

National Grid Gas Plc, all those with an
interest in capacity on the gas
transmission system

Email:

Gas.TransmissionResponse@ofgem.gov.uk

Date: 15 July 2021

Dear Colleagues,

Statutory Consultation on the proposed combining of two existing exit points in National Grid Gas Plc (NTS) Gas Transporter Licence

Following our Call for Evidence (CfE)¹, Minded-to-Consultation (MTC)², and Initial Impact Assessment (IA)³, we⁴ are today publishing the Final IA, and statutory consultation notice proposing to modify Special Condition 9.13, Part E: Zero Licence Baseline entry and exit capacity points, Appendix 2 of National Grid Gas Plc (NGG) Gas Transporter Licence (the "licence").⁵

Part E of Special Condition 9.13 of the licence is concerned with Non-incremental Obligated Exit Capacity. The modification proposes to replace "Bacton (IUK)" Aggregated System Entry point ("ASEP") and "Bacton (BBL)" ASEP with a new exit point, Bacton (exit) Interconnection Point (IP) ("Bacton (exit) IP") in Appendix 2 (Licence Baseline Exit Capacity), in Part E of Special Condition 9.13. The licence baseline capacity for the combined exit point (Bacton IP) will be 651.68 GWh/day.

¹ Call for Evidence ("CfE") – <https://www.ofgem.gov.uk/publications/call-evidence-change-existing-arrangements-accessing-licence-baseline-exit-capacity-national-transmission-system-bacton-interconnection-point>

² <https://www.ofgem.gov.uk/publications-and-updates/initial-impact-assessment-and-minded-position-arrangements-accessing-licence-baseline-exit-capacity-bacton-interconnection-point>, Summary of stakeholder views is in Appendix 1 – Stakeholder Views of the Final IA published alongside this consultation), Option 2 (Aggregating the two points) was selected as the best option.

³ Initial Impact Assessment on Arrangements at Bacton Exit (ofgem.gov.uk) – https://www.ofgem.gov.uk/sites/default/files/docs/2019/12/impact_assessment_0.pdf

⁴ The terms "we", "us" and "our" and "the Authority" are used to refer to the Gas and Electricity Markets Authority.

⁵ National Grid Gas PLC (NTS), Gas Transporter Licence, Special Conditions.
<https://epr.ofgem.gov.uk/Content/Documents/National%20Grid%20Gas%20Plc%20-%20Special%20Conditions%20Consolidated%20-%20Current%20Version.pdf>

Background

In summary:

- In 2018 the long-term contracts IUK had on exit at Bacton expired.
- Since then IUK are entitled to 651.68 GWh/day and BBLC entitled to 0 GWh/day obligated firm capacity at Bacton as per Appendix 2 of NGG's licence.
- Since October 2018, there has been a fall in booked capacity volumes resulting in Licence Baseline Exit Capacity at Bacton (IUK) being unsold.
- BBLC have requested that Ofgem also allow them access to the firm obligated capacity.
- We are looking to maximise efficient use of capacity and promote fair market competition at an underutilised point.

For more information see Section 1 of the Initial IA⁶, Section 2 of the MTC⁷ and Section 3 of the Final IA.

Our Final Impact Assessment is published as a subsidiary document to this consultation. We have updated our Initial IA with the information and responses received in the consultation phase⁸. We have also updated it to take account of information and data we received since we consulted: evidence from the experience of NGG making available interruptible (off-peak) capacity to BBLC Shippers. All responses to the consultation and other representations were carefully considered and taken into account in reaching our decision. The estimated annual benefits to GB and European consumers, Shippers and other parties have been revised and are higher than in the Initial Impact Assessment. The new results are set out in the section titled "Monetised benefits". We now estimate the potential annual benefit of Option 2 to GB and European consumers and other parties to be in the range of £0.9m-£1.4m a year. We also estimate that BBLC Shippers will gain approx. £6.9m a year (Final IA, Section 5).

Options Considered

We are grateful for industry's engagement on the matter, including suggesting alternative options in response to the MTC and Initial IA. Each option proposed was considered and assessed before a decision was taken on (i) whether or not we considered it to be a viable

⁶ Initial Impact Assessment on Arrangements at Bacton Exit (ofgem.gov.uk) – (https://www.ofgem.gov.uk/sites/default/files/docs/2019/12/impact_assessment_0.pdf)

⁷ <https://www.ofgem.gov.uk/publications-and-updates/initial-impact-assessment-and-minded-position-arrangements-accessing-licence-baseline-exit-capacity-bacton-interconnection-point>

⁸ Call for Evidence ("CfE"), Summary of stakeholder views is in Appendix 1 – Stakeholder Views of the Final IA published alongside this consultation), Option 2 (Aggregating the two points) was selected as the best option.

alternative (to resolve the problem as we see it) to the MTC options and (ii) whether the proposed option should be taken forward and assessed in more detail in the Final Impact Assessment.

Our Final Impact assessment addresses the three policy options (see Appendix 1) which were considered in our Minded-to-consultation ("MTC")⁹ and Initial IA¹⁰:

- Option 1: 'Do nothing' to maintain the status quo. NGG is obliged to offer 651.68 GWh/day (~60 mcm/day) of Licence Baseline Exit Capacity at Bacton (IUK) and 0 GWh/day at Bacton (BBL).
- Option 2: Aggregating Bacton (IUK) and Bacton (BBL) IPs into a single exit point in NGG's Licence.
- Option 3: Reallocating some of the existing Licence Baseline Exit Capacity at Bacton (IUK) to Bacton (BBL)

In conclusion, our view is that having considered the alternative options suggested and re-reviewed the three options set out above, our decision is that Option 2 best delivers our principal objective of protecting consumers' interests, wherever appropriate by promoting effective competition.

Reason why Option 2 was preferred

Option 2 will result in NGG discharging its obligation to provide an aggregated exit point by treating this capacity as competing capacity. This would make arrangements at Bacton exit competitive and, from a technical perspective would replicate arrangements at other locations on the National Transmission System (NTS) where capacity is contested. Implementing Option 2 would provide equal access to obligated firm capacity for BBLC Shippers and IUK Shippers.

Option 2 would also give BBLC Shippers certainty that capacity on exit would not be scaled back and would help realise further benefits from competition to GB and European consumers.

⁹ <https://www.ofgem.gov.uk/publications-and-updates/initial-impact-assessment-and-minded-position-arrangements-accessing-licence-baseline-exit-capacity-bacton-interconnection-point>

¹⁰ Initial Impact Assessment on Arrangements at Bacton Exit (ofgem.gov.uk) – https://www.ofgem.gov.uk/system/files/docs/2019/12/impact_assessment_0.pdf

Progressing with Option 2 - Combining Bacton (IUK) and Bacton (BBL) IPs in NGG's licence into a single exit point in NGG's Licence, would provide a higher level of market liquidity, which should also help to secure lower wholesale gas prices.

Proposed change to National Grid Gas Plc's Gas Transporter Licence

On 15 July 2021, the Authority (Ofgem) agreed to implement Option 2 (Aggregating the two points in the Licence) concerning the arrangements for accessing Licence Baseline Exit Capacity on the NTS at Bacton Interconnection Point, fully detailed in the Final Impact assessment.¹¹ The Authority requests the two current NTS exit points at Bacton (one for flows through the BBL interconnector, the other through the IUK interconnector) should be combined in NGG's Licence to allow competitive access.

Appendix 2 in Part E of Special Condition 9.13 lists all the National Transmission System (NTS) exit points where exit capacity can be bought by Shippers. NTS exit points must be listed in this table to allow NGG to make baseline exit capacity available to NTS users.

On 25 July 2021, the Authority requested the following replacement to Appendix 2, Part E of Special Condition 9.13 of the licence (text replaced shown as ~~striketrough~~):

NTS Exit Point	Type of Offtake	Baseline capacity (in GWh/d)
Bacton (IUK)	INTERCONNECTOR	651.68
Bacton (BBL)	INTERCONNECTOR	0
Bacton (exit) IP	INTERCONNECTOR	651.68

The additional costs of the proposed change to the licence will be negligible when compared to the existing arrangement (Option 1 - do nothing). Combining the two points in the Licence does not increase the total Licence Baseline Exit Capacity at Bacton exit, therefore, there will likely only be a proportional transfer of interconnector operational costs from one party to another party. A revised version of Appendix 2 is listed in Appendix 1 of the statutory consultation notice. We welcome the views of stakeholders on the inclusion of this exit point.

Consultation

Please send any views on the issues raised in this letter and the accompanying statutory

consultation notice before or on 23 August 2021 to:

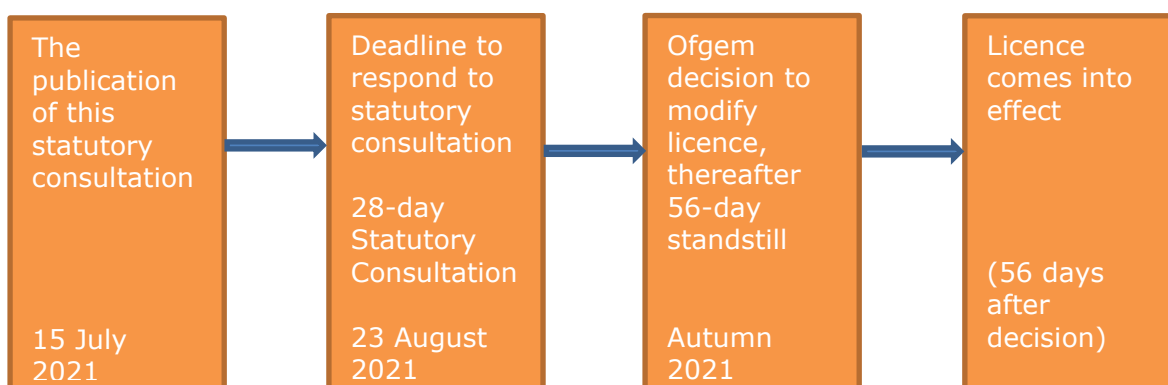
Gas.TransmissionResponse@ofgem.gov.uk.

Any responses to the consultation will be published on our website unless marked as confidential. You can ask for your response to be kept confidential and we will respect this subject to any obligations to disclose information, for example under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

If you would like your responses to be kept confidential, clearly mark your documentation to that effect and include the reasons for confidentiality.

Next Steps

The next steps to follow are:



If you have any questions regarding this letter or the statutory consultation, please contact the team by using the email address above.

Yours sincerely,

David O'Neill

Head of Gas Markets and Systems

For and on behalf of the Gas and Electricity Markets Authority

Appendix 1

Related Documents

- Initial Impact Assessment on Arrangements at Bacton Exit (ofgem.gov.uk) - https://www.ofgem.gov.uk/system/files/docs/2019/12/impact_assessment_0.pdf
- Consultation on the proposed change to Existing Arrangements for Accessing Licence Baseline Exit Capacity on the National Transmission System at Bacton Interconnection Point (ofgem.gov.uk) - [Call for Evidence: Change to Existing Arrangements for Accessing Licence Baseline Exit Capacity on the National Transmission System at Bacton Interconnection Point | Ofgem](#)
- Initial impact assessment and minded to position on arrangements for accessing Licence Baseline Exit Capacity at Bacton Interconnection Point | Ofgem - <https://www.ofgem.gov.uk/publications/initial-impact-assessment-and-minded-position-arrangements-accessing-licence-baseline-exit-capacity-bacton-interconnection-point>
- National Grid Gas Plc - Special Conditions Consolidated - Current Version.pdf (ofgem.gov.uk) - <https://epr.ofgem.gov.uk/Content/Documents/National%20Grid%20Gas%20Plc%20-%20Special%20Conditions%20Consolidated%20-%20Current%20Version.pdf>
- Statutory Consultation Notice published alongside this consultation
- Final Impact Assessment published alongside this consultation