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Subject
Call for Evidence: Change to Existing Arrangements for Accessing Licence Baseline Exit Capacity on the National Transmission System at Bacton Interconnection Point

Dear Mr Corcut,

BBL Company (BBLC) welcomes the opportunity of responding to your Call for Evidence document published 26th June 2019 on changing the UNC and GT Licence arrangements for accessing Licence Baseline Exit Capacity on the National Transmission System at the Bacton Interconnection Point.

BBLC operates the BBL Interconnector between The Netherlands and Great Britain and has recently completed engineering works that have enabled gas to physically flow from the GB NBP gas market directly to the TTF market in The Netherlands (the Physical Reverse Flow project (PRF)). This project has delivered a PRF capacity of 7GWh/h.

To enable Shippers to take full advantage of this new PRF capability they will need to be able to access commercial rights to National Grid (NGG) Exit Capacity at Bacton. However, the BBL offtake currently has an NGG Gas Transporter Licence Exit Capacity Baseline figure of zero and available capacity cannot be transferred from the neighbouring IUK offtake. 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 release “non-Obligated” or “interruptible” Exit Capacity. BBLC therefore believes that Shippers seeking to use the BBL pipeline are currently at a commercial disadvantage to those using the competing IUK interconnector.

As you know, the existing arrangements for the release of NTS Entry Capacity at Bacton are different. NGG’s Licence Baseline IP Entry Capacity at Bacton is available on equal terms to both IUK and BBL Shippers and “competing auction” structures for the release of such Entry Capacity are set out in the UNC. BBLC believes that the arrangements for accessing Entry and Exit capacity should be the same and that it is difficult to justify the continuation of the current situation.

BBLC commissioned NGG to complete a network study of their ability to release additional Exit Capacity at Bacton. This study identified that additional Obligated Exit Capacity could only be made available following significant additional investment. Given that the Obligated Exit Capacity at Bacton (IUK) is "largely unsold"[1] BBLC believes that it would be considered inefficient for NGG to complete further system reinforcement without first opening up access to this unsold Obligated Exit capacity to those wishing to make use of it to offtake gas into the BBL pipeline. Such market-based access can be achieved through the introduction of "aggregated" Exit Capacity across both interconnectors and the extension of competing auctions to cover the sale of Exit Capacity at the Bacton IPs.

In summary BBLC believes that changes to the UNC and NGG's Gas Transporter Licence should be made to remove the different treatment of Entry and Exit Capacity at the Bacton IPs. This would provide a level playing field and enable effective competition between Shippers and Interconnector Operators. Such changes would enable Shippers to take advantage of the significant benefits we have outlined in our answers to the questions Ofgem have raised in the appendix to the Call for Evidence document and, in turn, would also realise significant benefits to GB gas consumers.

The appendix to this letter provides BBLC's responses to the questions set out in Ofgem's Call for Evidence.

Yours sincerely,

Jasper Stevens

Regulatory Affairs

Appendix I: BBLC's responses to the questions raised in Ofgem's Call for Evidence document

[1] Quote from Ofgem's Call for Evidence document p.g. 2

Appendix One:
BBLC's responses to the questions raised in Ofgem's Call for Evidence document

1. General - Competition

1.1. Do you think that changing arrangements for accessing Licence Baseline Exit Capacity at Bacton (BBL):

1.1.1. Would be good for competition?

Yes. National Grid's (NGG) Gas Transporter Licence and UNC regulatory arrangements applying to NTS Exit Capacity at Bacton IPs currently "ring fence" the available NGG Obligated Bacton IP Exit Capacity to the IUK offtake. NGG's "Exit Capacity Substitution and Revision Methodology Statement"[2] also prevents this "ring-fenced" Capacity from being moved to another offtake. Although much of this Capacity is currently unsold over all time-periods, this "ring fencing" prevents 'BBL' Shippers, i.e., those wishing to use this network capacity to offtake gas at the BBL offtake, from accessing and or competing for it. This is in contrast to the existing UNC and NGG Licence arrangements for the available NGG Obligated Bacton IP Entry Capacity. These Entry Capacity arrangements enable Shippers, wishing to enter gas from either of the two interconnectors, to access and compete for this Entry Capacity on an equal footing.

Changing the current Exit Capacity arrangements, such that they reflect those already in place for the release of Entry Capacity, would remove this difference in treatment, open up competition between Shippers for Exit Capacity at Bacton and also provide a level playing field for competition between the two Interconnector Operators.

1.1.2. Would improve efficiency and competitive bi-directional interconnection with Europe?

Yes. In paragraph 3.26 of its document "*Facilitating the implementation of aspects of the Capacity Allocation Mechanisms Network Code in Great Britain*"[3] published 13th June 2014, Ofgem recognised that having two separate IPs at Bacton with their own NGG Licence Baseline capacities "*may lead to unnecessary signals for incremental capacity".* Ofgem's current Call for Evidence document also recognises that NGG's existing Exit Capacity Baseline at Bacton is ring-fenced to IUK and is currently "largely unsold". Unless the current Exit Capacity arrangements are changed Shippers wishing to use the BBL pipeline will be unable to access this unsold Obligated Exit Capacity and, to the extent that they wanted such Capacity, they would have to signal their demand for Incremental Capacity to NGG thus creating the "unnecessary signals" referred to in the above Ofgem document. Changing the

[2] Paragraph 22I

[3] https://www.ofgem.gov.uk/sites/default/files/docs/2014/06/implementation_of_cam_in_great_britain_final_130614.pdf

arrangement would enable the existing Obligated Exit Capacity at Bacton to be utilised more efficiently and for any further future investment signals to be based on open market signals from the "competing auctions".

Introducing regime changes similar to those currently in place for Bacton IP Entry Capacity would put in place a level playing field between the two IP providers and enable BBLC to compete with IUK on an equal footing for the provision of transportation services between the GB and other European gas markets.

1.1.3. Would open new trading opportunities for Shipper Users?

Yes. The BBL Interconnector directly connects the two largest, and most liquid, gas trading hubs in Europe (TTF and NBP). Allowing such direct open access to bi-directional flows between these two hubs gives the relevant Shippers and Producers the opportunity to sell / buy directly to both markets. The direct nature of the BBL interconnection, as opposed to the other available options, reduces the cost of trading between these markets and therefore the recent introduction of PRF on the BBL Interconnector increases the opportunity and incentives to trade to, from and between these markets.

Where commercial, physical and / or regulatory hurdles to trade between the TTF and NBP markets are reduced price forming of both markets will become even more correlated and will, in practice, behave as a single market. Such a market creates a level playing field between Producers and Consumers. This will result in price discovery that maximizes aggregate surplus for gas Consumers and Producers in both markets. This is in line with the objectives of ACER's European Gas Target Model to have gas moving as freely as possible between market areas to the locations where it is most highly valued by gas market participants.

BBLC has undertaken analysis of the market arbitrage opportunities between the NBP and TTF gas markets that would have been available if BBL PRF products had been available during 2018. This analysis has identified a period of 13 days during the summer where the price differential between the two markets was greater than the sum of the transportation costs between the two markets using the BBL pipeline but lower than the cumulative cost of transportation between the two markets using other alternative routes. If Shippers had been able to access BBL PRF over this time-period then BBLC calculated a potential arbitrage benefit of ~ €600,000. This suggests that facilitating change to the current regime would open up new viable routes to market and trading opportunities between GB and EU Member States' gas markets.

1.1.4. Would provide additional access to existing storage facilities in Europe that Shipper Users would value?

Yes. The GB gas market has limited options for seasonal storage. This has recently been highlighted further with the closure of the Rough storage facility. On the European continent there is significant seasonal storage capacity. Through the integration of the BBL pipeline into the TTF market area and realizing the BBL PRF project these storage options have become more easily accessible to Shippers thus increasing the security of supply options to GB consumers. However, Shipper utilisation of this will be dependent on the cost of transporting gas to and from such storage facilities, and the extent to which Shippers can be certain that they are able to gain access to existing Obligated NTS Exit Capacity at Bacton, in order to send gas to such storage facilities for later release back to the GB market. Making changes to the regime to enable wider and more open access to the available Obligated NTS Exit Capacity at Bacton would improve Shipper confidence in being able to access this storage at competitive rates.

1.1.5. Would make GB a more attractive place for LNG deliveries due to the additional interconnection with Europe?

Yes. The introduction of the PRF service by BBLC provides a new low-cost direct route between two of the most liquid trading hubs in Europe. This therefore provides a new opportunity for LNG to be delivered into GB LNG terminals and then transported directly onto the TTF market hub. However, current regulatory arrangements prevent Shippers from accessing firm NGG Licence Obligated Exit Capacity to offtake gas into the BBL pipeline and this undermines market confidence that such Capacity will be available when needed. Changes to these arrangements to open up access to this Capacity would remove these barriers to trade and therefore make GB a more attractive place for LNG deliveries.

1.1.6. Would be good for GB's gas market liquidity and transit flows?

Yes. Also see answer to 1.1.5 above and 3.1.2 below. Several industry reports, including a recent joint study by Tennet and Gasunie[4], have high-lighted Europe's growing and future dependence on energy interconnection, and LNG importation infrastructure, as indigenous gas supplies decline.

With the expansion of UK's LNG importation facilities, the opportunity arises for the GB transmission network to increase its utilisation through the accommodation of "transit flows" between the GB LNG importation facilities and other European markets via the Interconnectors. Increasing such "transit" flows both improves GB security of supply and, through the National Grid transportation revenue effects described in 1.1.7 below, reduces the amount of revenue to be recovered from indigenous GB Consumers. Any reduction in the costs incurred by the Shippers of such transit gas, for example, through the introduction of greater competition between interconnecting pipeline networks, would make such flows more commercially viable and attractive.

4 https://www.tennet.eu/fileadmin/user_upload/Company/News/Dutch/2019/Infrastructure_Outlook_2050_appendices_190214.pdf

1.1.7. Would be good for consumers? If yes, how would consumers and Shipper Users benefit from this additional capacity to flow gas to Europe?

Yes. The market arbitrage analysis referred to in the answer to 1.1.3 above also calculated the additional NGG transportation revenue that would have accrued had Shippers been able to take advantage of the arbitrage opportunity identified. BBLC has estimated the additional revenue at ~£2.1million. Given that NGG's total Allowed Revenues are effectively fixed, this additional revenue would necessarily result in a requirement for NGG to reduce the tariffs it applies to other network flows in order to reduce the amount of revenue recovered from these sources. This would therefore be a direct benefit to GB End Consumers. In the example given above this would have seen a net revenue 'over-recovery' of ~£2.1 million being returned to GB Shippers and End Consumers.

In addition, facilitating market-based access for 'BBL' Shippers to the available Obligated Exit Capacity at Bacton would deliver direct access to the storage available in the Netherlands at a lower cost than other currently available options due to the more direct route between the NBP and these storage facilities. This would therefore reduce the costs of accessing this storage and Shipper costs of mitigating the security of supply risk. This would have a knock-on benefit to GB consumers as Shippers and Suppliers reflect these reduced risk mitigation costs in their supply tariffs.

1.2 Please state any other reasons, why different arrangements for accessing capacity on exit at Bacton (BBL) would impact competition.

Continuing to apply different arrangements for the administration of NGG Entry and Exit Capacity at Bacton IPs would negate the benefits outlined above and could result in potential discrimination and an anti-competitive situation. It may also lead to inefficient actions by NGG in relation to either the release of Incremental Exit Capacity or Exit Capacity curtailment. Ofgem recognised these potential adverse effects, and noted the lingering difference in treatment of Entry and Exit Capacity at the Bacton IPs, in its NGG Licence consultation document – 'Facilitating the implementation of aspects of the Capacity Allocation Mechanisms Network Code in Great Britain' (2014)[5]. In this document Ofgem also recognised the need to revisit the Bacton IP Exit Capacity arrangements with a view to "*amending the licence to combine the two exit points*" at a future point[6].

The different treatment of Entry and Exit Capacity at Bacton IPs raises the question as to whether or not the current GB regulatory and commercial arrangements are compliant with the EU Gas Directive (715/2009) and/or the EU CAM Network Code. Given that the changes, including competing auctions, which were made to the Bacton IP Entry arrangements following the above consultation, were necessary to ensure GB's compliance with the EU CAM Network Code now that the BBL pipeline is bi-directional, are not the same changes required in relation to Bacton IP Exit Capacity to ensure continued compliance?

[5] Paragraph 3.26
[6] Footnote 40

The CAM Network Code does not differentiate between Entry and Exit Capacity and therefore BBLC believes that the same rules should apply to sale and use of Entry and Exit Capacity at Bacton IPs within the UNC. This is not currently the case. Unlike the arrangements applying to Bacton IP Entry Capacity, the current UNC and NGG Licence arrangements for Exit Capacity prevent Shippers wishing to use either the BBL or IUK pipeline from competing for the available NGG Obligated Exit Capacity at Bacton on an equal footing.

BBLC is currently offering firm Exit Capacity products across all time periods. However, due to the current restrictions within the UNC and NGG's Licence, these products are not able to be "bundled" within the Prisma capacity auction platform with the same products from NGG. This is because NGG do not currently have a licence obligation to offer Obligated Exit Capacity at the Bacton BBL offtake which could be bundled. Shippers wishing to use the BBL pipeline are therefore unable to use the same single step booking process that they use for booking Entry Capacity at Bacton but must instead make two separate capacity bookings, one with BBLC and a separate one with NGG. This is currently causing confusion for Shippers and leading to delays and inefficiencies that are, in turn, impacting competition.

NGG is currently only offering "unbundled" Interruptible Exit Capacity at the BBL IP even though there is currently a large quantity of unsold Obligated Exit Capacity at the neighbouring IUK offtake. The risks and uncertainty associated with such Interruptible products disincentivises Shippers from utilising the BBL offtake.

2. Specific - Market Demand –

2.1. Would the option of having the opportunity to purchase Licence Baseline Exit Capacity at Bacton (BBL) be relatively attractive compared to current arrangements? -

No Comment

2.2. General interest from Shipper Users in purchasing exit capacity at Bacton (BBL):

2.2.1. Would you be interested in reserving exit capacity at Bacton (BBL), either now or at a future date? No Comment

2.2.2. If yes, what capacity would you be interested in reserving: firm (obligated and/or non-obligated), interruptible or both? No Comment

2.2.3. If interested in firm capacity, would you be more interested in short-term or long-term capacity products? No Comment

2.3. Overall interest from Shipper Users in purchasing Licence Baseline Exit Capacity products on exit at Bacton (BBL):

2.3.1. Please indicate the volume (___ GWh/day, duration (in years) and price (in £) to which you would be interested in purchasing.

No Comment

2.3.2. Would you be willing to enter into a long-term contract which covers the indicated amount of capacity from the previous question 2.3.1? If not, please indicate why and which products on exit at Bacton (BBL) you would you be interested in purchasing for the indicated amount.

No Comment

2.4. Overall Shipper interest in interruptible capacity products on exit at Bacton (BBL):

2.4.1. If only interruptible products were available at Bacton (BBL), would you be interested in purchasing them and why?

No Comment

2.4.2. Providing the price spread is favourable, would you be interested in day-ahead interruptible products on exit? If yes, please indicate the volume (___ GWh/day) that you would be interested in.

No Comment

2.5. Overall interest from Shipper Users in accessing storage facilities in Europe:

2.5.1. Are you interested in physical reverse flow at Bacton (BBL) to access storage facilities in Europe?

No Comment

2.5.2. If yes, please indicate the volume that you may be interested in flowing to store in Europe.

No Comment

2.6. The benefits/challenges from the change in arrangements for accessing exit capacity at Bacton to allow Shipper Users to access Licence Baseline Exit Capacity at Bacton (BBL):

2.6.1. What do you believe would be the benefits of such a change in existing arrangements at Bacton (BBL)?

BBLC believes that the current UNC and GT Licence arrangements should be changed to reflect the arrangements that currently apply to the provision of Entry Capacity at the Bacton IPs, i.e. an Aggregated Exit Capacity obligation on NGG across both the BBL and IUK offtakes coupled with UNC arrangements for "competing auctions" within the Prisma platform. Such a change would remove the difference in treatment of Entry and Exit Capacity at these interconnectors, enable 'BBL' Shippers to have access to NGG Obligated Exit Capacity and would facilitate greater competition between the Interconnector Operators. It would also remove the current uncertainty and complexity of the unbundled two-stage capacity booking process currently faced by Shippers and enable Shippers to compete on a level playing field for Exit Capacity at Bacton. These changes would also facilitate compliance with EU regulations. Without these changes the benefits referred to in Section 1 above will not be realised and will have an adverse impact on GB customers.

2.6.2. What do you believe would be the key challenges and disadvantages of changing existing arrangements at Bacton (BBL)?

BBLC believes that the current restrictions on NGG offering Exit Capacity at the Bacton BBL offtake, and Shippers' ability to compete for such Capacity, should be removed by extending the current regulatory (Licence and UNC) arrangements related to the provision and sale of IP Entry Capacity to apply similarly to Exit Capacity at Bacton IPs. Given that the industry has already completed such an exercise during the incorporation of the EU CAM Network Code rules into the UNC, BBLC considers that the above changes can be completed using currently available UNC and NGG's Licence change processes without undue difficulty. Therefore, based on the outcome of the Call for Evidence, BBLC would welcome Ofgem setting out a route map for implementing suitable changes to the GB regulatory framework. BBLC does not envisage any significant disadvantages with introducing the changes identified above. The Shippers currently able to access Exit Capacity at the Bacton IPs would still be able to access the same quantity of Exit Capacity at Bacton using the same systems and processes as they do today. The only change would be that they would potentially face a greater level of competition for such Capacity.

3. Other points

3.1.1. If available, please share with us your own demand forecasts/expectations which may relate to GB's exports to the Continent.

No Comment.

3.1.2. In your opinion, is there going to be demand for GB gas in Europe? If yes, what are the assumptions underlying these trends.

Yes. As referred to in 1.1.6 above, several industry reports have high-lighted Europe's growing and future dependence on energy interconnection, and LNG importation infrastructure, as indigenous gas supplies decline. The Dutch government's decision to significantly reduce the output from the Groningen field will also have a direct impact on the import requirements of The Netherlands.

With a compound annual growth rate of 23% since 2011 the TTF gas market hub is now the largest and most liquid trading hub in Europe. It has become a reference point for LNG market participants[7]. This has resulted in the TTF being viewed as Europe's LNG hub and is often referred to as the balancing market for world LNG supplies.

BBL PRF introduces the first direct link to flow gas from GB to the TTF. It increases market integration and opens up a lower cost route to the TTF hub for LNG supplies delivered at GB LNG importation facilities. Such market integration and cost reduction will positively impact demand for Capacity.

3.1.3. In your opinion, would changing the existing arrangements for accessing exit capacity at Bacton (BBL) have any implications for gas security of supply in GB? If yes, please specify.

Yes. BBL PRF increases security of supply through increasing gas flow flexibility and market integration. However, this is only true in so far as Shippers are able to access this flexibility.

Given recent reductions in directly connected GB storage, facilitating Shipper access to NGG's Licence Obligated Exit Capacity, to use at the Bacton BBL offtake, would deliver benefits for GB security of supply. Changing the existing UNC and NGG Licence arrangements would provide direct access to the storage available in the Netherlands at a lower cost than other currently available options due to the more direct route between the NBP and these storage facilities. This would therefore reduce the costs of using this storage to mitigate GB security of supply risks.

3.1.4. Which auctions do you prefer/usually bid into and why?

No Comment.

[7] https://www.cmegroup.com/education/articles-and-reports/a-story-of-success-the-evolution-of-ttf-trading.html

3.1.5. Is there anything you would wish to add on the topic?

The EU Energy Third Package energy market reforms added to Ofgem's Principal Objective, of protecting consumer interests, by introducing a duty regarding "*the promotion of an internal energy market* [within the EU] *and the removal of restrictions to trade between European Union Member States*". The Capacity Allocation Mechanism (CAM) EU Network Code also reflects this aim, of promoting competition, by proposing the use of "competing auctions" for the sale of capacity where such capacity is constrained and there is more than one interconnection route that could make use of such capacity.

Changes to the current UNC and Gas Transporter (GT) Licence Exit Capacity arrangements applicable to the IPs at Bacton would open up competition for capacity between the two largest and most liquid energy markets in Europe and ensure continued GB compliance with the EU CAM Network Code.

The UNC document does not currently facilitate "competing auctions" for Exit Capacity at Bacton. Also, the available NGG GT Licence Baseline NTS Exit (Flat) Capacity amount assigned to cross border flows at Bacton is currently ring-fenced to the Interconnector UK (Bacton (IUK)) offtake. NGG has confirmed that they are unable to provide additional Exit Capacity at Bacton over and above the existing 23GWh/h, all of which is allocated to IUK, without completing significant additional system investment. As such the technical capability of the NTS network at Bacton is less than the total technical export capability of the two interconnector pipelines at this network point. The Bacton IP is therefore technically constrained and the exit capacity capabilities of the BBL pipeline and the IUK pipeline can be considered as "competing capacities" as defined in EU CAM Code Article 3(14)[8]. This combination of restrictions prevents Shippers, wishing to use the BBL pipeline to access directly The Netherlands' gas market or the TTF market hub, from competing on level terms with Shippers seeking to use alternative routes to market.

Introducing regulatory regime changes, such as extending the current UNC arrangements for "competing auctions" to include Exit Capacity at the Bacton IPs and giving equal / open market-based access to the existing NGG GT Licence Baseline Exit Capacity at these IPs would remove restrictions to trade between the TTF and NBP markets. It would also enable Shippers, wishing to access the European energy markets, via either the IUK or BBL interconnectors, to compete on level terms. Such changes would enhance GB access to the Mainland Europe energy markets to the benefit of GB consumers as described in our response to question 1.1.7 above.

[8] EU CAM CODE (2017/459) Article 3 - Definitions – "COMPETING CAPACITIES" means capacities for which the available capacity at one point of the network cannot be allocated without fully or partly reducing the available capacity at another point of the network.