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E14 4PU

10 February 2020

Dear Julie,

Call for Evidence: Call for Evidence on the Electricity Transmission, Gas Transmission, Gas Distribution and Electricity System Operator Business Plans for RIIO-2

We refer to your Call for Evidence (CFE) dated 13th December 2019 seeking views regarding the Transmission System Operator's Business Plans for RIIO-2.

IUK supports the proposals for the redevelopment of the Bacton gas terminal outlined in the National Grid Gas Transmission's (NGGT) RIIO-2 business plan for 2021-26. IUK also supports the investment proposed to address subsidence at King's Lynn given its important role in providing gas compression on the flows to and from Bacton and the south eastern area. Sufficient flexibility should be foreseen in terms of scope, budget and timeline of the Bacton redevelopment project given there will be interactions with neighbouring terminal operators.

By way of background, IUK is a bidirectional interconnector linking the UK to Belgium. It is a 235km subsea pipeline between Zeebrugge and Bacton terminals. Over the past 21 years IUK has helped to provide the UK with energy security, stable prices, high market liquidity and significant trade benefits, by transporting approximately £1.5 billion of gas every year between the UK and Belgium. We therefore have and will continue to play a vital role in ensuring gas security of supply for the UK market.

During 2018 and 2019 we have participated in discussions with NGGT and industry to understand how the different re-development options for the Bacton Terminal might benefit consumers and consider how the different proposals affect our ability to transport gas to and from the United Kingdom through our interconnector to the Continent.

Redeveloping the Bacton terminal to improve its operational efficiency and resilience is essential for GB's security of supply. The terminal has regularly met a third of the nation's natural gas demand in recent years and (to take just one example) was central to maintaining flows across the country during the 'Beast from the East' extreme cold weather event in March 2018. Ensuring the terminal is redeveloped appropriately is vital for the future of the UK gas market. Similarly, the Bacton terminal is essential for the export of gas to the European continent, allowing the marketing of UKCS produced gas in summer time as well as the access to gas storage facilities on the continent. These gas volumes then come back to the GB market via the Bacton terminal in winter time and during periods of peak demand.

Throughout this stakeholder process, we have strengthened our judgement that redeveloping the Bacton terminal presents the most effective and lowest-risk approach for consumers. Moving forward with a piecemeal approach to ensuring the health of this critical asset, operational since 1968 and which has already exceeded its design life, would mean accumulating further risk which we consider unacceptable given Bacton's significance for the UK and adjacent gas markets.

Next to asset health related investments, it is our view that the changing supply environment also has an impact on the required capabilities of the terminal, i.e. the need for further risk prevention measures at the Bacton terminal.

- To illustrate, with regards to pressure, IUK thinks it is in the interest of the GB gas market for NGGT to provide lower grid pressure at Bacton in the winter period, supporting both UKCS and interconnector imports into GB, whilst ensuring a sufficient pressure in the summer periods to facilitate the export of UKCS gas via the interconnectors into continental markets / storage.
- With regards to gas quality, it is important that sufficient investment is undertaken to ensure gas quality of the gas supply in the face of the depletion of certain sources of UKCS gas. Whilst introducing a blending service can help, it is a prerequisite that the Bacton terminal is physically equipped to mitigate against the risk of liquids/dust entering into the network and interconnectors (which would consequently disrupt GB imports/exports for many months). Together with the upstream players, NGGT is well placed to prevent these risks from affecting downstream parties.

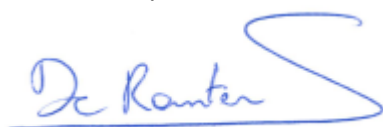
IUK finds it important to underline that for the longer term, all credible scenarios indicate a continuing role for gas and consequently for the gas transmission network. Electricity alone will be unable to meet peak winter heating needs. More than 80% of households are reliant on gas for heat, and gas still provides 39.5% of electricity generation needs – the largest single source. The Committee on Climate Change backed up this long-term view in its recent "Net-zero report", published in May 2019, proposing that 68% of today's total demand for gas would still be required in 2050, even in its ambitious net-zero scenario.

Accordingly, we anticipate that there will be a need for the Bacton terminal to import and export significant amount of gas beyond 2040, and that these supplies will remain critical to security of energy for "UK plc". They will also contribute to "the net-zero future", as gas will provide the baseload needed to enable renewables providers to innovate and grow. It will also have further potential to incorporate biogas and hydrogen blending and to be utilised to support CO2 capture (e.g. CO2 pipelines offshore). It supports the UK in meeting its climate change targets in the least disruptive and most affordable way.

We also wish to note that the cost of gas transmission infrastructure constitutes less than 5% of the average consumer's total gas bill. We understand that the need for new investments as well as asset maintenance needs to be duly motivated and scrutinized. However, next to the cost metric, one should also consider the value the gas infrastructure brings to society. In this case the benefits for current and future consumers significantly outweigh the cost of the re-development of the Bacton terminal.

If you wish to clarify anything in our response please do not hesitate to contact me or my colleague, Pavanjit Dhesi, Regulatory Affairs Manager.

Yours sincerely,



Steven De Ranter
Managing Director