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Dear Lea,

Representation to the notice of statutory consultation on a proposal to modify the Special Conditions of the Gas Transporter Licence held by National Grid Gas Plc

This representation is in response to the proposal by the Authority to modify National Grid Gas Plc's (our) Transporter Licence in order to combine two NTS Interconnector exit points at Bacton.

National Grid has submitted responses to earlier processes run by Ofgem regarding this topic. We note that option 2 remains the way forward proposed by Ofgem. We stand by the previous comments we have submitted to the earlier processes, and do not see merit in replicating large parts of the responses here. However, for the sake of continuity we have restated our summary position, that we provide qualified support to option 2, Aggregating Bacton (IUK) and Bacton (BBL) IPs into a single exit point. This was preferred because option 1 leaves BBL in a position where it cannot gain access to a firm capacity obligation and option 3 is objectively a less efficient allocation process than option 2. This view was qualified because it was established under the frame work put forward by Ofgem that investment was not a supportable policy option.

We do wish to elaborate on a number of points, namely the risk identified under option 2, and also the necessary change process, if Ofgem were to proceed with this option.

Risk under option 2
We agree with the main risk identified in the impact assessment that IUK shippers may not be able to obtain capacity to match their requirements to flow in peak interconnector export scenarios. We think this scenario can be broken down into 2 categories for further consideration, commercial congestion and physical congestion. The option can then be evaluated for these categories to manage the risks. Commercial congestion is where some shippers are unable to gain access to capacity because other shippers have already bought the available capacity and are not using it or reoffering it (i.e. there is spare unused physical capability). Physical congestion is where some shippers are unable to gain access to firm capacity because other shippers have already bought all the available capacity and are using it (i.e. there is no spare unused physical capability).

In the event of commercial congestion then National Grid can release non-obligated capacity (firm or interruptible) in order to make more capacity available to the market. We would also expect that shippers who are holding excess capacity would offer this in the secondary market given that it makes financial sense for them to do so. Since the new charging arrangements have been in place we understand Shippers have increased their focus on optimising bookings, therefore we assume that shippers will generally attempt to avoid overbooking capacity. Finally shippers may also use the Surrender mechanism (as per the Surrender mechanism under the Congestion Management Procedures (CMP)) if they hold long term capacity they no longer require. We therefore believe that

adequate tools and incentives are in place to manage the risks of commercial congestion, but this is something that can continue to be monitored[1].

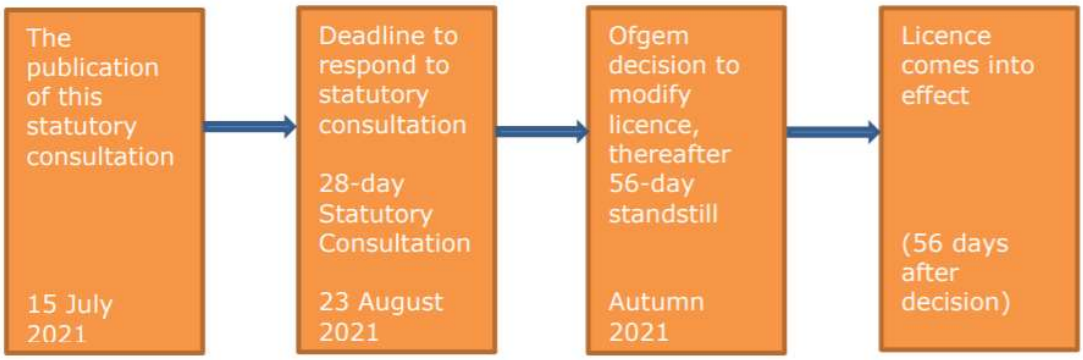
Regarding physical congestion at the proposed Bacton IP exit, we can observe that since BBL commenced physical reverse flow around September 2019 there have been no days of physical congestion that have occurred in the Bacton exit area. This provides some context on understanding the recent historical likelihood of physical congestion, but we note that future requirements/behaviours may change and therefore the likelihood of such an event occurring in the future is unknown.

In the event that the market demand for capacity is above baseline, then we are incentivised to release non-obligated firm capacity release and as such this will be considered, however such a release cannot be guaranteed, as it would be dependent upon network conditions and associated risks as releasing capacity above baseline generally comes with a higher constraint risk. It is worth noting that during this summer we have released non-obligated capacity at the individual BBL exit point based on our view of risk in this area of the network.

In the event that physical congestion occurs at the proposed combined point in a non-transitory manner, and non-obligated capacity release is not deemed a possible or sufficient solution, then the need case for investment can be revisited, recognising there would be a lead time associated with this. As the bulk of the constraint risk that NG has identified occurs in the winter months, then it may be possible to reduce investment requirements if a 'summer only' baseline were to be considered. The advantage here is that export demand is highest in the summer so a higher winter obligation is not demanded, so a seasonal baseline could align well with the usage of the exit points. However further thought would need to be given to the precedent this would set and numerous changes to the current regime would be required to facilitate this. Notably the only long term product currently allowed by the CAM incremental process is an annual product which is not conducive to establishing a seasonal obligation, the seasonal concept does not yet exist within the Licence, the UNC or the PARCA process, and it is not clear how shippers would collectively trigger the necessary long term signal to pass the investment test given that individually they are incentivised and weighted towards short term NTS products. It should be noted that we have not carried out any new analysis relating to this concept but are drawing out an option from information contained in previous analysis work produced and shared with industry[2]. We think this is an option worth further exploration if 1) the points are aggregated as proposed, and 2) sustained NTS export capacity demand in excess of the combined baseline (that is not commercial congestion) gives a reason to revisit the investment need case for a higher total obligation for the Bacton interconnectors.

Process

We note the process Ofgem have outlined in their consultation letter, the high level overview of which we have copied below for reference.



We request here that the formal decision to modify the Licence (box 3 in the above timeline) be deferred to allow a UNC modification proposal to be presented to Ofgem, and to allow the changes to

[1] We already monitor capacity utilisation at Interconnection Points via the Long Term Use-it-or-Lose-it Monitoring report produced every six months.
[2] https://www.gasgovernance.co.uk/tx/050718

the Licence and the UNC to occur at the same time - if a decision to implement the change were made.

Our review of the EID processes so far informs us that some processes would naturally continue to apply to the individual IPs and some processes would apply to the combined IPs (as they do for Bacton IP entry and Moffat). Currently there are 2 definitions of combined points within the European Interconnector Document (EID). The first is *Binary IP ASEP* which applies to Entry points only and applies to the combined Bacton IP ASEP, and the second is *Primary Interconnection Point* which applies to Moffat. It is our firm view that a combined Bacton IP exit would not be automatically captured by either of these 2 definitions as 1) it is not an entry point and 2) Moffat has been explicitly identified as a Primary Interconnection Point within the Moffat Designated Arrangements. Additionally, it appears that the arrangements at Moffat would not map directly to a combined Bacton IP exit due to the specific trilateral nature of the arrangements at Moffat[3]. We believe that the absence of a change to UNC would create uncertainty about whether processes can or should apply to the combined interconnection point or the individual interconnection points.

In our response to the Initial Impact Assessment then we stated that '*we would be willing to raise a UNC modification proposal, in a market facilitation role, if requested to by Ofgem'*. This continues to be the case. While we have not received any formal request from Ofgem to raise a UNC modification, as Ofgem have now formally proposed to change the NTS Licence then we take that to be an implicit requirement upon us to make changes to the UNC so that the UNC and Licence do not move out of alignment. Without prejudice to the outcome of the consultation, and without endorsing any particular route forward, we believe it is incumbent upon us to raise a UNC modification proposal on this topic to the next UNC panel which is in September. Ofgem could then expect to receive a Final Modification Report (FMR) in the first calendar quarter of 2022. In the event that Ofgem decide not to proceed with the proposed change to the Licence then we would withdraw the associated UNC modification proposal.

We also understand that some system changes may be required to accommodate the proposed change. We are currently drafting a Rough Order of Magnitude (ROM) request to submit to Xoserve to better establish the system impact and this will be discussed with the wider industry through the modification process and included in the FMR.

Finally, it is worth being aware that within year changes to available types of capacity at NTS exit points will have knock on effects to revenue recovery assumptions.

We therefore request that Ofgem defer a formal decision until they have also received the UNC modification proposal, including implementation timelines for the systems. A simultaneous decision at a later date on both the Licence and UNC modification change proposals would allow for a synchronised change to the commercial frameworks, if such a change were directed.

For the avoidance of doubt, other than the point about alignment with the UNC, we believe the change to the Licence proposed works from a practical perspective and we do not seek or recommend any alternative Licence drafting to give effect to the change proposed.

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

Yours sincerely,

Chris Logue
Market Change Gas Delivery Manager

[3] At Moffat there is a single physical pipeline connected which is operated by GNI (UK), however some processes occur with either GNI or PTL despite lack of a direct physical connection with these parties. At Bacton exit there are 2 physical connections with 2 separate entities, and no trilateral arrangements are required.