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Mr Alberto Pototschnig
Trg republike 3,
1000 Ljubljana,
Slovenia

Dear Mr Pototschnig,

Thank you for your letter of 3 October.

In the attached response, we seek to provide the information you have requested and to answer your questions as completely as possible in the time available. We welcome the focus of many of your questions on economic costs and benefits since our case rests upon the imbalance between them and the risk to the integrity and liquidity of the NBP market. As we observed in a message to Mr Dennis Hesseling on 10 October, some of the questions regarding the quantification of financial costs and benefits can only be fully answered by a much more extensive assessment involving access to data which we ourselves do not have. Nevertheless, we have provided responses based on our members' updated estimates, our existing submissions to the UK upstream regulator (the Department of Energy and Climate Change) and to existing published material.

For your convenience, we have structured our response in the same way as your letter of 3 October, and refer, where appropriate, to our original submission of 24 July to avoid duplication.

We contend that our amendment application deserves to be judged as both 'exceptional' and 'urgent'. It is exceptional because the requested amendment would apply only to the UK and Ireland because of the unique integration of the GB and Irish gas markets and the unusual nature of their connections with neighbouring Member States via maritime interconnector pipelines only. We believe that the proposed deadline for the change of the GB Gas Day on 1 October 2015 also makes our application urgent. There is still no assured or agreed path to satisfactory implementation in the UK by this date and any proposal to operate with two gas days in the UK will weaken the foundations of the NBP market.

We therefore suggest that ACER and ENTSOG conduct an impact assessment of the UK position with an analysis of all costs and benefits, if necessary by recommending a delay in UK implementation of 6 or 12 months to complete the work. We are confident that a fair and open-minded assessment by ENTSOG will reveal the extent of the support for our position among producers, shippers and traders in NW Europe and the strength of our economic argument based on costs and benefits across the EU.

In addressing your questions about the merits of our case, we highlight the way in which the development of the CAM Network Code, which defines the harmonised Gas Day, did not include a full impact assessment by any entity and did not consider consequences for the upstream sector. The effect on the legal agreements underpinning the UK gas market and the upstream-downstream interface were simply overlooked by the downstream TSOs and NRAs involved in the network code development. Upstream interests were poorly understood or ignored and the assurance that the upstream would not be affected by the new network codes proved to be false. It is this lack of an appreciation of 'wider market impacts' in the network code development process which we now seek to correct.

The harmonised EU Gas Day has a disproportionate impact on the UK because of its existing upstream gas operations and the complexity of the commercial agreements drawn up over 45 years. Our application has the support of most UK producers, offshore operators, terminal operators and shippers. None of our members see any net overall benefit arising from the proposed change of the GB downstream Gas Day. We provide the names of all our respective members whom we believe, both individually and collectively, are interested parties in this matter.

We emphasise the assessment of *economic* costs and benefits to EU consumers and the completely disproportionate impact on the UK upstream in our application. However, the current political context in Brussels also deserves some comment. The European Commission and Council of Ministers are now both placing more emphasis on the contribution of indigenous gas production to EU security of supply. The Commission and the UK government are both seeking to ensure that energy market regulation and decarbonisation policies do not place an excessive burden on industrial and domestic consumers. In its own recent communication, ACER itself emphasises the role of *regional* initiatives in promoting energy market integration and the importance of promoting hub market liquidity.

In this political environment, it seems illogical to insist upon strict harmonisation of the Gas Day across the EU when it entails excessive costs for upstream operators in the UK, introduces transition costs passed on to consumers and risks the erosion of liquidity in the EU's most liquid and competitive hub market. Granting the UK and Ireland the right to retain their existing gas day (a *regional* initiative) would avert unnecessary costs and disruption, would not add to the cost of gas for any EU consumers and would leave existing, well-functioning, cross-border arrangements unchanged.

You refer in your letter to a 'derogation from the obligation to adopt the Gas Day defined in Article 3 (7) of the CAM Network Code'. We have previously presented our position as a proposed amendment to the existing CAM or BAL Network Codes rather than a derogation from any of their provisions. We understand that it is the combined effect of the two network codes (not just CAM, which applies to IPs only) which imposes costs and disruption in the UK market and undermines the Claims Validation Information Agreement (CVIA) on which the NBP market is built. We would welcome an opportunity to discuss with you the procedures (amendment or derogation) which you believe are most appropriate to our application and the detailed wording of the proposed amendment which we submitted in July.

Yours sincerely,

The image shows two handwritten signatures in blue ink. The signature on the left is 'Malcolm Webb' and the signature on the right is 'David Cox'.

Malcolm Webb

David Cox

Chief Executive, Oil & Gas UK

Managing Director, Gas Forum

c.c.

Rt Hon Edward Davey MP, Secretary of State for Energy and Climate Change

Matthew Hancock MP, Minister of State for Business and Energy

Klaus-Dieter Borchardt, Director, Internal Energy Market, European Commission

Dermot Nolan, Chief Executive, Ofgem

Mike Calviou, Director, Transmission Network Service, National Grid



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