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Robin Dunne
Ofgem
GB Wholesale Markets, Gas Systems
10 South Colonnade,
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London. E14 4PU.

Swindon, 07/02/2020

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

Dear Mr Dunne,

RWE Supply & Trading welcomes the opportunity to respond to the above consultation. Our response is not confidential and can be published on the Ofgem website.

On balance we agree with Ofgem's minded to decision. Both the IUK and BBL interconnectors are now principally used to facilitate efficient arbitrage between GB and NW European gas markets, thereby contributing to the flexible demand and supply of gas in GB. Based on historic flow patterns and anticipated projections going forward it is hard to see a need for more physical exit capacity, or that an economic test underpinning this would be passed. Also, the current absence of any long term National Grid Bacton (IUK) exit capacity bookings or IUK forward flow capacity bookings, means there would be no discriminatory effects on network users of aggregating the Bacton IUK and BBL IP exit points.

As such, in this instance we think there is a convincing case for Ofgem to act on its wider duty to promote competition and amend National Grid's licence accordingly, despite the fact that existing incremental exit capacity allocation processes have not been complied with. Should any similar instances of non-compliance occur, these should be considered on merit. Ofgem's decision in this case should not be regarded as a precedent which requires a similar outcome.

Our answers to the specific questions listed in the consultation are as follows.

1) *Do you have any views on the three options we are consulting on?*

Ofgem's preferred option 2 seems to most efficiently discharge its duty to facilitate competition between persons engaged in the provision of flexible gas demand in GB, bearing in mind the current circumstances.

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

No

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?*

Making a quantitative assessment of the benefits to GB consumers arising from options 2 & 3, in the form of increased competition and liquidity, is difficult. However, in our opinion, both of these options would enhance the efficiency of NW Europe gas markets and increase the correlation and convergence of the NBP market with the TTF, which serves as the benchmark hub in Europe. Due to the size of NW European traded gas markets even very minor improvements in market efficiency will generate worthwhile benefits to GB and European consumers.

However, a more detailed assessment of the costs and risks would be helpful. In particular, it would be useful to have at least a high level view of how much revenue National Grid has earnt from sales of Bacton (IUK) exit capacity over the last 20 years and the extent to which this revenue has covered the initial capital cost (if any) of making such capacity available. As regards the risks, we would appreciate an assessment of the risk that Ofgem's preferred option may create a precedent for other developers to disregard the current incremental exit capacity booking process.

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

The qualitative benefits described seem credible.

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

Broadly yes. However, we would not want Ofgem's decision to encourage other developers to automatically assume they will be granted a share of existing NTS exit capacity without following the current incremental exit capacity booking process, albeit this process now seems flawed in certain respects. Whilst a review of the current process, which we understand National Grid is pursuing, seems timely, it will take time to conclude and implement any changes. In the interim therefore, Ofgem should make clear in its decision, or through separate guidance, how any such future incremental exit capacity requests that do not require new physical investment, or which would struggle to pass an economic test, will be treated. In particular, this could expand on the perceived relevance (or not) of PARCA's and take account of the principles contained in the Exit capacity substitution and revision methodology (which Bacton IUK exit capacity is ring fenced from).

...

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

Gas flows from/to GB to/from NW Europe and within NW Europe are principally determined by prices spreads. These in turn are driven principally by transportation costs and demand/supply fundamentals. Any changes to these drivers will influence demand for the physical entry/exit capacity necessary to profitably arbitrage gas flows from lower to higher priced market areas.

With significant changes expected to GB transportation charges in October 2020, in particular to the short haul charge and the methodology by which it is calculated, the dynamics of arbitrage in NW Europe and the demand for Bacton exit capacity will change. Similarly, future changes to Belgian, Dutch and (to a lesser extent) German transportation charges will also have an influence. This increases the importance of pursuing measures now which allocate existing exit capacity at Bacton most efficiently, as has been done entry.

Whilst removal of the short haul charge or changes to its methodology may, on the face of it, reduce the demand for Bacton exit capacity, particularly in the summer, this may not necessarily reduce flows through the IUK pipeline to Belgian. We understand that the SILK pipeline still allows gas to flow from the UKCS to Belgian without entering the NTS at Bacton. So if this were to be reinstated to mitigate the impact of removing or changing the short haul charge, this reinforces the case for equitably allocating the Bacton baseline exit capacity between the two competing interconnector pipelines.

Yours sincerely,

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