



Publishing date: 02/02/2015

Document title: 6a - OGUK Response letter to ACER

We appreciate your feedback



Please click on the icon to take a 5' online survey
and provide your feedback about this document

Response by O&GUK and the Gas Forum to ACER's request for further information.

Dear [REDACTED],

In response to your letter of 23 December, we are pleased to respond to your questions of clarification. Responses to your request for operational and cost data from individual companies in your questionnaire are being sent to you separately. We expect that 12 operating and non-operating companies will submit replies to you.

We are pleased that ACER decided on 19 January to launch a public consultation on our application to amend the Network Codes to permit the UK and Ireland to retain their existing Gas day. We look forward to a wide participation by the gas industry beyond the UK and an assessment of the costs and benefits of harmonising the gas day across the UK-continent interconnectors. Both our industry associations and our individual members will make further submissions in the public consultation to address the issue of NBP market liquidity, upstream competition, cross-border arbitrage efficiency and Network Code governance. The focus so far has understandably been on the financial cost of the change in the UK but these wider issues deserve to be addressed in greater depth.

Gas Day Working Group. You will be aware that DECC convened a Gas Day Working Group (GDWG) with industry-wide representation in November 2014. The GDWG has so far met four times to search for acceptable, workable arrangements which would allow the UK to mitigate the adverse impact of a change in the downstream gas day on 1 October 2015 without a simultaneous change in the upstream gas day. Without new measures at the interface, shippers would be exposed to significant unpredictable imbalance charges even where gas flows are relatively stable. The GDWG has made some progress in identifying two generic 'solutions' which may allow the industry to reconcile two different gas days at terminals which remain on the existing 6am-6am gas day after 1 October 2015. However, a number of obstacles remain to their implementation by 1 October 2015 and there is no certainty that a feasible outcome will be reached. This is why our application remains, in our view, both exceptional and urgent, as required by any 'ad hoc' amendment.

The first option (so-called Option A) is a scaling option which would allow a 6am-6am allocation at a particular terminal to be converted to a 5am-5am allocation for shippers through the use of a new algorithm utilising both 5am-5am and 6am-6am data. Implementation of Option A would substantially reduce the risk of additional imbalance charges for shippers but would not eliminate them entirely. The second (Option B) is not an alternative to Option A but in effect an extension of Option A by adding a new 'linepack flexibility service' or a new commercial balancing service to the scaling operation. Option A is simpler and may be capable of implementation by 1 October 2015, or soon afterwards. Option B is more complex and time-consuming and may require NRA approval before it can be implemented. However, in the view of UK gas producers and shippers, Option B offers a more complete, effective and secure way to reconcile two different gas days and to remove additional imbalance risk for shippers.

The GDWG agreed to proceed with Option A since it represents a marked improvement on the 'do nothing' case and would be an essential first step in the implementation of Option B. It has invited external industry consultants to advise on the path towards implementation of Option A by the

existing data service provider (CVSL) or by a new company. We attach to this response copies of the presentations given to the GDWG by the expert sub-group. The presentations describe both Option A and B in more detail.

Shared UK industry interests. In your questions to us, you distinguish between the upstream and downstream elements of the UK industry, reasonably enough because they are regulated separately. However, in considering the options described above and our joint application to amend the EU Network Codes, it is worth emphasising that in the UK there is an important overlap between ‘the upstream’ (gas producers, offshore operators and terminals operators) and ‘the downstream’ (NTS shippers and suppliers). This reflects the very close commercial, physical and operational integration between the upstream and downstream in the UK. As you can see from the submissions made to you by individual companies, many UK gas producers are also downstream shippers and a small number are also suppliers to end-users. There are some purely upstream entities, some of which do not produce or trade gas, and others which have only downstream interests as shippers. Although you will detect different emphases among the UK respondents to your questionnaire according to their upstream or downstream interests, there is a shared common interest in preserving the well-functioning arrangements which underpin the operation of the NBP wholesale market. This provides a crucial economic benefit of consumers, shippers and producers of gas in the UK and in NW Europe.

Upstream operators have no obligations arising from the new EU Network Codes; obligations to change fall only on the NTS operator and on shippers. Yet, you have received responses from producers, offshore operators, onshore terminal operators, shippers and suppliers, representing all parts of the UK gas industry. This industry-wide response arises because of the extraordinary, unintended disruption to well-functioning UK arrangements caused by the proposed gas day change and the shared industry interest in preserving a liquid NBP market for another 20 years. ACER’s well-researched, updated Gas Target Model recognises the role of good market design and wholesale market liquidity in delivering economic benefits to European consumers. In our view, the ill-conceived harmonisation of the EU gas day runs unnecessary risks with NBP liquidity and market functioning and deserves to be challenged (in the UK and Ireland) on the imbalance of costs and benefits. We will address this in a later submission.

If you have any questions of this response, please do not hesitate to contact us.

██ Oil & Gas UK)

██ Gas Forum)

23 January 2015



Publishing date: 02/02/2015

Document title: 6a - OGUK Response letter to ACER

We appreciate your feedback



Please click on the icon to take a 5' online survey and provide your feedback about this document