

Representation - Draft Modification Report UNC 0675

Enabling changes to the BBL Interconnection Agreement to facilitate physical reverse flow

Responses invited by: **5pm on 14 May 2019**

To: enquiries@gasgovernance.co.uk

Representative:	Pavanjit Dhesi
Organisation:	Interconnector UK Ltd
Date of Representation:	14 May 2019
Support or oppose implementation?	Oppose
Alternate preference:	
Relevant Objective:	<p>b) Negative</p> <p>d) Negative</p> <p>g) Negative</p>

The consultation is aimed at establishing if the content/effect of the variation have caused you to change a view that you previously expressed, or to take a view that you had not previously considered. Please note any representation received in respect of Modification 0xxx will be carried forward should parties not wish to change their original representation.

Reason for support/opposition: Please summarise (in one paragraph) the key reason(s)

IUK is opposed to this modification because there is a detrimental and discriminatory impact on services established in the IUK/ National Grid (NG) Interconnection Agreement (IA). The impact of the proposed changes to the BBL/NG IA on the IUK/NG IA and the interlinkages between the BBL/NG IA and the IUK/NG IA have not been considered despite the proximity of the IUK and BBL connection points at Bacton. The proposed amendments have a negative and discriminatory impact on the pressure, flow, velocity control and gas quality commitments made by NG in the IUK/NG IA, the effect of which distorts and hinders cross border flows via the IUK interconnector, adversely affecting shippers and the GB market and/ or consumers as a whole.

IUK's responses in this document are provided without prejudice to IUK's position in respect of this or any further consultation on the UNC modification proposal, and to IUK's position generally in respect of the impact of the UNC modification proposal on the IUK/NG IA.

Self-Governance Statement: *Please provide your views on the self-governance statement.*

IUK does not consider it appropriate for this modification to be subject to self-governance. As explained below, IUK believes that the proposal will have an adverse effect on competition related to the transportation of gas and on the operation of one or more pipeline systems.

Implementation: *What lead-time do you wish to see prior to implementation and why?*

There is a need to urgently review the IUK/NG IA, consider the interactions with the BBL/NG IA proposals and make any necessary amendments before changes to the BBL/NG IA become effective. IUK has been actively seeking engagement with NG on this matter for several months and will continue to do so. As part of its engagement, IUK has written to NG requesting a formal review of the IUK/NG IA.

We expect NG to address this issue expeditiously: NG needs to properly consider the issues set out below and work with IUK to find solutions to the regulatory and operational issues that arise because of the configuration of the feeders and terminals at Bacton.

Impacts and Costs: *What analysis, development and ongoing costs would you face?*

Please see section referring to errors/omissions in this the modification report.

Legal Text: *Are you satisfied that the legal text will deliver the intent of the Solution?*

Please see section referring to errors/omissions in this the modification report.

Are there any errors or omissions in this Modification Report that you think should be taken into account? *Include details of any impacts/costs to your organisation that are directly related to this.*

The modification does not consider the impact or interaction of the BBL/NG IA proposals on or with the IUK/NG IA. The report erroneously suggests no impact for IUK or its users. There is a detrimental and discriminatory impact on services agreed in the IUK/NG IA (as discussed further below). The proposals create a negative impact on IUK and thus UNC relevant objective b) which obliges the “coordinated, efficient and economic operation of [...] (ii) the pipe-line system of one or more other relevant gas transporters”. It also has a negative impact on relevant objective d) as it fails to further secure effective competition between relevant shippers using NTS capacity in combination with the respective interconnectors.

The proposals do not further compliance with relevant EU regulations but, rather, infringe these core obligations as the discriminatory impact on the IUK/NG IA harms cross border trade.

We also note the modification report suggest that the proposals further compliance with the EU Security of Supply Regulation (EU) 2017/1938, referring specifically to addressing Article 5 rules on physical reverse flow. Yet this modification report contains no information or links to any assessment against the criteria outlined to justify compliance with Article 5. The relevant rules in Article 5 require a cost benefit analysis to be undertaken which includes an assessment of market demand, a feasibility study, costs to the system and benefits to security of supply. Those rules also require an assessment of the impact on existing infrastructure. We are not aware of any market demand assessment having been made which concludes that the reverse flow satisfies the cost benefit analysis. The proposal as currently presented is therefore incomplete.

Please provide below any additional analysis or information to support your representation

Undue discrimination

Section 9(2) of the Gas Act 1986 imposes a duty on NG to avoid any undue preference or undue discrimination in the terms on which it undertakes the conveyance of gas through the transmission system.

Effective, non-distortive competition requires that the IAs at Bacton work together efficiently to ensure system integrity and reliance, and to avoid variable costs being allocated in a discriminatory manner (leading to the users of one interconnector operator unfairly subsidising the other).

The BBL/NG IA does not have the same pressure obligations as agreed in the IUK/NG IA which would therefore provide a competitive advantage to BBL. The BBL reverse flow project will affect the operation of the King's Lynn Compressors and hence increase the costs that IUK will be required to pay. Secondly, the proposed amendments to the NG/BBL IA include assurances by NG that it will provide an Anticipated Normal Offtake Pressure of 45 bar at the BBL Exit. NG does not however provide the same commitments to IUK in the NG/IA. On the contrary, in the IUK/NG IA, IUK is liable to contribute to the maintenance costs and operational costs of King's Lynn incurred by NG for the agreed normal offtake pressure of 45 bar and higher-pressure deliveries to the IUK Bacton exit point. This proposal is therefore discriminatory.

A review of the costs allocation must be carried out and a revised basis of the costs payable by IUK be determined. IUK should not be paying higher charges due to BBL's connection, or cross subsidising BBL flows. The IUK/NG IA should be amended to be in line with the commitment agreed with BBL before the NG/BBL IA is implemented with a view to avoiding undue discrimination.

Furthermore, the current IUK/NG IA allows IUK to request and pay for enhanced pressure levels for IUK exit. This is necessary in situations of high demand together with adverse NTS conditions (high ambient temperature, or high pressures in the downstream network) to maximise physical flows benefiting GB's export capabilities. NG has confirmed to IUK that BBL would also benefit from a higher pressure if it was requested yet IUK would be the only party paying for this service. This again creates a distortion as the BBL connection would free ride, reducing its costs to flow gas. It would thus create a disincentive for IUK to request a service which currently facilitates cross border flows.

A further area of discrimination is between commitments concerning flow and ramp rates. Whilst the IUK/NG IA has detailed and restrictive rules, the BBL/NG IA proposal is far less onerous. This again is discriminatory as it provides BBL more operational flexibility.

As mentioned above, IUK is of the view of that the IUK/NG IA should be amended before the BBL/NG IA is implemented to avoid any undue discrimination in contravention of NG's statutory duties.

Inoperability of the IUK/NG IA

A second exit point and additional flows are not accounted for in the IUK/NG IA e.g. in crucial formulas, pressure service calculations, measurement protocols, and velocity protocols. Due to the local grid topology, the connection of a second exit IP causes physical interdependencies which must be reflected in the IUK/NG IA.

Off-specification gas, pyrophoric dust and/or liquids ingress can adversely affect offtake at Bacton. IUK has experience of each of these risks and their impact ranges from a within day shut-down (dust), to a complete shut-in of facilities lasting months (liquids). As high velocity and flows are factors affecting these operational risks, it is important that a full technical and impact assessment is undertaken and measures put in place to address the increased operational risks (and their negative impact on security of supply and cross border trade) in advance of commissioning of any additional offtake at Bacton.

In the absence of any initiative by NG, IUK has repeatedly voiced its concerns that modifications are required as a matter of urgency. We remind NG of its statutory duty to avoid any undue discrimination or preference (which may be contravened by rendering aspects of the IUK/NG IA inoperable by not amending it before implementing the changes to the BBL/NG IA).

In addition, we note that the UNC Modification Panel should take into consideration whether the proposed modification better facilitates the achievement of the Relevant Objectives, including the efficient and economic operation of NG's pipeline system and that of other gas transporters. Rendering aspects of the IUK/NG IA inoperable would not, in our view, better achieve this.

Gas quality

The gas quality rules in the BBL/NG IA do not appear to be consistent with EU regulations and risk off spec gas being delivered to a neighbouring TSO risking the disruption of cross border flows. The NG/BBL IA proposal allows the possibility for NG to make upstream gas available to BBL Exit, without assuring that the gas quality is within specification. BBL can decide whether and at what rate to take such gas – though with a consequent obligation to put in reasonable endeavours to blend the off-specification gas¹. Given that NG is the TSO in between the upstream pipelines and downstream TSOs – for which it charges NTS entry and exit charges – pursuant to the UNC NG should ensure that it only accepts and delivers gas within specification; not offloading that risk and task to adjacent TSOs. The proposed arrangements affect the Bacton area as a whole, and the BBL/NG IA's interaction with NG's commitments (for example in relation to gas quality) under the IUK/NG IA should be considered before the BBL arrangements are implemented. In addition, the higher risk and consequences of receiving off-spec gas delivery at the IUK connection may disrupt flows through IUK and take time to resolve. As already noted this may again harm cross border trade and security of supply.

In terms of the UNC Network Exit Provisions, the proposed NG/BBL IA drafting leaves uncertainty for NG network users on their obligations and liability for gas quality at the BBL exit point. The liability provisions in the BBL access rules (as in the IUK access rules and NG's UNC) place the responsibility and liability for delivering in-spec gas quality with the shipper. The current proposals are likely to lead to contractual uncertainty and might lead to disputes. The proposal must make it clear that the NG cannot offload the responsibility for gas quality to an adjacent TSO and transfer the liability to that TSO's shippers. Otherwise the amendments would not in our view further the objective of achieving the efficient operation of the pipeline systems.

¹ It shall be noted that due to the physical proximity between the UKCS entry point (non GSMR gas) and the BBL exit IP (as well as the IUK Exit IP), the time period to assess the gas quality and consequently the choice to accept or refuse the gas flow is almost instantaneous - less than a minute - or de facto non-existing. The proposed text now also wishes to contractually transfer the task and responsibility to the adjacent TSO, away from NG's responsibility.

Late notice/ lack of engagement

There has been a lack of transparency on these proposals to date. NG has not initiated engagement with IUK to understand the impact or interaction between offtakes; there has been no explanation of how the proposals will work with current arrangements. This is despite the BBL reverse flow project being announced some 16 months ago and IUK being another exit point at Bacton. It has fallen to IUK since December 2018 (when the draft UNC was first introduced by NG), to seek engagement with NG, to understand the risks of the new offtake on the IUK/NG IA.

The original UNC modification proposal was very sparse, containing only high-level details for several months. The actual draft BBL/NG IA amendment proposals were only published by NG on 9 April 2019 shortly before the April UNC transmission working group. This has given little time for detailed assessment. No additional information has been shared by NG on the impact or interaction of the BG/BBL IA with the IUK/NG IA. The modification report contains no information or links to any assessment against the criteria outlined to justify compliance with Article 5 such as the technical feasibility studies and impact on existing infrastructure.

IUK notes that NG stated during the April UNC transmission working group that it will have the option to interrupt the service provision to BBL (given it will only make available non- obligated capacity²) in case it cannot deliver the services to IUK and IUK Shippers under its IUK/NG IA obligations. IUK welcomes this as a necessary action, yet considers it insufficient. NG should make sure there are no inconsistencies between the IAs, no discrimination and no risks to operational performance in the first place.

Next steps

We therefore expect NG to take proper account of its statutory duties, follow due process and (without limitation):

- Engage with IUK on the points outlined above, providing supporting studies and impact assessments on existing infrastructure and existing service obligations affected by the services NG intends to provide at the BBL Exit IP;
- Engage with IUK to modify the existing IUK/NG IA, including raising the necessary UNC modification proposal; and
- Amend the BBL/NG IA proposal as and where necessary taking account of the interaction with the IUK/NG IA.

We also expect the UNC Panel to duly consider this representation, and to withhold its approval to proceed with the current Modification proposal until the above actions have been satisfactorily completed and both amended IAs can be implemented simultaneously.

² To date no incremental market demand signal has been indicated for Bacton NTS BBL exit point. There has furthermore been no IP PARCA application for exit capacity at this point.