Senior Regulatory Specialist
BP Gas Marketing Ltd

BP Gas Marketing Ltd
20 Canada Square
London E14 5NJ
UK

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Bundesnetzagentur für Elektrizität, Gas,
Telekommunikation, Post und Eisenbahnen
- Beschlusskammer 7 -
Tulpenfeld 4
53113 Bonn

Via Email.

Direct: .
Main: +44 20 7948 4000.
Mobile: +44 7881 916224.

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Response by BP Gas Marketing to Consultation KONNI 2.0
Amendments to the conversion mechanisms in quality-overlapping market areas

Dear Sir/madam,

Thank you for the opportunity to provide our opinion regarding the planned changes to the conversion system KONNI.

We have looked at the imbalances in the regulatory accounts for Net Connect Germany in the first months of 2016, when a significant change from sourcing of L-gas in the right quality had occurred, i.e. moving away from sourcing via the market towards a mechanism by which almost all L-gas consumed was virtually converted through the market area manager. We were therefore not surprised that this has led to significant losses on this account which in turn led to the introduction of a conversion levy, as the proceeds from the conversion fee did not cover the outturn cost.

A similar situation seems currently to be developing in the Gaspool market. If we consider the slides shown in the hearing on 27 July 2016, it is clear that the opposite direction of virtual conversion has been demanded from the market area manager by shippers (L-H) since May 2016. Although significantly smaller than the issue last Winter at NCG, the conversion of L-gas into H-gas exceeds any historic H to L conversion in the Gaspool market area. Unfortunately the publication of the regulatory accounts lags behind by several months and no further evidence will become visible until after the date the new fees and levies are set. We believe it will definitely help the market if the publication of more recent numbers, even if only on preliminary basis, is allowed.

The problem in NCG seems to be caused by two key effects. The first is that large parts of the gas market had relied on the initial plan of KONNI 1.0 to end after a 4 year period with an annual reduction of 25% of the initial maximum allowed fee. Until April 2016 no levy had been introduced, indeed NCG actually reduced the fee below the planned path to 0.300 Euro/MWh instead of the maximum allowed 0.453.

Secondly, from the perspective of a balancing account responsible, the break-even between the conversion fee on the one hand and the difference between quality and location price spreads (or alternatively transport costs), which is not a constant but depending on market situation, was reached and commercial conversion by the market area manager had become more economic for a bigger group.

For the L to H conversion in Gaspool there is no conversion fee foreseen during the interim period as well in the proposed ex-ante system. This means all cost for the direction observed in Gaspool has to be borne by a conversion levy, which will soon need to be introduced in the Gaspool area.

When participants trusting in KONNI 1.0 prepared for a market with no quality constraints, they will have already procured H-gas instead of the L-gas they needed for their counterparts. Else it remains difficult to understand, why after both the prolongation of the conversion fee and at a level increased back to 0.453 Euro/MWh (the maximum rate from the previous period) has not lead the system to flip back to cost coverage through charging the conversion fee.

If it was expected that the conversion levy of 0.15 Euro/MWh would lead to a neutral balance of the regulatory account by end of summer, already for the two months with published data since introduction of the levy, April and May, it is obvious, that there are still losses accumulating from conversion fees. In addition, the conversion levy is to be paid by every volume of gas entered into the system no matter its quality or system entry point which includes storages where volumes that obviously have already had paid this entrance fee to the market and thus are charge twice.

The above demonstrates that ensuring control over costs of conversion with either a levy only or an ex-ante fee system are not possible. In our view, only an ex-post fee will be able to reduce levies to the lowest possible level. The disadvantage of such an approach, namely no planning certainty is, in our view, largely offset by the larger disadvantage that the ex-ante system includes a right for the market area manager to increase the conversion fee beyond the limit of 0.45 Euro/MWh converted with only a 2 day warning period in an emergency, thus it only provides no more than day-ahead certainty on fee levels. For any long term trade this is an unacceptable situation and thus allows the positive effect of the ex-post model, that each balancing account manager will ensure the gas is delivered in the right quality, to exceed its disadvantages.

Beyond this, we support the points made in the statement provided by the German Task Force Gas of EFET-Deutschland. We are happy to continue the discussion with you and will be available to for any questions

Yours faithfully,