

The Office of Gas and Electricity Markets
Mr. Tom Corcut
Deputy Director of Wholesale Markets
Wholesale Markets Systems & Networks
10 South Colonnade
Canary Wharf
London E14 4PU

Express

Your message dated	Your reference	Our reference	Date
		LFA/NBA 2020-006	11 February 2020

Append(ix)(es)

1

**Subject Consultation on the proposed change to Existing Arrangements for Accessing Licence
Baseline Exit Capacity on the National Transmission System (NTS) at Bacton
Interconnection Point**

Dear Mr. Corcut,

We refer to your consultation dated 9 December 2019 seeking views regarding whether or not existing arrangements at the NTS Bacton Interconnection Points (IPs) need modification, and to our response to your earlier Call for Evidence (CFE).

Fluxys Belgium is the Belgian national Transmission System Operator (TSO). Its network links to the GB market via Interconnector IUK (IUK) at the Interconnector Zeebrugge Terminal (IZT IP). The IZT IP has been both an important Entry and Exit point in the evolution of the Belgium gas market. Close cooperation with National Grid and Interconnector IUK has facilitated cross border trade and safeguarded security of supply for the mutual benefit of consumers in both GB and Belgium.

We believe that enabling the new BBL export connection should not be at the expense of degrading this existing GB to BE capacity connection given it continues to benefit both GB and Belgium consumers. The technical capacities of National Grid Bacton (IUK) Exit, IUK (Entry and Exit) and Fluxys Belgium (IZT) Entry are fully matched since the commissioning of IUK, likewise in the other direction from Belgium to GB. Indeed Fluxys Belgium has invested in the development of respectively downstream and upstream connections to harmonize the capacity offer. In the meantime this coordinated maximisation of capacity remains consistent with obligations under CAM

Fluxys Belgium SA
Avenue des Arts 31
B-1040 Brussels
Phone +32 (0)2 282 72 11
Fax +32 (0)2 230 02 39
www.fluxys.com/belgium
VAT BE 0402 954 628
RPR Brussels
BNPP Fortis 001-3639537-76
IBAN BE91 0013 6395 3776
BIC GEBABEBB

Article 6¹ and EU Security of Supply Regulation (SoS)², protecting the interests of both GB and Belgian consumers. The capacity across this route is booked and used at peak times and this trend has continued beyond the expiration of IUK's long term contracts.

It is our view that option 2 and option 3 are not compliant with European obligations. The CAM and SoS have clear processes outlined for TSOs to release additional capacity at interconnections points. It is important that these rules are respected. In the same way we note no firm market demand commitment has been received to increase capacity at the NTS Bacton (Exit point) in the recent demand assessment process during summer 2019, nor in Ofgem's call for evidence (CFE)³. Without such signal and a positive economic test it remains unclear why the Ofgem's intervention is needed.

Fluxys Belgium's response to Ofgem's CFE noted that as IUK is a single pipeline TSO, operating on an "in equals out" basis, any changes to the technical or commercial arrangements at Bacton, would have a direct and equivalent effect on Fluxys Belgium at the IZT IP. In particular reducing the technical or commercial capacity at Bacton, would harm cross border trade and have potential security of supply consequences for Belgium. Ofgem's minded to position and option 3 in this consultation would have a detrimental impact on Belgian consumers. These options would harm the liquidity of the Belgian market and the potential for Fluxys Belgium to sell capacity at the IZT IP. As an example, the uncertainty on the outcome of the competing auctions at Bacton would deter market players to take part in the capacity auction at the IUK/Fluxys Belgium IZT IP. This consequently may lead to higher tariffs elsewhere on the Belgian network.

Therefore we ask Ofgem to consider, both in the consultation and in the impact assessment, the negative impact on Fluxys Belgium and Belgian consumers. It is imperative that a proper and full assessment is done in coordination with the Belgian regulatory and governmental authorities.

We are confident that solutions can be found to enable additional capacity to be made available at the NTS Bacton (BBL) Exit point, which is not at the detriment of the existing capacity offering at the NTS Bacton (IUK) Exit point. We suggest that Ofgem considers NC CAM compliant options to expand the offer of capacity via mechanisms

f

¹ Commission Regulation (EU) 2017/459 of 16 March 2017 establishing a network code on capacity allocation mechanisms in gas transmission systems and repealing Regulation (EU) No 984/2013.


² Regulation (EU) 2017/1938 of the European Parliament and of the Council of 25 October 2017 concerning measures to safeguard the security of gas supply and repealing Regulation (EU) No 994/2010.

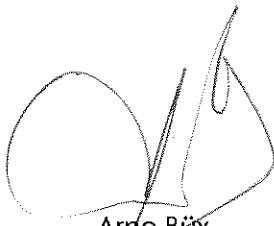
³ Ofgem Call for Evidence: Change to Existing Arrangements for Accessing Licence Baseline Exit Capacity on the National Transmission System at Bacton Interconnection Point published 26th July 2019 https://www.ofgem.gov.uk/system/files/docs/2019/07/20190726_call_for_evidence_-_bacton_exit.pdf

Our reference LFA/NBA
2020-006
Page 3

such as oversubscription/buyback (as already used in several European countries) and improving the dynamic calculation of capacity. Such options can further introduce competition through the provision of additional capacity in a compliant way, whilst not degrading existing and future cross border trading capability. We suggest to evaluate further these options.

We outline in Annex 1 our views on the specific questions asked in the consultation. If you have any questions on our response please do not hesitate to contact us. A copy of this letter is also sent to the Belgian Regulator (CREG) and to the Belgian Federal Public Service of Economy, who is responsible for ensuring the security of supply in the Belgium gas market.

 Yours faithfully,



Arno Bux
Member of the Executive Board
Chief Commercial Officer



Pascal De Buck
Chairman of the Executive Board
Chief Executive Officer

Fluxys BE response to Ofgem's consultation questions

Question 1: Do you have any views on the three options we are consulting on?

We note that the draft IA has no quantitative assessment, no assessment against compliance with the relevant national and EU legislation and no consideration of the impact on BE consumers and the BE market. A proper assessment needs to be completed.

Option 1: Maintaining the Status quo

We understand NG has enabled GB export via BBL since BBL's reverse flow project became operational. The provision of non obligated capacity is consistent with NG's capacity release methodology and regulation. BBL has consequently been able sell a large quantity of its GB export capacity. In a market increasing moving to short term bookings, the current arrangements already provide a significant degree of competition between the two GB export pipeline routes to the continent.

We consider Option 1 as legally and regulatory compliant option, and an effective one to enable UK exports via BBL, without degrading or reducing the capacity offering at other exit points.

As noted in our response to question 2, there are ways in which the offer of existing NTS network capacity can further be improved..

Option 2: Aggregating Bacton NTS (IUK) and Bacton NTS (BBL) exit into one

Since this aggregation would be done at the expense of IUK and, through IUK, of Fluxys Belgium, we consider that this option does not comply with the CAM code and EU SoS Regulation. As far as we know, NG has received no market signal to make available additional capacity at the NTS (BBL) exit point which option 2 effectively does by sharing the capacity currently made available at the NTS Bacton (IUK) exit point. NG itself has noted the requirement for a positive market demand signal in its CFE response.

Additionally option 2 would create a technical mismatch in contradiction to the obligation in Article 6 of the CAM code. This would be inconsistent with arrangements at the NTS Bacton entry side where the technical capacity of both IUK and BBL is matched with NTS Bacton entry capacity. Indeed Fluxys Belgium invested in the development of its system and the related connections to harmonize the capacity offer. We note when implementing CAM, the matching of the technical capacity of the interconnectors was deemed necessary to comply with Article 6 of the CAM

code. A proposal to merge the two NTS Bacton exit points would logically therefore require the allocated capacity to also increase by 168 GWh/d, which option 2 does not do.

It was observed by IUK, NG and Fluxys Belgium in their CFE responses that the current capacity allocation is booked and utilised at peak times. Competing auctions are therefore likely to be continually triggered due to the technically mismatched exit capacity in periods of high demand. A negative consequence for making this capacity scarce at peak times is that capacity prices for imports into Belgium will be driven higher in the auctions. Consumers in the Belgian market will ultimately incur higher charges through additional costs passed through by shippers.

Competing auctions for technically mismatched capacity at Bacton exit could also potentially sterilise over a quarter of Fluxys Belgium IZT IP capacity in addition to IUK capacity, reducing import capacity into Belgium. As we noted, IUK operates on an *in equal out* regime. It is not a hub itself and the capacity situation at Bacton IP impacts IZT IP. CAM requires capacity to be simultaneously offered at all IP. If shippers are uncertain about getting NG/IUK capacity at Bacton they are not likely to participate in either auction. This will negatively impact Fluxys Belgium's commercial prospects, as well the cross-border trade into Belgium.

The impact on the Belgian market and its consumers need to be considered. There has been no assessment in the draft IA of the financial impact to IUK or Fluxys Belgium under this option. Under this option, Fluxys Belgium could also lose potential revenues of up to 3 mio€/y from the sterilisation of 168GWh/d of IZT entry capacity. This impacts Belgian consumers directly as tariffs on other parts of the Belgian network are likely to increase to compensate for this loss.

Furthermore, this option, as we understand it, would give BBL access to Bacton NTS capacity almost 4 times its technical capacity. It is unclear to us whether the proposal would enable BBL to increase its technical capacity in the future with immediate access to all the 651.7GWh/d of Bacton exit capacity. The risks of greater scarcity at peak times from competing for 50%, 75% or even 100% of available NTS Bacton exit would have a significant impact on import supplies into the Belgian market, with even worse harm to Belgian consumer and Belgium SoS.

Option 3: Reallocating existing Licence Baseline Exit Capacity at Bacton (IUK) to Bacton (BBL)



Option 3 is inconsistent and not compliant with European obligations (the CAM code Article 6, EU SoS regulations). NG has received no market signal to allocate additional capacity to the NTS Bacton (BBL) exit point which is the trigger for it to consider possible options to meet that positive economic signal. There is no justification therefore to consider moving capacity away from the NTS Bacton (IUK) exit point to the NTS Bacton (BBL) exit point.

Removing capacity from the NTS Bacton (IUK) exit point would furthermore create a technical mismatch with IUK's Bacton capacity and consequently have a knock on impact on Fluxys Belgium. It removes 168GWh/d (c. 25%) of IUK capacity at Bacton and at the IZT IP, impacting Fluxys Belgium too. This reduces cross border capacity and creates an inconsistency with arrangements on the NTS Bacton entry side where the technically capacity of both IUK and BBL is matched with NG.

The NTS Bacton (IUK) exit capacity and across this route is booked and used at peak times and this trend has continued beyond the expiration of IUK's long term contracts. Ofgem notes "the difficulty of forecasting future utilisation of Licence Base Exit Capacity at Bacton"⁴ so it cannot suggest this capacity is no longer required for GB exports to the Belgian market.

Under this option, we would expect an assessment of the financial impact to IUK and Fluxys Belgium including a consideration of the impact on the Belgian market and Belgian consumers. We have noted earlier that IUK is not a hub itself and operates in=out. Sterilising capacity at Bacton, sterilises it at IZT IP. Under this option for Fluxys Belgium the potential loss of revenue of up to 3 mio€/y from the removal of 168GWh/d of capacity would impact Belgian consumers as tariffs on other parts of the Belgian network would increase to compensate for this loss. We are also concerned that the impact on IUK may call into question the sustainability of the pipeline going forward, with consequential effects on the Belgian market and Belgium SoS.

Question 2: Should we have considered any other options to better utilise the existing exit capacity?

There are additional options that should be considered. These options can meet the objective of making available more capacity to the NTS Bacton (BBL) exit point, not degrade existing GB to Belgium capacity and also comply with legal obligations:

a) Expand the offer of firm non-obligated capacity products:. This option can explore how to improve the offering of longer NTS capacity durations at the NTS Bacton (BBL) exit point.

7

⁴ See paragraph 4.5 of the Ofgem consultation.

b) Improving the dynamic calculation of available NTS capacity: The calculation of available capacity dynamically is an obligation under the CAM code⁵. Can this be done?

c) Use oversubscription and buy back (OSBB): This mechanism is an effective mechanism to deal with capacity congestion. It could also be used to deal with mismatched capacity at the NTS Bacton BBL point. It can enable the offer of longer term products, with network users having the reassurance they will be kept whole in the event no capacity can be provided. The expansion of OSBB is being considered currently, for example, in Germany to deal with physical constraints ⁶ when merging the Gaspool and NCG market areas.

d) Increasing the baseline capacity by additional technical capacity is an option which has not been considered from the IA.. The pros and cons of this option should be made clear to stakeholders so they can understand its merits compared to other options.

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?

The Ofgem initiative proposes material changes to the current arrangements, with a number of potentially damaging consequences. It is important therefore that Ofgem does a robust assessment which is not evidenced thus far in the draft IA. This includes the need for a cost benefit analysis of all the options with a quantitative assessment. It is important also for an assessment of compliance with existing arrangements and European legislation.

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

Yes. We can understand some users have supported options to access obligated capacity at the NTS Bacton BBL exit point, given the non-binding nature of such expression of interest. It provides these users a free option compared to the current arrangements. We note there has been no user committed market demand signal for obligated BBL NTS exit capacity in at least 4 market demand assessment consultations (the 2017 and 2019 market demand assessments, the BBL pre-consultation referred to on page 21 of the consultation and responses to the recent CFE). These are only non-binding expressions of interest. The current arrangements, legal obligations and

⁵ Article 6 of the CAM code.

⁶ See Bundesnetzagentur website and consultation press release:

https://www.bundesnetzagentur.de/SharedDocs/Pressemitteilungen/EN/2019/20190523_KAP.html?nn=404530

historical allocation of capacity all point to allocating capacity only where there is proven market demand in the interest of protecting consumers from inefficient network allocation.

We also caution about making assumptions about the benefits of looking at the historical price spread comparison of NBP – ZTP with NBP-TTF when BBL was doing virtual flows⁷. Virtual flows is a different product with different cost structures. Making assumptions based on the situation when BBL was virtually flowing would exaggerate the expected benefits of increasing obligated capacity at the BBL NTS exit point. Making assumptions based on the forward curve are also not stable given it's a snapshot when looking at the data and spreads change over time. There has also been significant uncertainty about future NTS charges and the new regime will again influence price spreads and interconnector flows.

We believe the benefits of attracting LNG and to security of supply are likely to have been exaggerated. Capacity enhancement in GB is already been requested at Milford Haven⁸. Options 2 and 3 also do not actually increase the technical capacity at Bacton to export LNG gas to the continent. Competing auctions for mismatched capacity at peak times may actually discourage additional LNG from landing in GB and be diverted directly instead to the many continental terminals. This is due to potential higher capacity charges incurred by shippers at these peak times and also due to the uncertainty in acquiring the capacity.

We have noted earlier that there is a lack of analysis on the impact to the Belgian market and its SoS. Both options 2 and 3 can sterilise IUK's Bacton capacity with a direct knock on impact on the IZT exit point and ability to flow into Belgium. The proposals also do not consider the practicality and the damaging consequences on cross-border trade with these competing auctions at peak times creating uncertainty for shippers at Bacton at precisely the same time they are required to bid for IZT IP capacity.

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

No, we believe Ofgem's preferred option is:

- Not compliant and consistent with existing arrangements and legal requirements under the CAM code.
- Not consistent with Bacton entry arrangements where the technical capacity of both interconnectors is matched by the NTS Bacton IP ASEP capacity.

7

⁷ Noting the comment for example in ara 1.64 of the consultation document.

⁸ See National Grid reserving capacity PARCA notifications

<https://www.nationalgridgas.com/connections/reserving-capacity-parca-and-cam>

- Not justified given there has been no binding user commitments indicated.
- Not robustly considered, with the draft IA not being able to quantify any costs and benefits, nor rank it against all viable options, nor provide an assessment of compliance with relevant national and EU legislation.
- Creating regulatory uncertainty which harms rather than protects the interests of consumers. Connections to the network have a legitimate expectation that rules/processes will be respected. If Ofgem facilitates bespoke processes like this one, there is a risk of uncertainty deterring new investment or that connected asset providers may not continue to maintain their assets.

As we indicated above, alternative options exist that are legally compliant, and which enable the offering of additional capacity at the NTS Bacton (BBL) Exit without reducing or degrading the capacity offering at other IPs. We request Ofgem to consider these.

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

The assessment and the decision process should consider:

- The costs and benefits of all the relevant options.
- The compliance of the options against all of Ofgem relevant duties, in particular compliance with the relevant NG capacity methodologies, national and European legislation.
- The potential negative effects of competing auctions and scarce capacity at times of peak demand given the mismatch of technical capacity under options 2 and 3. Ofgem should also consider the impact on the IZT IP which is required to auction capacity simultaneously as with Bacton.
- The negative impact on Belgian consumers, Belgium's security of supply and Fluxys Belgium's commercial prospects (sterilisation of capacity at IZT), in coordination with the Belgian regulatory and governmental authorities.
- The potential to reach the objective in a proportionate and legally compliant way, without damaging the prospects at other connection points, downstream operators and consumers. We have outlined such options in response to question 2.

7