



BG GROUP

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6th May 2014

Dear Interconnector, National Grid and Fluxys,

Consultation on the ZIGMA Model and Implementation of the Capacity Allocation Mechanism and Balancing EU Network Codes

BG Group plc (BG) thanks Interconnector, National Grid and Fluxys (the TSOs) for the opportunity to respond to the consultation on the ZIGMA Model and Implementation of the Capacity Allocation Mechanism (CAM) and the Balancing (BAL) Network Codes.

1. What is your general feedback on ZIGMA?

BG recognises the requirement of the TSOs to implement CAM and BAL by Autumn 2015. However BG regards that gas flows between Bacton and Zeebrugge are efficient and we are not convinced there are any problems with the current mechanisms for balancing and capacity allocation.

The TSOs, Ofgem and CREG must ensure that any implementation of the ZIGMA Model does not make flowing gas between Bacton and Zeebrugge more complicated, more expensive, less flexible, less liquid or less efficient than it is today. In addition the TSOs and the regulators need to ensure that ZIGMA does not disadvantage Bacton versus the UK's interconnection points with Norway at both Easington and St.Fergus or create any discrimination between these three critical supply points to the detriment of the UK.

In principle BG recognises that the new model is a sensible solution for both the Interconnector and Fluxys to comply with CAM and BAL. However BG has a number of concerns and questions that we have addressed within this response.

2. Do you agree that the proposed balancing model is compliant with the BAL Network Code?

BG is concerned that hourly tolerance limits at Zeebrugge Beach will make within day optimisation more difficult and may reduce within day liquidity. We question the need to take within day action for a particular hour if the forecast end of day

nominations are balanced, particularly given the unlimited capacity offering of the ZeePlatform. In addition BG would like more clarity on the pricing of the cash-out mechanism and in particular the incentive.

- 3. Do you agree that the WDOs detailed in Appendix 4 are an appropriate set of WDOs.*

BG does not agree with the WDOs and questions whether intra-day balancing is necessary. BG has a strong preference for a UK style end of day balancing market.

Before any implementation BG believes that ZIGMA needs to be stress tested via scenarios to ensure it can still operate when exposed to a major infrastructure failure or demand shock and that any WDO's will not leave shippers unduly exposed.

- 4. We are evaluating whether the balancing contract is in a separate contract or within the IAA. Do you have any preference?*

As the IAA relates exclusively to the Interconnector, while ZIGMA is accessible from a variety of locations and markets it is critical for any balancing contract to be separate to maximise market interest.

- 5. Do you agree that the proposals set out in Sections 3, 4 and 5 are compliant with the CAM Network Code?*

Without firm clarity on National Grid's CAM implementation plans at Bacton BG is not in a position to answer this question. We have a number of questions regarding Bacton which have been listed below in question 9.

- 6. The Concept Document meets the requirement in article 8(9) of CAM to consult Stakeholders on the capacity to be set aside for short-term auctions defined in sections 3.4.5 and 4.4.3 of the Concept Document?*

BG's bias is for as much capacity to be available for short term auctions as possible. Therefore BG does not support the proposals in 3.4.5 and 4.4.3.

- 7. Do you support single-sided nominations being accepted for unbundled capacity if the same entity owns the capacity on both sides of the IP?*

BG intends to continue to nominate double-sided for all capacity.

- 8. Do you support the proposal that surrendered capacity that is not reallocated in an auction is not automatically rolled forward to future auctions?*

BG has no fixed opinion on this matter.

- 9. Do you have any other feedback on the Concept Document?*

BG believes that the success of ZIGMA is dependent on what National Grid do to implement CAM at Bacton and therefore greater co-ordination is required between Fluxys, Interconnector and National Grid. BG is concerned that the implementation of CAM at Bacton may reduce shipper flexibility, increase shipper costs and therefore reduce the efficiency of flows between Bacton and Zeebrugge.

BG Group also believes that if capacity is sold as a bundled product it should be invoiced as such to avoid any administrative burden on the shippers who are not in a position to know how any auction premium is allocated between the individual TSOs.

Finally, shippers presently have unlimited capacity at Zeebrugge beach via the ZeePlatform, at a low cost and on an enduring contract that can be cancelled at any time (subject to a notice period). It is very unclear how Fluxys can seek to replicate this model with a traditional capacity contract. BG is therefore concerned that there could be a reduction in flexibility and an increase in costs to the detriment of market liquidity.

BG Group has a number of further questions and clarifications regarding the concept document:

1. With regards to balancing is there a different incentive applied to within day versus end of day settlements?
2. Who decides the level and frequency of change to the incentive to be charged and what level is anticipated?
3. Why would an ISTA shipper, shipping gas from Bacton to Zeebrugge Beach need to sign the balancing agreement if it is required to nominate at both IBT and IZT (during the interim period)?
4. How will the unlimited ZeePlatform capacity be transitioned into ZIGMA?
5. Will there be enough unbundled interconnector ASEP capacity to meet all possible demand from UKCS, ISTA IUK and BBL shippers (in particular if 115% of interconnector capacity is dedicated to the interconnector Bacton ASEP following the sale of OS firm day ahead capacity)?
6. Will IUK CMP capacity products (OS, LT UIOLI & surrendered) only be sold on a DA basis during the interim period and why will OS be sold as firm bundled and not interruptible capacity?
7. Will IUK sell interruptible capacity before October 2018?
8. What reserve price will IUK apply for sale of future products (beyond Oct 2018) during the interim period and will the price be the same for all products?
9. Is it anticipated that OS capacity continues to be sold after Oct 2018?
10. Could interruptible capacity at Bacton interconnector ASEP be bundled?
11. Will NGG sell unlimited and unbundled interruptible day ahead and within day entry capacity and unlimited and unbundled interruptible day ahead exit capacity at Bacton interconnector ASEP?

If you would like to discuss any of the points raised please do not hesitate to contact me.

Yours sincerely,

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