arrangements. This is an aim that Centrica supports. However, regulation requiring significant and costly change must be targeted at aspects of market operations which are demonstrably deficient, and supported by robust cost benefit analysis.

There is no evidence that the UK and RoI gas day being one hour different from other member states has ever been, or ever could be, a barrier to trade. Indeed figures showing the volumes of cross border gas flows to and from the UK, and market liquidity at the UK trading hub, speak for themselves. Further, no evidence has been presented that cross border gas flows or trading between the UK/RoI and other member states will benefit from a change to 05:00; neither does Centrica believe that this will be the case.

It is therefore far from certain that there will be any customer benefits whatsoever from this change. Indeed we would venture that this change could in fact present a barrier to wholesale trade within the UK, by creating incentives for producers and shippers to contract for gas at the beach, where imbalance risk can be avoided, rather than at the trading hub.

We are aware of, and engaged in, efforts to develop and implement an administrative workaround solution to bridge the upstream and downstream mismatch that will prevail if this amendment is rejected. While we view any such solution as better than doing nothing, we would point out that there is still much uncertainty surrounding the outcome of this process including: whether a solution can be agreed between affected parties; the one-off and recurring costs of any such solution; the development and implementation timescales; the duration that any workaround solution will need to be in place; and the process by which upstream and downstream gas day alignment will eventually be restored.

Summary

The UK and RoI gas industry finds itself in an unfortunate position regarding the gas day. Much as Centrica supports the drive towards effective cross border trade through the harmonisation of arrangements, we believe that changes which have a material impact upon some players within the industry, and indeed the functioning of the industry overall, must be carefully considered.

There have been extensive discussions on this subject throughout all aspects of the UK and RoI industry over the last year and a half or so. Over this time extensive new evidence has been produced regarding the impact of this change; evidence that was available to neither industry players nor regulators at the time the change was being developed and implemented.

This evidence suggests that there are previously unforeseen detrimental impacts from this change, combined with questionable – if any – predicted benefits. Against this background we would encourage national regulators, ACER and indeed the EU Commission to reconsider the need for changing the UK gas day, and support this amendment reversing out the need for this change, as a matter of the greatest urgency.

I trust that this response is helpful, but please don't hesitate to contact me if you require clarification on any of the points made.

Yours sincerely

