

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

Amsterdam, 10 February 2020

Dear Mr. Corcut,

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

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.

SNAM International B.V. is an investor in GB as a shareholder in Interconnector UK since 2018.

Enabling the new BBL export connection should not be at the expense of degrading this existing NTS capacity allocation from GB to Belgium, which continues to benefit both GB and European consumers. The technical capacities of National Grid Bacton (IUK) exit, IUK (entry and exit) and Fluxys BE (IZT) entry are fully matched. This is a harmonized, coordinated maximisation of capacity consistent with obligations under CAM Article 6 and EU Security of Supply Regulation (SofS), protecting the interests of both GB and continental consumers. The capacity across this route is booked and used at peak times and this pattern has continued beyond the expiration of IUK's long term contracts.

As a GB investor we have a legitimate expectation that rules will be respected. Ofgem's minded to proposal and option 3 are not compliant with European obligations nor the Ofgem approved NTS capacity release methodologies. The CAM and SofS have defined processes outlined for TSOs to release additional capacity at IPs. It is important these rules are respected. 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), nor the market demand assessment carried out in 2017. There has also been no formal request by BBL or NTS Bacton (BBL) exit users for additional capacity at this point. Without such a signal and no positive economic test it is unjustified for Ofgem to intervene. Ofgem's minded to proposal and option 3 degrade existing investments by either removing or sharing capacity allocated to the NTS Bacton (IUK) exit point.

Option 2 is not appropriate. 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 capacity at the Zeebrugge IP. The uncertainty of the outcome of the proposed competing auctions under option 2 would deter market players to take part in the capacity auction at both Bacton and Zeebrugge. It will therefore not create competition and cross-border trade, but rather, hinder it. Moreover nothing prevents BBL from expanding its technical capacity in the future beyond the current limit with a further sterilization of IUK's exit capacity

SNAM INTERNATIONAL B.V.

Strawinskylaan 4117 – 1077 ZX – Amsterdam (The Netherlands)

Option 3 simply sterilises 25% of IUK's export capacity despite its use at periods of high demand. Matching the NTS capacity with BBL's technical capacity under this option whilst creating a NTS/IUK mismatch is perverse given BBL initiated its investment in 2017 despite no market signal and 3 market demand assessment window have resulted in no user commitments for additional capacity at the NTS Bacton (BBL) exit point.

Notwithstanding the comments above, solutions can be found to enable additional capacity to be made available at the NTS Bacton (BBL) exit point, which are not at the detriment of the existing capacity offering at the NTS Bacton (IUK) exit point. Ofgem should consider options which can expand the offer of capacity via mechanisms such as oversubscription/buyback and improving the dynamic calculation of capacity. Such options can further competition through the provision of additional capacity in a compliant way, whilst not degrading existing cross border capability.

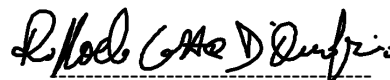
We outline in Annex 1 our views on the specific questions asked in the consultation. If you have any questions on our response please do not hesitate to contact us.

Yours faithfully,

For and on behalf of *Snam International B.V.*



Michele Maria Cali
Managing Director



Raffaele Cozza D'Onofrio
Managing Director

SNAM International response to Ofgem's consultation questions

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

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 IUK. A proper assessment needs to be completed.

Option 1: Maintaining the Status quo

Option 1 is legally and regulatory compliant and an effective mechanism in enabling UK exports via BBL (noting it took an investment decision at its own risk and there has been not market demand for NTS exit capacity to the Netherlands). This option enables BBL export without degrading or reducing the capacity offering at other exit points.

The provision of non obligated capacity is consistent with NG's capacity release methodology. We have observed that these arrangements are effective, as they have enabled BBL to sell large quantities 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.

There are ways in which the offer of existing NTS network capacity can further be improved, as we outline in our response to question 2. This should be considered.

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

Ofgem's minded to position is not compliant nor justified; 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. This contravenes the CAM incremental process, EU SofS regulation and NG's capacity release methodology statements.

Option 2 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 technically capacity of both IUK and BBL is matched with NTS Bacton entry capacity. Ofgem deemed correctly that the matching of the technical capacity of the interconnectors was necessary to comply with Article 6 of the CAM code when implementing CAM in the GB market. The merging of the two NTS Bacton exit points would consequently require an additional 168 GWh/d allocation of capacity.

Creating a technical mismatch will result in competing auctions being triggered in the summer periods. As noted, IUK operates on an *in equal out* regime, it is not a hub itself and the capacity situation at Bacton impacts Zeebrugge. If shippers are uncertain about getting NG/IUK capacity at Bacton they are not likely to participate in either simultaneous CAM auction. This will negatively impact IUK revenues and consequently shareholder value.

We note furthermore, that this option gives 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. Clearly competing for 50, or 75 or even 100% of capacity risks IUK's financing ability and investor value. Ofgem has not considered this risk.

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

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. Option 3 is inconsistent and not compliant with European obligations (the CAM code Article 6, EU SofS regulations) nor NTS Exit capacity release methodologies.

Removing capacity from the NTS Bacton (IUK) exit point creates a technical mismatch with IUK's Bacton. It removes 168GWh/d (25%) of IUK capacity at Bacton and at the Zeebrugge IP. This reduced cross border capacity creates an inconsistency with arrangements on the NTS Bacton entry side where the technical capacity of both IUK and BBL is matched with NG. We are also concerned that the impact on IUK may call into question its sustainability going forward. Ofgem has a duty to consider the financing ability of licensees. This has not been considered to date by Ofgem.

We also note that Ofgem acknowledges "the difficulty of forecasting future utilisation of Licence Base Exit Capacity at Bacton". It cannot therefore suggest the Bacton IUK (exit) capacity is no longer required or on a downward trend. The NTS Bacton (IUK) exit capacity is booked/used at peak times and this trend has continued beyond the expiration of IUK's long term contracts.

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

Ofgem need to consider additional options which meet the objective of making available more capacity to the NTS Bacton (BBL) exit point, not degrade existing GB to BE 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.
- b) Improving the dynamic calculation of available NTS capacity. The calculation of available capacity dynamically is an obligation under the CAM code and may well help the release of additional NTS capacity at this exit point.
- c) Use oversubscription and buy back (OSBB): This mechanism is already 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 enables 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 the Germany to deal with physical constraints when merging the Gaspool and NCG market areas.
- d) Increasing the baseline capacity by additional technical capacity: Strangely, this option has been omitted from the IA. It is unclear why Ofgem has dismissed this. 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?

As an shareholder and investor in GB we expect Ofgem to carry out a robust assessment of all the options given the financial consequences to IUK. The draft IA is not adequate. There needs to be a through cost benefit analysis of all the options with a quantitative assessment, including on their justification and proportionality given the absence of binding capacity requests.

It is important also that the assessment considers compliance with existing NTS capacity release arrangements and European legislation.

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

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 and responses to the CFE). Capacity should only be allocated where there is proven market demand. This is necessary to avoid inefficient network allocation.

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

No. 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.
- Not justified given there has been no binding user commitments indicated for the NTS Bacton (BBL) exit point.
- 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.
- A bespoke process outside the regulatory rules. It creates investor uncertainty by not respecting these rules. This harms the future prospects of foreign investment in GB given this creates increased investor risk. This is not in the interest of current or future consumers. We have a legitimate expectation that defined rules/processes will be respected.

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

The assessment and the decision process must consider:

- The costs and benefits of all the relevant options.
- The compliance of the options against national (NG Exit capacity release methodologies) and EU legislation (CAM code).
- The potential negative effects of competing auctions and scarce capacity at times of peak demand.
- Additional options which can achieve the objective in a proportionate and legally compliant way, without damaging the prospects at other connection point.