

Modification proposal:	<b>Uniform Network Code (UNC) 0785:</b> Application of UNC processes to an aggregated Bacton (exit) Interconnection Point (UNC785)		
Decision:	The Authority <sup>1</sup> directs this modification be made <sup>2</sup>		
Target audience:	UNC Panel, Parties to the UNC and other interested parties		
Date of publication:	23 February 2022	Implementation date:	To be confirmed by the Joint Office

## Background

There are two interconnectors connected at the Bacton terminal. These are the Balzgand-Bacton Line interconnector ('BBL'), and Interconnector Limited ('INT') which connects from Bacton to Zeebrugge.

INT has the capability for physical flow in both directions, linking the National Balancing Point ('NBP') and the Zeebrugge hubs. BBL was previously capable of physical flow in only one direction, from the Netherlands to GB. Although virtual reverse flow had already been accommodated, in December 2017, BBL Company V.O.F. ('BBLC')'s shareholders decided to carry out works to enable bidirectional physical flow on this pipeline.

The current arrangements for gas exiting the National Transmission System ('NTS') at Bacton are provided for in National Grid Gas Plc's ('NGG', 'the Licensee') Gas Transporter Licence Special Conditions ('the Licence'). Until recently, the two interconnectors were treated as two separate NTS Exit points in NGG's Licence, meaning that, for example, exit capacity was made available, and sold, separately at each of the two points.

<sup>1</sup> References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day-to-day work. This decision is made by or on behalf of GEMA.

<sup>2</sup> This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986.

On 15 October 2021, following an extensive consultative process<sup>3</sup>, we decided to modify Special Condition 9.13, Appendix 2 of the Licence<sup>4</sup>. The Licence change took effect on and from 15 December 2021.

The Licence modification removed the individual NTS Exit points 'Bacton (IUK)' and 'Bacton (BBL)', along with their associated Licence Baseline Exit Capacity, and introduced a new combined Interconnection Point ('IP') 'Bacton (exit) IP' with its own Licence Baseline Exit Capacity figure. The actual implementation of capacity allocation also required a change to the UNC at the new aggregated Bacton (exit) IP, which was to be completed by industry.

### **The modification proposal**

On 12 October 2021, NGG ("the Proposer") raised UNC785 seeking to implement these changes in the UNC. The Proposal seeks to extend the processes for allocating capacity (incl. competing auctions) at aggregated points to the newly aggregated Bacton (exit) IP.<sup>5</sup>

Competing auctions are necessary at Bacton on exit as, following the Licence change, the amount of the Licence Baseline Exit Capacity available at the new Aggregated Bacton IP (651.68 GWh/d) is less than the combined sum of the technical capacities of the BBL and INT pipelines.

UNC785 seeks to align the UNC with NGG's Gas Transporter Licence by explicitly recognising Bacton as an Aggregate NTS Exit Point<sup>6</sup> comprising two Interconnection Points in the European Interconnection Document ('EID')<sup>7</sup>.

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<sup>3</sup> [Call for Evidence: Change to Existing Arrangements for Accessing Licence Baseline Exit Capacity on the National Transmission System at Bacton Interconnection Point | Ofgem](#), from July to September 2019, [Initial impact assessment and minded to position on arrangements for accessing Licence Baseline Exit Capacity at Bacton Interconnection Point | Ofgem](#), from December 2019 to February 2020, [Statutory Consultation and Final Impact Assessment on proposed combining of two existing Bacton exit points in NGG's Gas Transporter Licence | Ofgem](#), from July to August 2021.

<sup>4</sup> [Decision to modify National Grid Gas Plc's Gas Transporter Licence to amend Special Condition 9.13, Appendix 2: combining of two existing NTS Exit Points | Ofgem](#)

<sup>5</sup> Competing auctions already exist on entry at Bacton and are already provided for within the UNC European Interconnection Document ('EID') for entry capacity only.

<sup>6</sup> Specifically, UNC785 proposes the Bacton (exit) IP is an aggregated *exit* IP ('ANEP') that consists of two individual IPs: an individual IP in respect of the BBL system; and an individual IP in respect of the INT system (referred to as 'IL' system in the modification proposal).

<sup>7</sup> EID applies to IPs. The identification of IPs is determined by the baseline tables within the NTS Licence.

NGG proposes that UNC785 is implemented from 1 March 2022 when the IT system changes that enable the implementation are delivered.

### **UNC Panel recommendation**

At the UNC Panel meeting on 20 January 2022, the UNC Panel unanimously agreed that UNC785 would better facilitate the UNC Relevant Objective (c) and the Panel therefore recommended its implementation. Panel Members considered that 'without UNC785 there would be a misalignment between the UNC and Licence leading to uncertainty and potential disagreement about how UNC processes should apply to the proposed Licence point – Bacton (exit) IP'.

### **Our decision**

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 21 January 2022. We have considered and taken into account the responses to the industry consultation<sup>8</sup> and the UNC Panel recommendation. We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the Relevant Objectives of the UNC;<sup>9</sup> and
- directing that the modification be made is consistent with our principal objective and statutory duties.<sup>10</sup>

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<sup>8</sup> UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at [www.gasgovernance.co.uk](http://www.gasgovernance.co.uk)

<sup>9</sup> As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, available at: <https://epr.ofgem.gov.uk/Content/Documents/Standard%20Special%20Condition%20-%20PART%20A%20Consolidated%20-%20Current%20Version.pdf>

<sup>10</sup> The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Gas Act 1986 as amended.

## **Reasons for our decision**

We consider that this modification proposal, which aligns industry processes with the Licence change, will better facilitate UNC Relevant Objectives (c), (d) and (g).

### ***Objective (c) so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence***

The Proposer considers that UNC785 better facilitates Relevant Objective (c) as it confirms how UNC processes (including competing auctions) will be applied at the newly combined point, ensuring a clear alignment between the Licence and the UNC, and thus allowing NGG to discharge its Licence obligations in an efficient manner. This view is supported by the Transmission workgroup and the UNC Panel.

One respondent considers that Relevant Objective (c) would be furthered by this modification proposal because it will align the UNC with NGG's obligation in the Licence to allocate existing Licence Baseline Exit Capacity at Bacton (exit) IP to BBLC and INT shippers. Specifically, the respondent argues that the Licence change taking effect on and from 15 December 2021 obliges NGG to make the existing Licence Baseline Exit Capacity at the Bacton (exit) IP available on an equal basis to all shippers wishing to use such capacity to deliver gas into either the BBL or INT pipeline. UNC785 seeks to extend these existing 'competing auctions' provisions to include the sale of Exit Capacity at the new aggregated Bacton IP. The respondent argues that this will ensure that the UNC provisions apply in the same way to both Entry and Exit Capacity, reflecting the new requirement within NGG's licence.

We agree with the Proposer that UNC785 better facilitates Relevant Objective (c). In the context of this decision, the relevant licensee is NGG. The changes to the Licence are now in effect and the relevant licensee, NGG, must comply with its Licence provisions. We consider that the changes proposed by UNC785 will enable the licensee to comply with the licence provisions regarding the Licence Baseline Exit Capacity at Bacton (exit) IP for BBLC and INT shippers, by explicitly recognising an aggregated Bacton (exit) IP in the European Interconnection Document ('EID') and the processes that will apply to it.

**Objective (d) so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition:**

***(i) between relevant shippers;***

***(ii) between relevant suppliers; and/or***

***(iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers***

One respondent considers that UNC785 will better facilitate Relevant Objective (d) as it will secure effective competition between relevant shippers. The respondent considers that aggregation of the two exit interconnector points requires NGG to make such capacity available to all shippers regardless of which downstream IP they wish to use to transport their gas. UNC785 details how NGG intends to comply with this new licence obligation through the extension of the existing competing auctions processes set out in UNC EID.

We agree that UNC785 will further effective competition between relevant shippers, and the two interconnectors, on exit at Bacton, as it will facilitate the processes that will help INT and BBLC shippers compete, on equal terms, for Licence Baseline Exit capacity, regardless of which direction they wish to flow.

UNC785 will ensure that the relevant provisions of the UNC are consistent with the Licence. This will remove a source of uncertainty regarding the applicable rules and provide additional clarity to the market. As a general rule, we consider that clarity surrounding the regulatory framework has a positive impact on effective competition.

**Objective g) compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.**

One respondent considered that UNC785 will better facilitate Relevant Objective (g). The respondent stated that by extending 'competing auctions' to the sale of NTS Exit Capacity on exit at Bacton, UNC785 will ensure that Exit Capacity released by NGG at the aggregated

Bacton IP is subject to the same administrative arrangements as those already considered to be EU CAM NC<sup>11,12</sup> compliant for Entry Capacity.

We agree with the respondent and consider that UNC785 will better facilitate Relevant Objective (g) as it will introduce processes that are fully aligned with the intention of the EU CAM NC (see recitals 3<sup>13</sup> and 4<sup>14</sup>). In Section 7 of our Final Impact Assessment (IA)<sup>15</sup>, we referenced Article 6.1 of the EU CAM NC which states that 'the maximum technical capacity shall be made available to network users, taking into account system integrity, safety and efficient network operation'. When NGG's technical capacity (651.68 GWh/d) is used at one of the IPs (i.e., Bacton (IUK) IP or Bacton (BBL) IP), it will not be available at the other point. We said that the EU CAM NC caters for precisely that situation because these are 'competing capacities' within the meaning of Article 3.14 EU CAM NC, ie, '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'.

The EU CAM NC goes into further detail (Article 6.1(a)) to discuss the measure needed to maximise the offer of bundled capacity by optimising the technical capacity, by requiring the Transmission System Operators ('TSOs') to establish and apply a joint method setting out the specific steps to be taken by the respective TSOs to achieve the required optimisation. EU

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<sup>11</sup> COMMISSION REGULATION (EU) 2017/459 of 16 March 2017 establishing a network code on capacity allocation mechanisms in gas transmission systems and repealing Regulation (EU) No 984/2013. [EUR-Lex - 32017R0459 - EN - EUR-Lex \(europa.eu\)](#)

<sup>12</sup> Since the UK exit from the EU, EU CAM NC has been retained as part of UK law. 'Retained law' has the meaning of the European Union (Withdrawal) Act 2018, s 6.7 ([European Union \(Withdrawal\) Act 2018 \(legislation.gov.uk\)](#)). EU CAM NC has been retained through The Gas (Security of Supply and Network Codes) (Amendment) (EU Exit) Regulations 2019/531, Schedule 4 ([The Gas \(Security of Supply and Network Codes\) \(Amendment\) \(EU Exit\) Regulations 2019 \(legislation.gov.uk\)](#))

<sup>13</sup> 'Inefficient use of and limited access to the Union's high-pressure gas pipelines lead to suboptimal market conditions. A more transparent, efficient, and non-discriminatory system of allocation of scarce transmission capacities needs to be implemented for the Union's gas transmission systems, so that cross-border competition can further develop, and market integration can progress. Developing such rules has been consistently supported by stakeholders.'

<sup>14</sup> 'Bringing about effective competition between suppliers from inside and outside the Union requires that they are able to flexibly use the existing transmission systems to ship their gas according to price signals. Only a well-functioning network of interconnected transmission grids, offering equal access conditions to all, allows gas to flow freely across the Union. That in turn attracts more suppliers, increasing liquidity at the trading hubs and contributing to efficient price discovery mechanisms and consequently fair gas prices that are based on the principle of demand and supply.'

<sup>15</sup> Final Impact Assessment: Proposed change to Existing Arrangements for Accessing Licence Baseline Exit Capacity on the National Transmission System at Bacton Interconnection Point, <https://www.ofgem.gov.uk/sites/default/files/2021-07/Final%20-%20Bacton%20Exit%20Impact%20Assessment.pdf>.

CAM NC anticipates that, where competing capacities are concerned, specific methodologies may be required to allocate capacity by TSOs, and we consider that UNC785 sets this out.

### **Decision notice**

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority hereby directs that modification proposal *UNC785*: 'Application of UNC processes to an aggregated Bacton (exit) Interconnection Point' is made.

**David O'Neill**

**Head of Gas Markets and Systems**

Signed on behalf of the **Authority** and authorised for that purpose