

Ofgem
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Date
19 August 2021

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Our reference
BBL VOF 21.057

Your reference

Subject
**Re - Statutory Consultation on the proposed
combining of two existing exit points in National Grid**

Dear Lea,

BBL Company (BBLC) welcomes the opportunity of responding to your statutory consultation on combining the two existing interconnector exit points within National Grid's Gas Transporter Licence. BBLC supports Option Two for the reasons outlined in Ofgem's consultation.

BBLC operates the BBL Interconnector pipeline between The Netherlands and Great Britain which enables gas to physically flow both to and from the GB gas market to the market in The Netherlands. This includes the capability to flow 7GWh/h towards The Netherlands as physical reverse flow (PRF) which was introduced in July 2019. To enable shippers to take full advantage of this PRF capability they need to be able to access commercial rights to National Grid (NGG)'s NTS Exit Capacity at Bacton. However, as pointed out in Ofgem's consultation, the BBLC offtake currently has an Exit Capacity Gas Transporter Licence 'Baseline' figure of zero, and, according to the restrictions within retained EU law, the available capacity at the neighbouring Interconnector Limited (IL) offtake cannot be simply transferred. These restrictions, coupled with the lack of Exit Capacity "competing auctions" functionality within the Uniform Network Code (UNC), mean that shippers wishing to use BBLC's PRF capability are only able to do so to the extent that NGG decides to either release "non-Obligated" or "interruptible" NTS Exit Capacity.

National Grid has recently (August 2021) begun releasing limited quantities of 'non-obligated' Firm NTS Exit Capacity at the BBLC offtake during the day ahead auctions only. This is the first time such capacity has been released since the PRF capability was introduced in 2019. This restricted, and uncertain, release of NTS Exit Capacity (i.e., 'non-obligated' and only at the day ahead stage) demonstrates that shippers seeking to use BBLC's interconnector are currently at a commercial disadvantage to those using the competing IL interconnector.

As noted by Ofgem, the current commercial disadvantages faced by BBL shippers are set to increase further with the introduction of the new UNC Modification 0728B 'short-haul' arrangements in GB in October 2021.

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As stated in Ofgem's Impact Assessment, the discounted short-haul rates will only be available to 'Firm' NTS Capacity holders and therefore they are unlikely to apply to exit flows at the BBLC offtake at all times (given the constraints laid out in the above paragraph), whereas they will always apply to shippers holding Firm Exit Capacity at the neighbouring IL offtake. Given that the pending short-haul discount rate applicable at Bacton is 90%, this will result in BBL shippers being placed at a further significant commercial disadvantage compared to IL shippers from October 2021.

Option One 'Do nothing'

This option would leave BBL shippers at a significant commercial disadvantage and, in all likelihood, will leave significant amounts of NGG's NTS network capacity at Bacton under-utilised. BBLC therefore agrees with Ofgem that this option is sub-optimal as it will leave BBL shippers at a commercial disadvantage compared to IL shippers, reduce competition between Interconnector Operators compared to Option Two and consumers will not benefit from the effects of additional competition at Bacton as outlined in Ofgem's Impact Assessment.

Incremental capacity provision

BBLC also agrees that the use of the IP PARCA arrangements to increase the amount of Exit Capacity available at Bacton is not appropriate and would be inefficient. Prior to the Final Investment Decision for the PRF project being taken BBLC commissioned NGG to complete a network study of its ability to release additional Exit Capacity at Bacton. This study identified that additional Obligated Exit Capacity could only be made available following significant additional network investment with a prolonged implementation date.

As outlined in Ofgem's Impact Assessment, the use of Obligated Exit Capacity at the IL offtake has declined since 2018. BBLC, therefore, agrees that it would be inefficient for NGG to complete further network reinforcement without first opening up access to the unsold Bacton Obligated Exit capacity to those shippers wishing to transport gas from GB to NL via the BBL pipeline. In BBLC's opinion this access is best achieved through the changes proposed in Option Two coupled with changes to the UNC to expand the provision of competing auctions to include Exit Capacity.

Option Three 'Reallocating capacity'

BBLC agrees that this option has merit and is preferable to Option One. However, BBLC also agrees that this option is sub-optimal when compared to Option Two for the reasons given in Ofgem's Impact Assessment.

Option Two 'Aggregating the two points in NGG's Licence'

BBLC agrees with the conclusions within Ofgem's Impact Assessment that this option, coupled with the necessary changes to the UNC to expand the existing UNC arrangements for competing auctions at Interconnection Points to include the sale of NTS Exit Capacity, is the preferred option. BBLC agrees that this option:

- Best meets Ofgem's policy objectives,
- Meets the needs of BBL shippers for equal and transparent access to NTS Exit Capacity at Bacton,

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- Maximises cross-border trading,
- Enhances Security of Supply for GB consumers,
- Maximises competition between shippers and between Interconnector Operators,
- Maximises the efficient use of the gas network, and
- Delivers the maximum advantages to GB and EU energy consumers.

Next Steps

BBLC welcomes Ofgem's assumption / expectation that changes to the UNC to reflect the licence changes proposed will replicate the current capacity auction arrangements at the Bacton IP entry point, including the provision of competing auctions via the Prisma platform. BBLC agrees that this approach will best facilitate competition and is in line with the expectations laid out within the EU CAM Network Code.

Implementation Timing

As highlighted within Ofgem's Impact Assessment, the introduction of the UNC Modification 0728B short-haul arrangements in October of this year will result in BBL shippers being placed at an additional, and very significant, commercial disadvantage compared to IL shippers. The lack of short-haul arrangements at the BBLC offtake will typically result in NTS Exit Capacity tariffs at this offtake point being nine times higher than those applying to 'short-haul' exit flows at the neighbouring IL offtake. This is not sustainable and has already resulted in a major BBL shipper notifying BBLC that they are deferring their exit capacity commitments for Summer 2022. Therefore, the current situation is already having a negative impact on futures markets in both the UK and The Netherlands.

BBLC therefore asks both Ofgem and National Grid to implement the changes proposed under Option Two, together with the associated UNC changes to expand the current provision of 'Competing Auctions' to include NTS Exit Capacity at the Bacton Interconnection Point, as quickly as possible so that the above detrimental effects are minimised.

As you know, BBLC produced a well-developed draft UNC Modification Proposal in June 2018 that sought to introduce the concept of an aggregated shared exit IP point (ASEXP) and also sought to expand the existing UNC provisions for 'Competing Auctions' as set out in the UNC "European Interconnection Document". This Proposal was shared with industry stakeholders, National Grid and Ofgem at that time. However, BBLC was, and still is, prevented from formally raising this Proposal due to the UNC Modification rules.

Should Ofgem decide to implement the preferred changes proposed in its consultation document, BBLC hopes, and expects, that National Grid will take the appropriate steps to implement the necessary changes to the UNC prior to the Spring of 2022.

Yours sincerely,



Rudi Streuper
Commercial Manager