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Submitted by email to: Tom.Corcut@ofgem.gov.uk

Dear Tom,

Gazprom Marketing & Trading response to Ofgem Call for evidence re Change to Existing Arrangements for Accessing Licence Baseline Exit Capacity on the National Transmission System at Bacton Interconnection Point

We welcome the opportunity to respond to provide our views in this Call for Evidence. Overall, we're supportive of additional firm Bacton IP capacity being made available for BBL however this requires a through cost benefit analysis and close consideration of the points we have addressed in our responses below.

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?

From a shipper's perspective, yes, shippers will be able to transport gas via both BBL/IUK at their maximum technical capacity when both TTF and Zeebrugge spreads support exports from GB to the continent without operational constraints.

This would also be beneficial in generating competition between IUK and BBL, as both parties would set their pricing at a more competitive level in order to avoid distorting the NBP spreads and reducing the amount of volumes delivered by levelling the playing field for both parties. It is vital however, that the potential benefits for competition will need to be assessed through a thorough cost benefit analysis on the NTS and also the risk of interruption.

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

Yes, as long as congestions are relieved.

1.1.3. Would open new trading opportunities for Shipper User?

The enablement of physical reverse flow has already provided additional opportunity to optimise NBP-TTF spreads.

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

In the scenario where both IUK and BBL are delivering at their technical maximum capacity, yes additional firm Bacton IP exit capacity would allow additional 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?

We do not believe there is sufficient evidence to suggest that additional pipeline interconnection would make LNG deliveries more attractive.

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

This would support NBP/TTF trading which is already liquid. The key driver to enable firm capacity should be to provide shipper certainty and to level the playing field between both IUK and BBL.

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, as economic theory suggests, greater competition results in lower prices therefore we would anticipate that IUK may respond by moving closer to marginal pricing.

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

No further comments.

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

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?

Yes

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

Firm and interruptible

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

Both

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.

We have potential interest in volumes up to the technical maximum based on current tariffs

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 be interested in purchasing for the indicated amount.

Any potential interest in long-term capacity would be subject to the economic conditions and would only be applicable for seasonal demand.

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 would be interested in purchasing interruptible products, subject to National Grid providing a thorough assessment of the risk of interruption. We would be particularly interested in seeing pressure/heat maps of the NTS representing the various scenarios where Bacton IP exit could be interrupted. The



procedures that would apply during an interruption at Bacton IP exit would also need to be well explained to help shippers better understand the potential risks.

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.

Yes, subject to the “deemed” interruptible risk level

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?

Yes

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

As we optimise on a short-term basis, we’re not able to currently share these volumes.

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)?

Please refer to answers in question 1

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

Additional costs for investment or impact on tariffs that could make the route uneconomic.

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.

Please refer to Summer ’19 IUK forward flows as a reference point for demand. This can be found on IUK’s website



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 – based on historical trends, we believe seasonal demand for GB gas in Europe will continue.

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.

No, we do not believe there is any evidence to suggest additional firm Bacton exit capacity would impact GB gas security.

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

We have a preference for short term capacity auctions as this provides us with flexibility to be responsiveness and optimise rapid market changes.

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

We would like the following points to be considered in this project:

- Any methods used to provide firm Bacton IP exit capacity to BBL, should not impact IUK's firm capacity at Bacton
- Maintenance lengths/risks/downtime must also be considered when deciding if Bacton exit cap should be expanded for BBL. NG should be able to continue best operational practice and minimise downtime for shippers
- This review should provide better transparency on the realistic and dynamic capabilities of the NTS, not solely based on baselines outlined in National Grid's licence. Please refer to Fluxys TENP dynamic offering of firm and interruptible capacity as an example

We hope the comments above prove helpful. Please do not hesitate to contact me on +44 (0)20 7756 9732 or at sinead.obeng@gazprom-mt.com if you wish to discuss any aspect of our response in further detail.

Yours sincerely,

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