



Publishing date: 19/01/2015

Document title: 1c - ACER submission summary 240714 final

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UK Gas Industry Proposal to Amend EU Network Codes to Retain UK Gas Day.

Summary of the case for the amendment.

We summarise below the principal elements of the case for an 'ad hoc' amendment to the EU network codes to permit the UK and Ireland to retain their existing gas day of 6am-6am UCT. Each of the summary points is addressed in more detail in the main body of the document.

Impact of the network codes extends to the UK upstream. Although the scope of the EU network codes underpinned by Regulation 715/2009 is limited to downstream networks, the impact of the change to the gas day in the UK extends beyond the National Transmission System (NTS) to onshore terminals, gas processing, offshore transportation and offshore production operations. Full implementation of the proposed gas day change would require revisions to bilateral commercial agreements at the upstream-downstream interface, to gas sales agreements, to transportation and processing contracts and to allocation arrangements in upstream pipeline systems which are not governed by the Uniform Network Code (UNC). Upstream operators would therefore be required to change all affected bilateral and multi-lateral contracts with field partners. We do not believe that this effect on the upstream was either fully understood or intended by the authors of the network codes.

Financial cost of change. The estimated total upstream cost of changing the UK gas day is £40-50 million (€50-60m), excluding contingencies. These anticipated costs comprise IT systems changes, legal costs to review and revise bilateral commercial contracts and physical metering changes. The cost of compliance in the entire UK gas industry (upstream, transmission, distribution, suppliers and shippers) is estimated at £65-100 million (€80-125m). The costs of the change among regulated downstream companies will be passed to network users and to consumers. Costs incurred by the upstream and by shippers are not recoverable in this way.

Disproportionate effect on the UK. The UK is disproportionately affected by harmonisation of the gas day. It is the only major gas-producing Member State which has to change its existing gas day. It is also unwelcome that the NBP market, which is the most liquid and competitive wholesale gas market in Europe, is being required to make a fundamental change to its commercial agreements in a way which runs the risk of undermining liquidity, especially if producers without downstream interests move sales contracts from the NBP back to the beach.

Gas day harmonisation is not necessary to complete the single market. The strict harmonisation of the gas day in the CAM code is misplaced. It enforces changes at the UK upstream-downstream interface *and* at interconnection points (IPs), both of which function efficiently today. It therefore carries significant risks of unintended consequences for NBP market integrity and liquidity. The UK can comply with the objectives and spirit of the network codes without changing its gas day and without putting the NBP market at risk.

Risk to NBP market integrity and liquidity. The UK upstream supplies half the gas delivered to the downstream NTS network. If the UK were required to reconcile two separate gas days, 6am-6am UCT upstream and 5am-5am UCT downstream, the Claims Validation information Agreement (CVIA), which reconciles all downstream nominations and upstream allocations, would become unworkable. A new balancing risk would emerge at the interface which could lead some UK producers to sell production at the beach, not at the NBP. This may reduce sell-side competition in the NBP market and widen bid/ask price spreads in the wholesale market to the detriment of consumers.

Security of supply is put at risk. UK supply security depends critically on the liquidity of the NBP market as the means of attracting uncontracted gas and LNG to NW Europe. As the last Russia-Ukraine crisis in January 2009 illustrated, the NBP is also a key source of price-responsive physical gas to continental Europe via the Interconnector UK pipeline. If the commercial integrity and liquidity of the NBP is undermined by the change in the UK gas day, then there will be a consequent erosion of Europe's supply security.

No benefits to EU consumers. There are no discernible benefits to EU consumers from the change in the UK gas day since we already have highly efficient, price-responsive cross-border arbitrage between the UK and the continent. Harmonisation of the gas day is very unlikely to make this cross-border trade more price-responsive. The potential barriers to intra-EU trade lie elsewhere, in mismatched capacity products or inappropriate tariffs.

Over-ambitious timetable for implementation. Terminal and upstream operators do not consider the current UK deadline of 1 October 2015 as realistic or achievable given the extent of the changes needed to existing contracts with National Grid and the change to all the upstream agreements mentioned above. A possible 12-month delay, envisaged in the BAL network code, would allow more time for an impact assessment of the change and consideration of our proposed amendment.

Upstream disruption. The change in the offshore gas day will entail a significant, unnecessary distraction for UK operators, especially at older offshore fields, at a time when the industry is focused on improving production efficiency, on the regulatory changes associated with the new Oil and Gas Authority and the current government review of offshore taxation. Synchronised implementation of the metering changes needed at offshore platforms is not feasible. Furthermore, operational safety at offshore installations may require a temporary halt to gas production to implement the metering changes.

Modest amendment proposal. Our reasoned proposal for an *ad hoc* amendment is simple, pragmatic and modest. The proposed wording is intended to apply to the UK and Ireland only. If approved, the amendment would not impair the ability of other Member States or TSOs to comply with the network codes. It is not designed as, nor intended to be, an 'opt-out' or an attempt to preserve regulatory sovereignty. Its principal concern is to ensure that the network codes take proper account of existing well-functioning arrangements, avoid excessive costs and do not run unnecessary risks for existing liquid gas markets.



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