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Via email

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Dear Danielle,

BPGM Response to Interconnector UK consultations regarding Implicit Allocation and Derogation from certain Articles within the TAR NC

BP Gas Marketing (BPGM) welcomes the opportunity to comment on the consultations issued by Interconnector UK (IUK). Our response is not confidential.

In relation to the 4 IUK consultations, BPGM is submitting this one consultation response.

Whilst we understand IUK's unique circumstances warrants different regulatory treatment than for most other TSOs, and whilst we are broadly supportive of the proposals to introduce implicit allocation, we are concerned at the level of flexibility being requested by IUK.

Implicit Allocation

As stated above BPGM is broadly supportive of IUKs proposal to introduce Implicit Allocation for yearly, Quarterly and Monthly capacity products. As IUK point out unlike most TSOs in Europe, it is not under written by consumers and is wholly exposed to the market.

As IUK is competing with other flexibility providers who are not subject to the same restrictions as TSOs under the CAM network code with regards to when and how

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they can sell capacity it seems reasonable to implement implicit allocation as an additional method of offering capacity to the market. As a merchant asset IUK should have flexibility in how they offer innovative products to the market.

We appreciate IUK publishing their clarification letter of 1 September where it was made clear that the CAM auction process would still apply to IUK post 2018 and that during the CAM auction, Articles 8 to 37 will still apply to IUK. We assume that when a CAM NC auction is taking place the implicit allocation process is suspended.

BPGM agrees with IUK that day-ahead and within-day capacity will not be part of the implicit allocation process and will only be sold via PRISMA platform.

BPGM supports the introduction of a Capacity Conversion service especially as the implicit allocation process will see unbundled capacity being offered for sale to the market.

We are concerned with the lack of detail in the consultation regarding pricing for the implicit allocation and the CAM auctions. Without knowing the detail of the pricing structure, it is difficult for shippers to decide if the use of IUK capacity would be viable. BPGM would request that IUK publish prices for the CAM auction as set out in the CAM NC.

The consultation says that IUK will publish a pricing timetable on IUK's website. With current thinking being to publish prices in line with the annual CAM auction. BPGM would like to see the CAM auction being the minimum requirement for publishing pricing information. We are concerned that IUK is giving itself too much flexibility in price setting. For example, it is not clear in the consultation documents when implicit allocation prices will be published.

It is concerning that the specific arrangements between the Exchange and the Broker/Communication Platform and IUK will only be fully developed after IUK decides whether to go ahead with implicit allocation. We feel that it would have been better if these arrangements had been developed before this consultation so that we could get a better understanding of how IUK sees the process working.

Derogation from some TAR Network Code Articles

Article 37 of the TAR Network Code allows the NRA to grant a derogation from one or more Articles of the TAR NC to an interconnector operator.

BPGM agrees that there are some Articles within the TAR NC that do not apply to IUK such as Article 5 Cost Allocation Assessment, as IUK does not have any domestic points. However, we are concerned that IUK is seeking a derogation from Articles that in our opinion should continue to be applied. We are particularly concerned that IUK is asking for a derogation from applying Article 12 General Provisions, Para 3 and the whole of Article 13 Level of Multipliers and Seasonal Factors.

We do not agree that IUK should be able to decide the tariffs in accordance with current market conditions. Shippers need some certainty regarding the level of tariffs when deciding if they will ship gas through a certain route.

Similarly BPGM does not agree that IUK should be able to set multipliers as high as they see fit without consultation with interested parties. In fact we do not agree that multipliers should be set above the range as set out in the TAR NC. Giving IUK the ability to set multipliers to any level depending on how the market is moving takes away any certainty shippers have regarding pricing of capacity.

As stated above we recognise that IUK is a merchant asset with no RAB and as such needs to be innovative in how they can generate income. However, shippers need some indication of what the price of capacity will be when they are pricing up a deal, be it a trade at a European hub or for a physical delivery of gas at an offtake point.

BPGM suggest that one way IUK could mitigate some uncertainty for shippers is if there was a known price cap in place. This price cap should be consulted upon and agreed on a yearly basis. That way shippers would have some indication that prices would be within a certain range. Depending on market demand IUK could set the price on a scale up to the price cap. This is not a perfect solution but it would give IUK some flexibility to respond to market demand and it would give shippers the certainty of being able to price within a certain range.

In summary BPGM understands that IUK is in a unique position as a TSO and should be able to offer Implicit Allocation but there needs to be more clarity around the pricing of the product. Likewise, we agree that certain Articles in the TAR NC are not relevant to IUK but we are concerned with the level of flexibility and opt out that IUK are asking for.

Yours sincerely,

Andrew Pearce
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