

To Shipper Users, network companies, suppliers, consumers and their representatives and other interested parties

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Dear Stakeholder,

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

We have been approached by the interconnector BBL Company V.O.F. (BBLC) who have recently undertaken an investment to enable physical reverse flow of gas from Great Britain (GB) (Bacton) to the Netherlands (Balgzand).

The current arrangements in National Grid Gas Plc (NGG) Gas Transporter Licence Special Conditions¹ stipulate that the Licence Baseline Exit Capacity² for the Bacton (BBL) Aggregated System Entry Point (ASEP) is set at 0 Gigawatt hours (GWh)/day. As such, BBLC considers that it does not have equal and transparent access to the existing available NGG exit capacity at Bacton.

This Call for Evidence (CfE) is to seek your views regarding whether or not existing arrangements on exit at Bacton should be changed to allow Shipper Users to access Licence Baseline Exit Capacity at both Interconnection Points (IP) at Bacton: Bacton (IUK) and Bacton (BBL). Although some of the questions relate to Shipper Users, we welcome views from all interested parties.

Background

The GB gas market is physically connected to the continent via two bidirectional gas interconnectors that connect to the National Transmission System (NTS) at the Bacton gas terminal: Bacton (IUK) (GB-Belgium) and Bacton (BBL) (GB-Netherlands). As such, Bacton is an ASEP, where the European interconnectors 'meet' the NTS, flowing gas to and out of GB.

BBLC operates the BBL pipeline, which is a 235-kilometre gas pipeline with a daily import capacity of ~500 GWh (46 million cubic metres (mcm))³ between Balgzand in the Netherlands and Bacton (BBL) in GB. The BBL pipeline connects Europe's largest trading hubs, Title Transfer Facility (TTF) (Netherlands) and the National Balancing Point (NBP) (GB).

¹ National Grid Gas Plc (NTS) Gas Transporter Licence Special Conditions, Table 8.

² Means the volume of Exit Capacity that the Licensee must offer for sale as of 1 April 2013 as set out in Table 8 of Special Condition 5G (Determination of Incremental Obligated Exit Capacity volumes and the appropriate revenue drivers to apply). Also referred to as 'Enduring Flat Baseline' capacity.

³ 1 GWh = 0.091 mcm, National Grid Gas Ten Year Statement 2018; Appendix 6 Conversion matrix.

Until recently, the BBL pipeline was physically unidirectional only, flowing gas from the Netherlands to GB. In December 2017, BBLC shareholders decided to carry out works to enable bidirectional physical flow on this pipeline, investing approximately €30m. The physical reverse flow project has recently been completed and the BBL pipeline is now physically capable of offtaking up to ~170GWh/d (15 million cubic metres (mcm)/day) of gas from the NTS at Bacton (BBL). Physical reverse flow to the Netherlands provides a new route for British export gas capacity to Europe, new trade opportunities and direct access to the Dutch gas market and storage facilities, potentially improving GB's gas market liquidity, competition and reducing transmission charges for GB consumers.

Current Entry arrangements

Prior to 2015, NGG made no distinction when allocating entry capacity for gas from United Kingdom Continental Shelf (UKCS) or Europe, as Bacton was a single entry point. In 2015, however, access arrangements on entry at Bacton were changed to ensure compliance with EU CAM Regulation and the single entry 'Bacton' point was split into two entry ASEPs: Bacton IP (encompassing both entry from IUK and BBL) and Bacton UKCS for gas arriving from the UKCS. The baseline capacity of Bacton IP ASEP was set close to the sum of the maximum technical import capability of both interconnectors, in order to maximise the offer of bundled cross-border capacity, which was another of CAM requirements.

Since 2015, on entry, a single Bacton IP has accommodated gas arriving from the continent via the two interconnectors. The full range of capacity products is offered to both BBLC and IUK Shipper Users at Bacton IP. In cases of contractual congestion, as defined by EU CAM Regulation (2017/459), Shipper Users compete for capacity which is flowed into GB from Belgium or the Netherlands by either IUK or BBLC. These arrangements are referred to as competing auctions.

Current Exit arrangements

The current Bacton exit arrangements are different from the arrangements on entry. At present, NGG is obliged to offer 623.58 GWh/day (57 mcm/day) of Licence Baseline Exit Capacity at Bacton (IUK) and 0 GWh/day at Bacton (BBL).

IUK has the capability for physical flow in both directions, linking the NBP and Zeebrugge hubs. Upon expiry of IUK's long-term contracts at the beginning of October 2018, there has been a significant drop in booked capacity volumes resulting in Licence Baseline Exit Capacity at Bacton (IUK) largely unsold.

The current arrangements mean that even though the BBL pipeline is now physically capable of flowing gas from Bacton (BBL) (GB) to the Netherlands, NGG cannot offer Licence Baseline Exit Capacity at Bacton (BBL). Therefore, at present, NGG can – at its discretion – only offer the following capacity products to BBLC Shipper Users at Bacton (BBL):

- a) *Interruptible (off-peak) capacity products*; these products can be curtailed if there are low pressures on the network and can only be offered day-ahead.
 - Interruptible products (off-peak products) are released as a result of an automated process whereby capacity available on Gemini is offered.
 - Shipper Users go through the IP auction (day ahead capacity, it cannot be purchased on the day).

- b) *Non-obligated capacity products*; these firm capacity products can be offered as day-ahead and within day. As opposed to obligated capacity:
 - The ability to release non-obligated capacity is dependent on NGG's forecasts of demands for capacity and the capability of the network.
 - It is a discretionary product and no guarantee can be provided as to when it will be offered; for example, it may be available on one day but not the next.

The key reason for the differing arrangements for accessing capacity on entry and exit at Bacton is that, when arrangements were changed in 2015, Bacton (IUK) was the only exit connection at Bacton. BBLC did not formally request exit capacity at Bacton (BBL) at that point as the pipeline was not physically capable.

BBLC now wish to offer its Shipper Users a full range of products on exit at Bacton as the BBL pipeline is now physically capable of offtaking gas from the NTS at Bacton (BBL). In addition, the expiry of IUK's long-term contracts has also structurally changed flow patterns, interconnector utilisation rates, and NBP vs TTF price dynamics.

We want your views

This open letter is a first and key step in the process of stakeholder engagement to call for evidence and assess the interest from all parties in enduring capacity products on exit at Bacton (BBL). It will help us set the priorities in determining *if* and *how* the existing arrangements should be changed to maximise consumer benefits, while at the same time safeguarding competition and security of supply.

We welcome responses and evidence (where possible) to the questions in Annex 1 or any other relevant data, including responses where there is no interest in using exit capacity at Bacton (BBL), by the end of Monday, 16 September 2019. Evidence supporting your answers to the questions will be especially helpful. We will consider any views about future capacity needs as expressions of interest and not firm commitments.

Unless clearly marked confidential, all responses will be published by placing them on our website www.ofgem.gov.uk. You may request that your response, or part of response, is kept confidential by clearly marking your documents to that effect.

Please send your responses to Lea.Slokar@ofgem.gov.uk and/or Abu.Sayeed@ofgem.gov.uk.

Yours sincerely,



Tom Corcut
Deputy Director of Wholesale Markets

Appendix 1
Questions for all interested parties

We welcome responses to the questions in Annex 1 or any other relevant data. We will consider any views about future capacity needs as expressions of interest and not firm commitments

Please submit reasons and supporting evidence (where possible) for your answers to the questions, which will be especially helpful to us.

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?
- 1.1.2. Would improve efficiency and competitive bi-directional interconnection with Europe?
- 1.1.3. Would open new trading opportunities for Shipper User?
- 1.1.4. Would provide additional access to existing storage facilities in Europe that Shipper Users would value?
- 1.1.5. Would make GB a more attractive place for LNG deliveries due to the additional interconnection with Europe?
- 1.1.6. Would be good for market GB's gas market liquidity and transit flows?
- 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?

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

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?

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

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.
- 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.

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?
- 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.

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?
- 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.
- 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.
- 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.
- 3.1.4. Which auctions do you prefer/usually bid into and why?
- 3.1.5. Is there anything you would wish to add on the topic?