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Dear Tom.

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

Thank you for the opportunity to provide views on this subject.

Summary

The mechanism by which shippers will obtain access to current firm NTS exit capacity at Bacton in future needs to be efficient and without any unnecessary regulatory constraints. Centrica is of the view that the 2 current NTS exit points at Bacton (one serving the BBL interconnector, the other the IUK interconnector) should be combined and that competing auctions for the NTS exit capacity should be introduced via the PRISMA platform alongside implicit auctions to enable competition between the 2 interconnectors. Although this will likely entail changes to National Grid Gas's Licence and may require some changes to the Interconnection Agreements between the TSOs, this is to be preferred to the other option whereby capacity might be substituted from one exit point to another: capacity substitution currently works on long lead times and is tied-up with National Grid's PARCA process for securing incremental capacity.

Combining the two NTS exit points and allowing competitive access to the exit capacity will lead to more efficient price discovery, as both interconnector providers compete to innovate on product and price to attract end users. As customers book either BBL or IUK they can then source exit capacity. The fungibility of exit capacity means the interconnector service selling last will have to use non-obligated exit capacity – i.e. market forces determine which supplier has the weaker product with non-firm exit capacity, not historical first mover advantage. It is essential with this structure that the exit conditions with NGG for BBL and IUK are of a direct

equivalence. E.g. IUK should not be charged by NGG for pressure services at Bacton if an equivalent charge is not placed on BBL.

Answers to Specific Questions

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?

The introduction of physical reverse gas flow on the BBL interconnector presents gas shippers and traders with new opportunities for the marketing of gas. This should promote greater liquidity at the NBP and in turn lead to a more competitive market. The current arrangements for access to NTS exit capacity at Bacton significantly limits the opportunities to physically ship gas from the UK to the Netherlands via the BBL interconnector with shippers having to rely on short-term interruptible capacity. This will severely limit trading opportunities because of the lack of certainty in obtaining the NTS exit capacity and because the duration of trading periods will most likely be, as a consequence, very short

Therefore, to fully realise the anticipated benefits of the new BBL arrangements it is essential that firm NTS exit is made available in the most cost-efficient manner possible. This would be best accomplished by changing the current arrangements for accessing the existing firm/ obligated NTS exit capacity at Bacton so that Shipper Users can bid for capacity, for access to both the BBL and IUK interconnectors, via competing capacity auctions.

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

Providing more trading options, with the best possible conditions for access to firm NTS exit capacity, is conducive to enhancing trade liquidity at the NBP. With physical reverse flow on the BBL interconnector, shippers and traders will have more direct access to the most liquid market in NW Europe - the TTF. This is therefore consistent with wider European aims of improving conditions for trading gas in NW Europe and with providing an overall more efficient marketplace.

1.1.3. Would open new trading opportunities for Shipper User?

With the right network access conditions, Shipper Users will be able to physically flow gas to the most liquid gas market in NW Europe.

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

A more integrated European gas network will provide better access to European storage facilities.

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

Much will depend on supply and demand but providing market participants with more shipping and trading options can only help to attract LNG to GB.

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

As mentioned above, providing unconstrained access to the TTF market should encourage more trade at the NBP.

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?

A higher level of market liquidity should help to secure or lower wholesale gas prices and these benefits will flow through to consumers. Benefits to the security of gas supply can also be anticipated (e.g. by attracting more LNG to the GB market) that will also be good for consumers. By improving market conditions, new opportunities should arise for Shipper Users as the economic attractiveness of gas as a commodity grows among consumers. Shipper Users would also be able to more actively engage in flowing gas to the Netherlands thus providing them a new option for optimising gas resources.

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

Freeing up access to existing firm NTS exit capacity at Bacton will likely lead to some competition between the owners/ operators of the BBL interconnector and the IUK interconnector. If the current situation remains, existing firm NTS capacity at Bacton will remain dedicated for the use of shippers that want to flow gas from GB to the Belgian market. This not only restricts shipper choice, and therefore would not result in optimal trading, but it would also remove possible incentives on IUK to provide more cost-effective access to its interconnector. Therefore, providing competition for existing firm NTS exit capacity at Bacton will probably encourage competition between the 2 interconnectors resulting in more attractive marketing propositions from them. As a result, greater competition in gas shipping would be encouraged.

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?

Yes, for the various reasons provided above.

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?

We are interested in the new shipping and trading opportunities that would be opened up. Therefore, we would be interested in procuring firm NTS exit capacity at Bacton to flow gas to either or both markets in the Netherlands and Belgium.

2.2.2. If yes, what capacity would you be interested in reserving: firm (obligated and/or non-obligated), interruptible or both?

Arrangements that maximise the opportunity to flow and trade gas are desirable. Therefore, both firm and interruptible capacity will be of interest. Decisions on what to procure will depend on such factors as relative transportation charges, availability of capacity and the nature of the trading activity.

2.2.3. If interested in firm capacity, would you be more interested in short-term or long-term capacity products?

We are open-minded on this. Much will depend on how easy it will be to access the interconnector, the product offerings and transportation rates. It is currently unclear what the future GB gas transmission charging methodology will look like and what this will mean for gas transportation charges; it is therefore difficult to predict what the structure and future scale of charges will look like and this will tend to mitigate against longer-term capacity commitments at this time.

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.

Trading and contractual supply opportunities will inform the quantity and price of the capacity we might be interested in. Wider market conditions will have a major bearing as will possible regulatory changes such as the implementation of the EU Tariff network code.

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.

Please refer to the answer provided to question 2.3.1.

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?

We might be interested in interruptible products but the unavailability of firm products would inhibit trading opportunities. Interruptible products may work for day-ahead/ within-day trading and be slightly cheaper than firm products but reliance on such capacity increases contractual risk.

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.

Please refer to the answer provided for question 2.4.1.

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

Providing greater access to storage facilities in NW Europe will form part of the attractiveness of freeing up the current firm NTS exit capacity arrangements at Bacton. The answers provided above should inform the questions raised in this section.

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

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

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)?

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

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.

Our expectations today are likely to be very different from those should there be improved access to the BBL interconnector.

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.

There is already demand for GB gas in Europe - typically, gas will flow from GB to Belgium via the IUK interconnector in summer. As alluded to above, it is possible to entertain the view that better physical access to NW Europe may attract more LNG to GB and increase flows from GB to Europe.

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.

Please refer to the answer provided to question 1.1.7.

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

Centrica bids into various auctions for gas transmission capacity depending on anticipated requirements, contractual fulfilment, trading conditions and price.

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

The mechanism by which shippers will obtain access to current firm NTS exit capacity at Bacton in future needs to be efficient and without any unnecessary regulatory constraints. Centrica is of the view that the 2 current NTS exit points at Bacton (one serving the BBL interconnector, the other the IUK interconnector) should be combined and that competing auctions for the NTS exit capacity should be introduced via the PRISMA platform. Although this will likely entail changes to National Grid Gas's Licence and may require some changes to the Interconnection Agreements between the TSOs, this is to be preferred to the other option whereby capacity might be substituted from one exit point to another: capacity substitution currently works on long lead times and is tied-up with National Grid's PARCA process for securing incremental capacity.

Combining the two NTS exit points and allowing competitive access to the exit capacity should lead to more efficient price discovery and will provide efficiencies via the increased fungibility of the capacity.

Yours sincerely,

Riccardo Rossi
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