

London, 10th February 2020

**RE: Ofgem's Consultation on the proposed change to Existing Arrangements for Accessing Licence Baseline Exit Capacity on the National Transmission System at Bacton Interconnection Point**

Dear Tom,

Thank you for the further opportunity to provide our views on the proposed changes to baseline capacity at Bacton. This response represents the view of the Centrica group. It is non-confidential and can be published on Ofgem's website.

**Question 1 - Do you have any views on the three options Ofgem are consulting on?**

Centrica supports option 2, Ofgem's 'minded-to' decision, of combining the two NTS exit points. Combining the two NTS exit points and allowing competitive access to the exit capacity will lead to efficient price discovery, as both interconnector providers compete to innovate on product and price to attract shippers. Customers will book either BBL or IUK capacity and then source exit capacity accordingly. The fungibility of exit capacity means the interconnector service selling last will have to use non-obligated exit capacity – i.e. market forces determine which interconnector provider has the weaker product with non-firm exit capacity, not historical first mover advantage.

We do not support option 1 of doing nothing. If the current situation were to remain, existing firm NTS capacity at Bacton will remain dedicated to shippers that want to flow gas from GB to the Belgian market. This not only restricts shipper choice, and therefore would result in sub-optimal trading, but it would also remove possible incentives on IUK to provide more cost-effective access to its interconnector. It is worth noting that based on declared sold capacity from both interconnectors across s20, BBL reverse capacity has outsold IUK forward flow capacity. A 'do nothing' option unnecessarily distorts competition through a suboptimal allocation of exit capacity with undue risk on BBL shippers having to access non-obligated exit capacity. Providing competition for existing firm NTS exit capacity at Bacton will encourage competition between the two interconnectors resulting in more attractive marketing propositions. As a result, greater competition in gas shipping would be encouraged.

Whilst option 3 of reallocating existing licence baseline exit capacity at Bacton (IUK) to Bacton (BBL) would be preferable to doing nothing, we believe it is sub-optimal compared to option 2. This is primarily because it 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 2. It would also be difficult to determine how much capacity should be allocated to the two interconnectors. Any decision on how much to allocate to each would be to a large extent subjective and would not be dynamic and therefore adaptable to any technical changes or long-term changes in demand for IUK or BBL services.

Despite our support for option 2, if congestion does arise at Bacton, this solution should be reviewed to ensure no unintended consequences have arisen (e.g. shippers are left with stranded capacity) and revised if deemed necessary.

## **Question 2 – Should we have considered any other options to better utilise the existing Exit capacity?**

We believe that Ofgem's consultation includes the relevant options available for using the existing Exit capacity at the Bacton IP.

We would however, reiterate the point that we made in Ofgem's call for evidence that it is essential with this structure that the exit conditions with NGG for BBL and IUK are of a direct equivalence. E.g. IUK should not be charged by NGG for pressure services at Bacton if an equivalent charge is not placed on BBL.

Centrica agrees with Ofgem that the issues identified through requesting the construction of incremental capacity via the PARCA process would not be appropriate given the lack of market signals for an increase in Exit capacity at the Bacton IP and the long lead times associated with the PARCA process. There is no clear long-term market signal and User commitment for additional capacity and therefore the issue should be resolved through the efficient use of the existing exit capacity.

## **Question 3 – 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?**

We broadly agree with Ofgem's assessment. E.g. implementing options 2 and 3 would be largely administrative in nature and could be implemented with minimal lead-time. This is because the IS systems and processes for the provision and sale of IP capacity are already in place via the PRISMA platform.

The key benefit we perceive is that improved competition and optionality to trade at Bacton IP should result in more efficient gas flows and more liquidity at the NBP. A higher level of market liquidity should help to secure or lower wholesale gas prices and these benefits will flow through to consumers. Benefits to the security of gas supply can also be anticipated (e.g. by attracting more LNG to the GB market) that will also be good for consumers. By improving market conditions, new opportunities should arise for Shipper Users as the economic attractiveness of gas as a commodity grows among consumers. Shipper Users would also be able to more actively engage in flowing gas to the Netherlands thus providing them a new option for optimising gas resources, including using the substantial storage facilities in the Netherlands. This is therefore consistent with wider European aims of improving conditions for trading gas in NW Europe, supporting the development of an internal gas market and providing an overall more efficient marketplace.

## **Question 4 – Do you have any views on the specific qualitative analysis published in our Impact Assessment?**

We note that the majority of responses to Ofgem's Call for Evidence support changing the current arrangements to provide firm Exit capacity at Bacton BBL and therefore there is a clear mandate for change in this area. As noted above, we believe that the key benefits will come from improved competition and optionality to trade at Bacton IP which will then facilitate liquidity and security of supply. We also agree with the potential benefit of lower tariffs, i.e. that the additional revenue recovered at Bacton exit point due to higher expected capacity sales would result in NGG reducing tariffs elsewhere. However, we believe the effect will be marginal due to the relatively small expected extra revenues at Bacton exit point when compared to the total amount NGG recovers on exit.

**Question 5 – Are you in agreement with our preferred option and our minded to decision?**

Yes, as per our answer to question 1.

**Question 6 – Is there any other relevant information we should consider before taking forward a change?**

We have no further comments.

We hope you will find this response helpful. If there are any of the points raised in this response that you would like to discuss feel free to contact me at [ricky.hill@centrica.com](mailto:ricky.hill@centrica.com).

Yours sincerely,

Ricky Hill  
Senior Regulatory Manager, Wholesale Gas and Energy Trading Regulation  
Centrica Legal & Regulatory Affairs