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connecting energy markets

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Date
29 January 2020

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Our reference
BBL VOF 20.007

Subject
Re: Ofgem Consultation on the proposed change to Existing Arrangements for Accessing Licence Baseline Exit Capacity on the National Transmission System at Bacton Interconnection Point

Dear Robin,

BBL Company (BBLC) welcomes the opportunity of responding to your Consultation document and Impact Assessment published on the 9th December 2019 on proposed changes to the UNC and Gas Transporter Licence arrangements for accessing Licence Baseline Exit Capacity on the National Transmission System at the Bacton Interconnection Point.

BBLC operates the BBL Interconnector pipeline between The Netherlands and Great Britain and completed engineering works in September 2019 that have enabled gas to physically flow from the GB NBP gas market directly to the TTF market in The Netherlands (the Physical Reverse Flow project (PRF)). This project has delivered a PRF capacity of 7GWh/h which, as Ofgem's Consultation document states is equivalent to 27% of the current National Grid Gas Transporter Licence Baseline Exit Capacity at the Bacton Interconnection Point (IP). The costs of this project have been fully under-written by BBLC shareholders.

As stated in our response to Ofgem's associated Call for Evidence[1] document that was published in June 2019, to enable Shippers to take full advantage of this new PRF capability they will need to be able to access commercial rights to National Grid (NGG) Exit capacity at Bacton. However, the BBL IP offtake currently has an NGG Gas Transporter Licence Exit Capacity Baseline figure of zero and available capacity cannot be transferred from the neighbouring IUK IP offtake due to restrictions within the EU CAM Network Code and NGG's Capacity Release Methodology Statement. These restrictions, coupled with the lack of Exit capacity "competing auctions" functionality within the Uniform Network Code (UNC), mean that Shippers wishing to use BBLC's PRF capability are currently only able to do so to the extent that NGG decides to release "non-Obligated" or "Interruptible" Exit capacity. BBLC therefore believes that Shippers seeking to use the BBL pipeline to connect to, and trade within, other EU markets are currently at a commercial disadvantage to those using the competing IUK interconnector.

Since October 2019 BBLC has seen consistent Shipper demand for, and use of, its Bacton PRF capability with flows regularly approaching BBL's PRF peak capability (7GWh/h) as can be seen in the graph included within Appendix Two. Shippers have also recently shown additional interest in BBL Bacton Exit capacity by booking (by means of implicit allocations) such capacity for June 2020 and Q3 2020. This is despite Shippers facing the commercial risks associated with such flows being made against a short-term Interruptible capacity product provided by NGG. To date no "firm" Exit capacity has been offered by NGG.

BBLC agrees with Ofgem that there has been no signal for an overall increase in Exit capacity at Bacton and that, therefore, the use of the NGG IP PARCA process to increase the amount of technical capacity at Bacton is inappropriate and, if used without receiving such a signal, would incur unnecessary costs to the UK consumer and BBLC shareholders. BBLC therefore also agrees that this is not a suitable route forward and that the focus at Bacton should be on the efficient use of the available Licence Baseline Exit capacity.

BBLC notes the arrangements that were put in place in 2015 for the provision of Entry capacity at Bacton, including the aggregation of Entry capacity across both IUK and BBL interconnectors, and the introduction of competing auctions. It also notes the historic reasons why such arrangements were not similarly introduced for the provision of Bacton IP Exit capacity at that time.

BBLC also notes Ofgem's confirmation that the Entry arrangements in place at the Bacton Interconnector Points (IPs) are necessarily different to those applying at other network Entry points due, at least in part, to the EU CAM Network Code obligations only applying to IPs. As

[1] https://www.ofgem.gov.uk/system/files/docs/2019/12/bblc_response.pdf

such, BBLC considers that it would be appropriate to apply different Exit arrangements at IPs, than at other network Exit points, where such differences, i.e. aggregation of Exit points and introduction of competing auctions for Exit capacity, are also in response to conditions contained within the EU CAM Network Code.

As detailed within Ofgem's consultation document the position at Bacton has changed significantly since 2015 with the introduction of PRF on the BBL pipeline and the reduction in the level of sold, and utilised, Exit capacity at Bacton (IUK). BBLC therefore agrees with Ofgem that the current situation provides the opportunity to meet the requirements of BBLC's customers for access to Exit capacity at Bacton without significantly impacting on IUK Shippers.

BBLC notes the pre-dominantly positive responses to Ofgem's Call for Evidence document and particularly those of Shippers indicating their strong interest in booking Exit capacity at Bacton (BBL) with preference for both firm and interruptible Exit capacity products. BBLC agrees with these Shippers that the provision of firm capacity products at Bacton (BBL) would provide more certainty on capacity availability, a more standardised booking process via the PRISMA platform and would therefore also promote more effective competition between Shippers wishing to offtake gas at Bacton. BBLC therefore agrees with Ofgem that there are considerable potential competition benefits in facilitating wider market access to the existing Exit capacity at Bacton.

BBLC agrees that all the options detailed in Ofgem's consultation document should impose zero or negligible additional industry costs as, in the case of options two and three, the existing system and processes in place for the provision of IP Entry capacity can similarly be used for Exit capacity.

Reasons why BBLC believes that Option Two is preferable to the other options proposed

BBLC believes that the status quo Option One: "**Do nothing"** does not resolve the issues raised, does not facilitate effective competition between Shippers or between interconnector operators and as such it should be rejected.

Of the two remaining options BBLC agrees that Option Three: "**Reallocating existing Licence Baseline Exit Capacity at Bacton (IUK) to Bacton (BBL)**" would address some of the issues raised, i.e., provision of firm Licence Baseline Entry capacity at Bacton (BBL). However, BBLC agrees with Ofgem that this option is sub-optimal, when compared with Option Two because it does not meet the policy objectives set out in Ofgem's Impact Assessment document. BBLC also considers that this option is not consistent with the arrangements put in place for Entry capacity at the Bacton IPs and does not promote competition as effectively as Option Two.

In contrast BBLC considers that Option Two "**Aggregating Bacton (IUK) and Bacton (BBL) IPs at exit into one**" is preferable because it best aligns with Ofgem's stated policy objectives, improves security of supply in both UK and NL markets, is consistent with the EU CAM Network Code and protects the interest of GB end consumers through promoting more liquid markets and through the potential return of incremental revenue recovered by NGG. Also, when coupled with competing auctions, this option better promotes competition between shippers and between IP operators. BBLC therefore supports Ofgem's position that Option Two is the preferred option.

Appendix One to this letter provides BBLC's responses to the questions set out in Ofgem's Consultation document.

Yours sincerely

Jasper Stevens
Regulatory affairs

Appendix One

BBLC's responses to the questions raised in Ofgem's Consultation document:

Question One - Do you have any views on the three options we are consulting on?

Option One: "Do Nothing".

In its Call for Evidence document published in July 2019[2], and this Consultation document with its accompanying Impact Assessment, Ofgem has highlighted a number of issues, relating to the provision of NGG Firm Exit capacity at the Bacton IP, which require addressing. BBLC agrees that Option One, the status quo, does not resolve these issues or achieve the policy objectives outlined by Ofgem and, therefore, it should be rejected.

Option Two: "Aggregating Bacton (IUK) and Bacton (BBL) IPs at exit into one".

BBLC agrees that Option Two is the preferred option. This option reflects the arrangements in place for the provision of NGG NTS IP Licence Baseline Entry Capacity, at the same network point, that were introduced in 2015. It provides for consistent treatment of IP Entry and Exit capacity provision and would therefore be consistent with the EU CAM Network Code requirements that apply at such network points. It would also simplify the arrangements for Shippers. BBLC agrees with Ofgem's assumption that the current market-based approaches to allocating, and competing for, IP Entry capacity should be applied equally to this proposed aggregated capacity, including the provision of "competing auctions", which are currently described in the UNC as "competing capacity".

This option would also enable BBLC and NGG to match and bundle a full range of Exit capacity products and allow market forces to dictate the nature of flows between the UK and the key gas trading hubs in Europe. For Shippers this option facilitates maximum choice, flexibility and opportunity for competition, whilst GB consumers would benefit from the return of the incremental NGG transportation revenues resulting from the increased utilisation of NGG's network as indicated in BBLC response to Ofgem's Call for Evidence document.

[2] https://www.ofgem.gov.uk/publications-and-updates/call-evidence-change-existing-arrangements-accessing-licence-baseline-exit-capacity-national-transmission-system-bacton-interconnection-point

Option Three: Reallocating existing Licence Baseline Exit Capacity at Bacton (IUK) to Bacton (BBL).

BBLC agrees that this option would provide Shippers wishing to use the BBL pipeline with access to firm NTS Exit capacity and would therefore resolve one of the main issues facing them at Bacton. However, this option would also result in a reduction in the amount of Exit capacity, available to Shippers wishing to use the IUK pipeline, below what is available to them today. BBLC therefore agrees with Ofgem that this option is sub-optimal when compared with Option Two.

Option Three would also not facilitate competition between the two interconnector operators and nor would it facilitate fair and equal access for BBL and IUK Shippers on peak demand days when compared with Option Two. BBLC agrees that such an arrangement would also result in a significant reduction in the amount of Licence Baseline Exit Capacity made available to IUK Shippers thus reopening the question of matching technical capacity as identified in Ofgem's Consultation document.

In summary, BBLC supports Ofgem's view that Option Two is the most appropriate way forward. BBLC agrees that this option strikes the best balance by allowing fair and competitive access to the available IP Exit capacity at Bacton whilst still retaining the availability of the current Licence Baselines Exit Capacity amount at IUK. This option is also consistent with arrangements already in place for Entry capacity at the same interconnection point. BBLC considers that this option best meets the policy objectives outlined in Ofgem's Consultation document and in particular the promotion of competition, equal access to transmission capacity and efficient use of the existing Bacton Licence Baseline Exit capacity.

Question Two – Should we have considered any other options to better utilise the existing exit capacity?

BBLC believes that Ofgem's consultation document includes the relevant options available for using the existing Exit capacity at the Bacton IP, although, as stated in our response to Question One above, BBLC considers that the status quo Option One does not resolve the issues raised and should therefore be rejected.

BBLC agrees with Ofgem that the option of resolving the issues identified through requesting the construction of incremental capacity via the IP PARCA application process is not appropriate given the lack of market signals from network users for an increase in Exit capacity at the Bacton IP. BBLC agrees that incurring such costs without clear long-term market signals and User commitments would be inappropriate and would potentially leave GB consumers with additional costs. BBLC agrees, therefore, that that the focus at Bacton should be on the

promoting, and facilitating, the efficient use of the existing Licence Baseline Exit capacity and not whether extra capacity should be provided.

Question Three: Is our approach to assessing the costs, risks and benefits of the three options suitable? Are there any additional factors that we should build into our assessment?

BBLC agrees that Ofgem's approach to assessing the costs, risks and benefits is appropriate.

BBLC also agrees that the costs of implementing either Option Two or Option Three would be negligible when compared with the "Do Nothing" option. IT systems and processes for the provision of, and competition for, IP capacity via the PRISMA platform are already in place. Therefore, BBLC also believes that the changes outlined in Options Two and Three would be administrative in nature and could be implemented with minimal lead-time.

BBLC believes Ofgem is right to identify the increase in the level of security of supply risk in GB resulting from the recent closure of the Rough gas storage facility. It is also correct that both Option Two and Option Three would mitigate this risk by improving GB Shipper access to the large amount of seasonal storage in the Netherlands. Likewise, both Options Two and Three would improve security of supply in the Netherlands as the Groningen gas field comes to the end of its production life.

As noted by Ofgem in its Consultation document, BBLC has previously provided both quantative and qualitative data on potential Shipper interest in purchasing firm Exit capacity products at Bacton (BBL) and the potential for additional National Grid transportation revenue benefits of allowing BBL Shippers to access NTS Exit capacity at Bacton[3]. BBLC also notes that data from NGG's "Prevailing View" website[4] shows that there has been significant utilisation of physical reverse flow on the BBL pipeline during October and December 2019. BBLC considers that this is further quantative evidence of Shipper demand for Bacton (BBL) PRF capacity products and for such products to be matched by NGG.

BBLC agrees that the monetary benefit of allowing wider, competitive, market-based access to Exit capacity at the Bacton IP is dependent on future market conditions, i.e. the price spread between the NBP and TTF market hubs, and GB market demand for additional seasonal storage. BBLC also agrees that, in line with the historic example provided previously by BBLC, there will be times in the future where NBP-TTF price spreads will incentivise flows via the BBL pipeline rather than IUK. BBLC supports the view expressed by its customers that the current

[3] https://www.ofgem.gov.uk/system/files/docs/2019/12/bblc_response.pdf

[4] https://mip-prod-web.azurewebsites.net/PrevailingViewGraph/ViewReport?prevailingViewGraph=ActualDemandGraph&gasDate=2019-12-16

limitation of having to rely on the release of short-term interruptible capacity by NGG is limiting the potential trading opportunities between the GB and Netherlands markets and, as such, is constraining the utilisation of NGG's network. This constraint is reducing the amount of transportation related revenue that NGG could receive and subsequently return to other network Users through a general reduction in transportation charges and as such is reducing the benefit to GB end consumers.

BBLC does not consider that there are any additional factors to consider in Ofgem's assessment.

Question Four: Do you have any views on the specific qualitative analysis published in our Impact Assessment?

BBLC notes that the majority of responses to Ofgem's associated Call for Evidence document were supportive of changing the current Exit capacity arrangements at the Bacton IP. This concurs with the responses received by BBLC to its customer consultation completed in 2019. BBLC agrees that Ofgem is right to focus its Impact Assessment on the efficient use of the existing Bacton Licence Baseline Exit Capacity and that the IP PARCA process is not relevant to the current issues that need resolving. BBLC also agrees with the nature, and output, of the qualitative analysis contained in the Impact Assessment.

BBLC agrees that Ofgem's analysis of the historic level of utilisation of Bacton IP Exit capacity shows that there is sufficient existing Exit capacity available to meet both IUK and BBL Shippers demands on the vast majority of days. BBLC notes that under either Option Two or Option Three IUK would continue to have unfettered access to 73% of Bacton Exit capacity as BBLC's reverse flow capacity is limited to 7GWh/h.

Question Five: Are you in agreement with our preferred option and our minded to decision?

BBLC agrees that there are clear competition and cross-border trading benefits for Option Two and Option Three over the status quo "Do Nothing" Option One.

As stated in response to Question One above, BBLC believes that Option Two is preferable to Option Three as it better meets the policy objectives set out Ofgem's Impact Assessment particularly objectives and principles relating to competitive arrangements between Shippers and between IPs, cross-border trading, protecting the interest of end consumers and providing transparent, efficient and non-discriminatory access to transmission capacity and compliance with EU legislation.

Question Six – Is there any other relevant information we should consider before taking forward a change?

In addition to the Exit capacity demand information provided to BBLC as part of its customer consultation in 2019, the introduction of physical reverse flows on the BBL pipeline has resulted in Shipper Exit flows through the BBL pipeline since October of this year. This is the result of Shippers purchasing short term interruptible capacity from NGG.

The graph included in Appendix Two details the 'reverse flow' (GB to Netherlands) capacity bookings on the BBL pipeline between October 2019 and the end of January 2020. In BBLC's opinion such bookings reaffirm Shipper demand for cross-border capacity between GB and the Netherlands. BBLC customers have previously indicated to BBLC that such bookings would have been higher if firm NTS Exit capacity had been available as such availability would have removed the commercial trading risk associated with capacity interruption.

BBLC agrees with Ofgem's assumption that market-based approaches to allocating capacity between the two Bacton interconnectors should be used if Option Two is taken forward and that the UNC should also be amended to extend competing auctions to include Bacton IP Exit capacity. BBLC also agrees that this UNC change process should be industry led.

Appendix Two

BBL Pipeline Reverse Flow Capacity Bookings