



Making a positive difference
for energy consumers

National Grid Gas Plc; and all
interested parties

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Dear colleagues,

**Decision to modify National Grid Gas Plc's Gas Transporter Licence to amend
Special Condition 9.13, Appendix 2: combining of two existing NTS Exit Points**

The Authority¹ has decided to modify Special Condition 9.13, Appendix 2 of the Gas Transporter Licence ("the Licence") held by National Grid Gas Plc ("NGG"). This decision will take effect on and from 15 December 2021. Modification of the Special Conditions of the Licence is published alongside this decision.

Following an extensive consultative process², we gave statutory notice on 15 July 2021 that we proposed to modify Special Condition 9.13, Appendix 2 of the Licence. We required any representations to the proposed modification to be made by 23 August 2021³.

The Modification

The reason for this Licence change is to replace "Bacton (IUK)" National Transmission System ("NTS") Exit Point and "Bacton (BBL)" NTS Exit Point with a new NTS Exit Point in the Licence: Bacton (exit) Interconnection Point ("IP") ("Bacton (exit) IP") in Appendix 2

¹ The terms "we", "us" and "our" and "the Authority" are used to refer to the Gas and Electricity Markets Authority.

² [Call for Evidence: Change to Existing Arrangements for Accessing Licence Baseline Exit Capacity on the National Transmission System at Bacton Interconnection Point | Ofgem](#), from July to September 2019, and [Initial impact assessment and minded to position on arrangements for accessing Licence Baseline Exit Capacity at Bacton Interconnection Point | Ofgem](#), from December 2019 to February 2020.

³ [Statutory Consultation and Final Impact Assessment on proposed combining of two existing Bacton exit points in NGG's Gas Transporter Licence | Ofgem](#), from July to August 2021.

(Licence Baseline Exit Capacity) of Special Condition 9.13. The Licence Baseline Exit Capacity for the combined NTS Exit Point ("Bacton (exit) IP") will be 651.68 GWh/day.

On 15 July 2021, we gave statutory notice of our intention to implement Option 2⁴ concerning the arrangements for accessing Licence Baseline Exit Capacity on the NTS at Bacton IP, fully detailed in the Final Impact Assessment ("Final IA")⁵, published alongside the statutory notice. We indicated that the two current NTS Exit Points at Bacton (one for flows through the Balgzand Bacton Line ("BBL") interconnector, the other through the Interconnector Limited ("INT")⁶) should be combined in NGG's Licence to allow competitive access to Licence Baseline Exit Capacity at Bacton.

Appendix 2 of Special Condition 9.13 lists all the NTS Exit Points where Licence Baseline Exit Capacity can be bought by Shippers⁷ (Baseline capacity must be higher than 0 GWh/d).

We set out the following replacement to Appendix 2 of Special Condition 9.13 of the Licence (text replaced shown as ~~striketrough~~):

NTS Exit Point	Type of Offtake	Baseline capacity (in GWh/d)
Bacton (IUK)	INTERCONNECTOR	651.68
Bacton (BBL)	INTERCONNECTOR	0
Bacton (exit) IP	INTERCONNECTOR	651.68

Responses to our Statutory Consultation

We received nine responses to our statutory consultation, of which eight were non-confidential. All non-confidential responses have been published on our website. Six responses supported the decision stated in the statutory consultation proposal while three were against.

Respondents who supported our decision agreed with the points we presented in our Final IA. Specifically:

- Five respondents agreed that aggregating the two points in the Licence best facilitates competition and two responses stated that Option 2 (aggregating the two points) would maximise opportunities for cross-border trading;
- Five respondents supported that aggregating the two points in the Licence is the best solution for the market (promotes market liquidity);
- Five respondents believed the status quo would leave BBL Company ("BBLC"), which operates the BBL interconnector, at a disadvantage and one respondent stated that

⁴ Option 2: Aggregating Bacton (IUK) and Bacton (BBL) IPs into a single exit point in NGG's Licence

⁵ Final Impact Assessment - <https://www.ofgem.gov.uk/sites/default/files/2021-07/Final%20-%20Bacton%20Exit%20Impact%20Assessment.pdf>

⁶ Previously named 'Interconnector UK Ltd' ie 'IUK', as referred to in our past publications related to the Bacton exit arrangements.

⁷ Licence Baseline Exit Capacity is one type of capacity that NGG can release. See our Final IA, Section 2, paragraphs 2.6-2.8, outlining the different types of capacity that NGG can release.

aggregating the two points in the Licence will enable BBLC shippers to take advantage of the short-haul discount;

- Two respondents believed that aggregating the two points in the Licence meets the needs of BBLC shippers for equal and transparent access to NTS Exit Capacity at Bacton.

Two of the respondents who supported our decision believed that introducing competing auctions for the NTS exit capacity⁸ would enable competition between the two interconnectors. In their view competing auctions will lead to more efficient price discovery, as both interconnector providers compete to innovate on product and price to attract end users.

One of the respondents who supported our decision suggested that the need for investment, ie 'summer-only baseline' may need to be considered at a later date, in the event that 'physical congestion occurs at the proposed combined exit point in a non-transitory manner, and non-obligated capacity release is not deemed a possible or sufficient solution'. The respondent added that there has been no physical congestion so far.

Three respondents expressed their objection to aggregating the two points in the Licence, emphasising that Ofgem's current processes (Initial IA, Final IA and Statutory Consultation) are bespoke and, in their view, are not compliant with GB and EU Regulations. Two of the respondents suggested that a review of the statutory processes and legislation, and potentially reform of the processes, is needed to make them consistent for all industry parties. One of the respondents specifically mentioned Net Zero and stated that it was unclear from the Final IA why the current rules were deemed inappropriate in the context of Net Zero targets and why they have not been amended, if they are no longer appropriate.

Three of these respondents raised the issue of mismatched capacity. One respondent believed that implementing Option 2 will lead to mismatches in capacity, with another respondent stating that mismatched technical capacity was a possibility, between Bacton and Zeebrugge, which could deter market players from taking part in capacity auctions and have negative effects for the Belgian market.

One respondent asked for specific assurances that aggregation of the two exit points would not set a precedent whereby other infrastructure developers may circumvent the prescribed processes for accessing obligated capacity.

One respondent said it was unclear why aggregation of the two points is a better solution for net zero.

The two respondents who expressed their objections to aggregating the two NTS Exit Points in the Licence said that Ofgem was inconsistent in its approach to considering the options and that further assessment is needed to be done in relation to the discounted options in our Final IA (ie dynamic recalculation in particular) and in relation to the impact that our decision would have on Belgian consumers. One respondent considered that transportation

⁸ The respondents specifically mentioned specifically mentioned competing auctions via the PRISMA auction, ie the platform where cross border capacity in GB is auctioned.

costs should be included in our quantitative analysis of consumer benefit, and that existing bookings and spreads at the time the capacity was purchased should have been considered.

The respondent also asked for the points on the short-haul charging arrangement to be further analysed and discussed. They considered that a minor reform to the short-haul charging arrangement would be sufficient to address this issue in a proportionate manner. The respondent did not provide any further (qualitative or quantitative) evidence on the basis of which further analysis could be done.

With regards to the timeline, two of the six respondents that supported our decision said that they wanted the modification to be implemented as soon as possible, whilst one considered it important that any Licence and industry processes required to introduce the aggregation of the two points are aligned. One other respondent said that due to introduction of the UNC Modification 0728B⁹ (new short-haul arrangements from October 2021), BBLC shippers would be at a commercial disadvantage compared to INT shippers. They commented that 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 Bacton (IUK) NTS Exit Point.

Our view

Our statutory notice of the proposed Licence change, published on 15th July 2021, concluded a consultative process to address the problem of BBLC not being able to access Licence Baseline Exit Capacity at Bacton whereas INT shippers could. The consultative process was looking to find a solution that improved competition while still protecting consumers by utilizing existing exit capacity that was underused. We considered several options, and consulted on a preferred option, Option 2, to aggregate the two Bacton NTS Exit Points in NGG's Licence (see above and footnote 2). We called for quantitative and qualitative evidence and engaged with the industry throughout the process. We consulted on our *Minded to Consultation*, proposed a Licence change and we have responded to the concerns raised.

The responses show support for aggregating the two NTS Exit Points at Bacton with a majority agreeing with our decision. However, three respondents continue to disagree with our decision, and oppose the change.

We have carefully considered all responses received and note that no further quantitative or qualitative evidence has been presented to us. We have also considered the most recent data on export flows from Bacton to Europe. Having carefully considered the responses and the recent booking and flow information (relating to September and October 2021), our analysis from our *Minded to Consultation*, Initial IA and Final IA still stands as it shows that NGG released interruptible and non-obligated capacity to BBLC shippers and not Licence Baseline Exit Capacity. This means the underlying issue, of BBLC shippers not being able to access Licence Baseline Exit Capacity at Bacton whereas INT shippers can, remains.

Although we do not wish to repeat the arguments presented during the previous consultation stages, we wish to alert the industry and consumers to our Final IA, where we provided our views on why we consider aggregation of the two NTS Exit Points in NGG's

⁹ Uniform Network Code (UNC) 728/A/B/C/D (Urgent) - Introduction of a Conditional Discount for Avoiding Inefficient Bypass of the NTS

Licence to be compliant with the existing GB and EU legislation¹⁰ (see Section 6 of Final IA) and is in the interest of GB consumers (see Section 5 of Final IA).

Compliance with GB and EU legislation

Three stakeholders expressed concerns that aggregation of the two NTS Exit Points into one, Bacton (exit) IP, in NGG's Licence would not be compliant with the GB and EU legislation. We addressed this in Section 6 of the Final IA, specifically the relevance of Article 6.1 of the EU CAM NC which allows for efficient network operation as follows: "The maximum technical capacity shall be made available to network users, taking into account system integrity, safety and efficient network operation". We note that INT, has – on this basis – introduced the so called "improved reverse flow project" where under certain conditions, its available technical capacity in the Belgium to GB flow direction for within day capacity is revised down to 562 GWh/d precisely for the reasons of more efficient daily system operation¹¹.

One respondent expressed their concern that aggregation of the two NTS Exit Points and competing capacities at Bacton would lead to uncertainty with INT's shippers and will deter them from booking capacity, which they believe means that INT will lose part of their business. INT has stated that the technical capacity mismatch stems from capacity being allocated to BBLC under a competing auction. We fully covered this point in the Final IA (Section 4 and paragraphs 6.12 and 6.14). All technical capacity will still be offered to INT shippers if the result of the auction is favourable for INT shippers and the risk of shippers being deterred from booking capacity on exit and entry due to the potential uncertainty of bundling capacities is expected to be no greater than currently, when a significant proportion of INT's unbundled capacity is sold via implicit allocation. We wish to emphasise that there is no legal obligation to ensure that technical capacity is precisely matched at both sides of an IP.

One respondent sought assurances that aggregation of the two NTS Exit Points will not set a precedent for other infrastructure developers to circumvent the prescribed processes for accessing obligated capacity. We reiterate that aggregation of the two points in the Licence is compliant with EU CAM NC (please see the point above and Section 6 in the Final IA).

One respondent believed that current arrangements facilitated competition and exports through both Bacton interconnectors and that the current allocation of NTS capacity at the NTS Bacton (IUK) points meets legal obligations, peak demand requirements and is consistent with Bacton exit arrangements. We have already provided our view in relation to these statements. Interruptible and non-obligated firm capacity that NGG can currently make available to BBLC shippers is offered at NGG's discretion and it may not always be available for various reasons¹². See Sections 2, 3 and 4 in the Final IA¹³.

Review of the statutory processes and legislation and potentially reformation of the processes is needed to make them consistent for all industry parties, with Net Zero

¹⁰ See paragraph 6.7-6.20 of the Final IA. Link: <https://www.ofgem.gov.uk/sites/default/files/2021-07/Final%20-%20Bacton%20Exit%20Impact%20Assessment.pdf>

¹¹ [Improved Reverse Flow \(fluxys.com\)](https://www.fluxys.com/en/press-releases/improved-reverse-flow)

¹² For example, there were days, most recently on 27 September 2021, when price spreads were particularly favourable, but non-obligated firm capacity was not offered to BBLC shippers. Due to this, BBLC lost revenue due to unequal access to capacity for their shippers compared to INT shippers.

¹³ Final Bacton Exit Impact Assessment. Link: <https://www.ofgem.gov.uk/sites/default/files/2021-07/Final%20-%20Bacton%20Exit%20Impact%20Assessment.pdf>

Our decision was made within the scope of the existing regulatory framework. One respondent said that the existing statutory processes and legislation should potentially be reformed; however, that is outside the scope of this decision.

We do not consider the proposal of reforming the short-haul charging arrangements to be a viable or proportionate solution for allowing BBLC's Shipper access to Licence Baseline Exit Capacity at Bacton. Further we note that the proposer provided no evidence to substantiate their proposal.

Further assessment of the impact of our decision on Belgian consumers and consumer benefit on the basis of the price spreads

As we said in our Final IA, paragraph 3.2-3.5¹⁴, our primary duty is to GB consumers. However, in our Final IA, we extended our analysis of the estimated overall consumer benefit of our decision to include European as well as GB consumers. Zeebrugge and TTF are European hubs. Competition on exit at Bacton will enable gas to flow where it is valued the most, which will bring about benefits to all European consumers, including Belgian consumers.

Stakeholders who asked for more detailed analysis of consumer benefit focusing on Belgian consumers provided no additional quantitative evidence that would change our conclusions outlined in our Final IA.

Our consumer benefit analysis was based on the actual flow and price spread data from summer 2020. We considered positive daily price spreads between the NBP and Zeebrugge and between NBP and TTF when flows to the Netherlands and Zeebrugge occurred (ie when price spreads were sufficient to cover all transportation tariffs and company costs) and multiplied these by the amount of unsold (remaining) capacity on the BBL interconnector on the day. The average daily price spreads are often lower than the price spreads at earlier auctions. We consider that the same uncertainty about available (firm) capacity at Bacton BBL existed for BBLC shippers regardless of when they booked capacity. In other words, this effect would occur whether capacity was booked at annual, quarterly, monthly or daily auctions. Due to this, our estimates of consumer benefit are conservative.

Further assessment of alternative options, including dynamic calculation

We considered all the solutions which were proposed during the consultation process as an alternative solution to Option 1, 2 and 3. See Section 4 of the Final IA for more detail.

We considered dynamic calculation and long-term optimisation mechanism in our Final IA (see paragraphs 4.37 – 4.39). Dynamic calculation and long-term optimisation mechanism are already in place and will remain in place at Bacton after the aggregation of the two NTS Exit Points. Whilst there may be some scope to improve the dynamic calculation method to consider seasonal variations in capacity at the relevant IPs, without system-wide changes (see heading *Summer-only baselines as a solution for physical congestion in summer* below), this would not lead to NGG increasing obligated firm capacity at Bacton (BBL) in the longer term and in a way that would enable equal access to BBLC shippers at all times. As such we do not consider long-term optimisation mechanism as an enduring solution for allocating capacity at Bacton (BBL).

¹⁴ Paragraph 3.2 -3.5 of the Final IA. Link: <https://www.ofgem.gov.uk/sites/default/files/2021-07/Final%20-%20Bacton%20Exit%20Impact%20Assessment.pdf>

Unclear why aggregation of the two points facilitates Net zero

As set out in our Final IA, Option 2 would significantly increase the efficient use of existing capacity on exit at Bacton without the need for consumers to fund the investment in increasing incremental methane capacity that could potentially be stranded. Given the declining utilisation of the natural gas network, aggregation of the two NTS Exit Points in the Licence will help deliver GB's Net Zero 2050 targets by reducing the risk of additional investment in methane networks and risk of stranded assets.

Summer-only baselines as a solution for physical congestion in summer

Summer-only (ie seasonal) technical increase in baseline capacity was mentioned as a possible long-term solution on exit at Bacton should physical congestion occur once the two points have been aggregated. We addressed this point in the Final IA (paragraph 4.40), where we noted that seasonal baseline would still require an increase in existing capacity and thus, would not help improve the efficiency of the existing capacity arrangements on exit at Bacton. In addition to this, seasonal baselines, a concept currently unknown in NGG's Licence, would require system-wide changes. Licence Baseline Capacities are set (or re-set) as part of the price control and any change to consider seasonal baselines would have a potential impact on the overall price control agreement. As such, seasonal baselines are outside the scope of this decision.

Timeline, changes to the Licence and the UNC

Decisions to modify the Licence are taken independently from other industry processes and are authorised under The Gas Act (GA) 1986. Licence modification involves exercising a statutory function by the Authority that requires a particular process to be followed. This process has been followed.

Decisions on Licence changes can precede industry code changes, and there is sometimes a time lag between the Licence change and the date when any relevant code changes enter into force. We note that NGG have already started discussions with INT and BBLC to facilitate competing auctions on exit at Bacton, and widely, at the Transmission Workgroup. This means that the industry change process is already underway and any time lag will hopefully be minimised.

Our decision

After careful consideration of the responses submitted, we have decided to implement our minded-to decision and modify Special Condition 9.13, Appendix 2 of the Gas Transporter Licence¹⁵ held by National Grid Gas Plc.

As outlined in our Final IA we will monitor the arrangements at Bacton on exit and expect to review the evidence with regard to Bacton exit arrangements in 2026 at the latest.

¹⁵ Statutory Consultation and Final Impact Assessment on proposed combining of two existing Bacton NTS Exit Points in NGG's Gas Transporter Licence - <https://www.ofgem.gov.uk/publications/statutory-consultation-and-final-impact-assessment-proposed-combining-two-existing-bacton-exit-points-nggs-gas-transporter-licence>

Next Steps

This Licence change will take effect on and from 15 December 2021.

If you have any questions regarding this decision, please contact the team by using the email address above.

Yours faithfully,

David O'Neill

Head of Gas Markets and Systems

For and on behalf of the Gas and Electricity Markets Authority