Hayley Burden, National Grid (by email)

27 January 2014

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Oil & Gas UK Response to UNC Modification 461: Proposed Change to GB Gas Day

Dear Hayley,

Oil & Gas UK welcomes the opportunity to comment on the proposed UNC modification 461.

We do not support the modification for a number of fundamental reasons which we set out below. In our view, the UNC Modification 461 is a completely unnecessary and costly proposal and should not be approved by the Panel. We raise below some issues which do not appear to have been widely discussed in the development of UNC Mod 461 to date and ask the Panel to address them in the next stage of its deliberations.

UNC Mod 461 is not mandated by CAM Network Code. Strictly speaking, the EU CAM Network Code does not require a change to the GB Gas Day since it says clearly in Article 2 paragraph 1 that it '*shall apply to interconnection points*', as defined in Article 3 (10). It also states that it '*shall not apply to….. entry points from LNG terminals and production facilities and entry-exit points to and from storage facilities*'. In short, the CAM NC clearly applies only to the IUK and BBL connections at Bacton and at Moffatt, and not to the entire National Transmission System. Therefore, there is no basis in the CAM NC to raise UNC Mod 461. The proposed changes to the UNC go far beyond what is required by the CAM Network Code.

Unique nature of GB interconnectors. It is possible for the UK to comply with the EU Network Codes without changing the Gas day in the GB market since it is possible for the two key interconnector pipelines to the continent to operate safely and efficiently with different gas days in the GB market and on the continent, as they have always done. The IUK is already the most price-responsive interconnection between hub markets in the EU and there is no reason to believe this would be adversely affected. The bundling of entry/exit capacity at each end of the two interconnector pipelines and the utilisation of linepack appears to offer the least-cost route to UK compliance with the EU network codes while preserving efficient commodity arbitrage. This would, of course, depend on close liaison between all TSOs involved and with the responsible entities in Ireland.

Wider upstream industry impact. Ostensibly, the scope of UNC Modification 461 is limited to transporters and shippers but it fact it has significant consequences for UK upstream sector, principally operators of offshore fields and pipelines and onshore terminals. The UK upstream sector still supplies almost half the gas which enters the NTS. Ofgem has already referred to these knock-on effects as 'wider industry impacts'. Since there is no obligation to change upstream operations arising from the EU network codes, UNC Mod 461 would essentially create a downstream gas day of 5am-5am and an upstream Gas Day of 6am-6am. At present, it is far from certain that this mismatch of one hour can be accommodated by all entities at the upstream/downstream interface. These issues have not been raised and satisfactorily resolved in the development of Mod 461 so far. Until the 'wider industry impacts' are fully understood and the integrity, safety and efficiency of NTS operations can be assured, in our view, the UNC Mod 461 process should be halted.

Lack of impact assessment and cost-benefit analysis. There has been no reliable, published impact assessment of the proposed changes to the GB Gas Day. Nor has there been a full analysis of the costs and benefits of the change. Estimates by Oil & Gas UK member companies suggest a total cost of changing the Gas Day in the upstream sector, if such a change were required, of at least £40-50 million. These costs comprise three elements: (1) changes to bespoke IT systems in field, pipeline and terminal operations (2) review and revision of many hundreds of upstream commercial agreements, many of which pre-date the UNC and (3) physical and IT software changes to upstream meters. None of these indirect costs appear to be within the scope of the discussion of UNC Mod 461 so far but we believe they still deserve to form part of a proper cost-benefit assessment. Is it not appropriate that a decision to change the GB Gas Day should set out the alleged benefits of the proposed change, examine alternatives and incorporate in a cost-benefit analysis all the costs incurred within the UK?

Need for wider examination of UNC Mod 461. At a time when the entire industry should be seeking to minimise the cost pass-through to UK gas consumers, we strongly urge a much wider debate on the changes proposed in UNC Mod 461 involving not only National Grid and shippers but also Ofgem and DECC.

In light of the above, we ask the Panel to reject UNC Mod 461 or to halt the process of assessment pending a much wider examination of its costs and benefits.

Marshall Hall, Energy Policy Manager