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Dear Robin and Lea,

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

National Grid has a Licence obligation to release firm capacity at each NTS Exit Point. For BBL this amount is 0 and for IUK this amount is 651,676,940 kWh/d.

The established process by which a firm obligation is created or increased at a point is through firm user commitment, and at IPs this would be conducted through the processes described within the EU network code on Capacity Allocation Mechanisms (CAM) and the Planning and Advanced Reservation of Capacity (PARCA) rules. It should be noted that National Grid would not support any net increase to the baseline that is not underpinned by firm user commitment, so that network investment costs are not unduly socialised.

Although there are no long term capacity bookings at IUK, substitution from IUK to BBL would not be permitted under the current Exit Capacity Substitution and Revision Methodology (ExCS) statement which states that technical capacity at an exit IP cannot be reduced to below the technical capacity on the other side of the IP<sup>1</sup>. This is consistent with CAM article 6.

There are no specific rules regarding the application of competing auctions in either CAM or the ExCR. The precedent where there are 2 adjacent TSOs at an IP, established when the CAM code was originally introduced in 2015, was to introduce competing auctions at the combined Interconnection Point<sup>2</sup>. A main difference at that time was that the National Grid technical capacity either matched or exceeded the combined technical capacity of the adjacent TSOs.

We have informed both BBL and Ofgem that were National Grid to receive a firm user commitment signal under the existing process, then this would require investment in our network to allow us to honour the increased obligation. A summary of the analysis underpinning this outlook was previously shared at Transmission Workgroup<sup>3</sup>. However, we note Ofgem's assertion, within the consultation document, that investment would be an inappropriate outcome for consumers in this scenario.

Under this presupposition – that investment would not be a supportable policy option for Ofgem – then we would support in a qualified manner the introduction of competing auctions at an aggregated

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<sup>1</sup> As per paragraph 22 L) of the ExCS.

<sup>2</sup> This was applied to Bacton Entry IP under UNC Modification 500, and at Moffat Exit IP under UNC Modification 525.

<sup>3</sup> <https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/2018-07/National%20Grid%20Response%20to%20BBL%20Exit%20Capacity%20Action%200604.pdf>

Bacton IP Exit point i.e. option 2. This is on the basis that option 1 leaves BBL in a position where it is not possible to gain access to a firm release obligation - and we believe it is necessary that new connections/flows to the NTS always have a route to gain access to a firm release obligation - and option 3 risks sterilisation of capacity and is objectively a less efficient allocation process than option 2.

The fundamental question upon which such support for option 2 is qualified, is whether it is a reasonable supposition to state that investment at Bacton would be inappropriate. We do not seek to provide a definitive answer to this question, but we note the following points that should be considered:

- In order to provide a firm release obligation above the existing Licence exit capacity obligation at Bacton within the Licence, our analysis identified a requirement for substantial network investment.
- The reinforcement works would be likely to include a combination of compression and new pipeline. Although specific projects were not identified or formally costed, initial estimates indicate a rough order of magnitude project cost c. £50m<sup>4</sup>.
- Our analysis indicates that summer month conditions allowing for release of additional (non-obligated) capacity are more favourable relative to the winter months. We have also observed that the days when we would reasonably expect to see congestion materialise at a combined Bacton exit IP are days over the summer months<sup>5</sup>. National Grid is incentivised to use the non-obligated capacity release mechanism in response to market demand, and when used such a mechanism would mitigate any commercial congestion arising.
- There is precedence of establishing competing auctions at Interconnection Points.
- Aggregating the exit points may be seen as being against the spirit of Article 6 of CAM which is seeking to try to level the technical capacities on each side of the IP. However, Article 6 also takes into consideration the obligation to maximise the offer of bundled capacity which is relevant with both adjacent TSOs.

### **Implications on network access**

We would like to take this opportunity to state that the introduction of competing auctions at Bacton Exit IP in this particular scenario, should not be read as a carte blanche for other parties to bypass the established PARCA process. This is on the basis that there are certain rules unique to Interconnection Points, such as the prevention of substitution and the established precedence of competing auctions, that means this alternative process should not automatically be replicated elsewhere on the network.

National Grid, along with industry, should however consider whether there is any wider learning or alternative means to access network capacity that could be developed e.g. establishment of competing auctions elsewhere on the network between an aggregation of exit points. We would expect and encourage industry to feed their ideas and views on any such arrangements into the existing NTS Capacity Access Review<sup>6</sup>.

Similarly, if BBL were to increase their capability even further at a future point in time, then it may become appropriate to invest in the network at that point in time. Each scenario will need to be considered on its own merits.

### **Process**

In order to implement this alternative process then it would be necessary to have a Licence change, and it would be necessary to modify the UNC European Interconnection Document (EID). We have not at this time established whether any further change to the Interconnection Agreements are necessary, however we note that under CAM article 8.2 that the consent of the affected transmission systems operators is in any case required.

As BBL are not a signatory to the UNC they are unable to propose a change to it. Should Ofgem, following the consultation, continue with its 'minded to' decision then we would be willing to raise such a modification, in a market facilitation role, if requested to by Ofgem.

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<sup>4</sup> This cost is for indicative purposes only. Should a project materialise then a formal project cost will need to be established in line with the Generic Revenue Driver Methodology.

<sup>5</sup> This is based on historic patterns of flow where there is exportation to the continent over the summer and importation to GB over the winter.

<sup>6</sup> <https://www.gasgovernance.co.uk/0705>

If there are any queries regarding this response then please contact myself or Malcolm Montgomery ([Malcolm.montgomery@nationalgrid.com](mailto:Malcolm.montgomery@nationalgrid.com)).

Yours sincerely,

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