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Document title: 6f - OGUK Response letter to ACER (9 Feb)

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██████████
██████████ ACER
Trg republike 3
1000 Ljubljana,
Slovenia

Oil & Gas UK
6th Floor East
Portland House
Bressenden Place
London SW1E 5BH

9 February 2015

Dear ██████████,



www.oilandgasuk.co.uk

O&GUK and the shippers' Gas Forum have now responded to all requests from ACER for information in support of our application to amend the EU Network Codes in order to allow the UK and Ireland to retain their existing gas day.

We believe that our proposed amendment allows the EU to achieve the objectives of the Third Energy Package at lower cost and without unnecessary risks for the integrity and liquidity of the NBP market. Furthermore, our amendment is consistent with the principles and objectives of the updated Gas Target Model presented by ACER last month.

We concede that EU-wide harmonisation of the gas day may have the superficial appeal of operational convenience. However, in the unique case of the UK/Ireland market, it is not economically efficient in cost-benefit terms. The UK market does not have an assured way to operate with two different gas days upstream and downstream. In the circumstances, our amendment to retain the current arrangements at the UK upstream/downstream interface and on the two interconnectors is simply a practical, prudent solution to an unintended consequence of the adoption of two of the early Network Codes without a proper impact assessment. We trust that ACER will recognise that these consequences in the UK and Ireland were unexpected and unintended when the codes were adopted.

We ask ACER to decide upon the admissibility and validity of our amendment and to conduct quickly an impact assessment based on a EU-wide cost-benefit analysis. We are confident that this would reveal not only the risks for the liquidity of the NBP market and upstream competition but also the absence of any expected benefit though improved cross-border trade between the UK and the continent. Already, the IUK interconnector has the most price-responsive and efficient cross-border trade within the EU. Further improvement may come from GB tariff reform, capacity bundling and improved market liquidity, but not from gas day harmonisation.

Our amendment is, above all, an appeal to give full effect and meaning to 'the special nature of interconnectors' recognised in the Network Codes. The connections between the UK/Ireland and other member states are uniquely via interconnectors only. This means that our proposed amendment does not create a precedent which can be relied up elsewhere in the EU to challenge harmonisation of the gas day.

Approval of our amendment would not have any adverse consequences for EU consumers and would help to protect NBP market liquidity and indirectly European security of supply. It would also mark an acknowledgement that completion of the internal energy market should take account of costs and disruption outside the downstream networks, especially for EU producers and suppliers of gas. Indigenous production is an essential pillar of emerging EU energy policy. At a time when mature areas of the North Sea are facing severe economic difficulties, it is essential that completion of the internal energy market does not impose excessive costs on domestic EU gas producers, nor undermine the functioning of existing wholesale markets.

Amendments to the gas Network Codes will from time to time be desirable and necessary, either to correct unintended consequences or because of changing market structure and behaviour. We urge ACER to develop appropriate criteria for such amendments, preferably based on costs and benefits which allow for sensible regional variations within the overall principles laid down in the Third Energy Package. The wide diversity of gas supply, trading and demand patterns across the EU means that a strict 'one size fits all' approach is bound to lead to economically sub-optimal prescriptions. The internal market in gas can and should be realised not by imposing uniformity and strict harmonisation throughout the EU but by focusing on removing existing barriers to trade and by placing more emphasis on transparency, public disclosure and economically significant regional variations.

We look forward to hearing from you in the near future.

Yours sincerely

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