



Consumers and their
representatives, gas
transporters, gas shippers, gas
suppliers and other interested
parties

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Dear Colleague

BBL interconnector expansion – approval of tariff

The Balgzand-Bacton Line (BBL) interconnector conveys gas from the Netherlands to the United Kingdom (UK). BBL Company (hereafter referred to as BBL), which operates this interconnector, is proposing to expand the capacity of the interconnector through the installation of an additional compressor. It has obtained regulatory approval for its proposed tariff arrangements from the Dutch regulatory authorities. In order to comply with its GB Interconnector Licence, it also needs to obtain approval of its tariff arrangements from the Authority¹.

BBL has asked whether the Authority would be willing to grant an approval of the tariff under paragraph 13 of Standard Licence Condition (SLC) 10 of BBL's Interconnector Licence. This allows for the Authority to utilise the approval granted by other regulatory authorities in coming to its decision on compliance of the tariff with the licence requirements. Ofgem conducted a consultation² on the proposed tariffs on this basis. This letter details the responses to the consultation and the consequential approval of the tariffs by the Authority.

Ofgem's consultation letter

The Ofgem consultation letter set out the background to the interconnector licensing regime, details of the proposed capacity expansion and the regulatory issues around BBL's proposal. It also gave details of the Dutch Ministry of Economic Affairs' (MEA) approval of BBL's proposed tariff and Ofgem's view as to how the tariff met the relevant charging methodology objectives. We concluded that we were minded to recommend that the Authority should grant an "approval by approval" of the BBL tariff for the proposed expansion capacity and invited comments on this view within a two week period.

Responses to our letter

Ofgem received one informal verbal response and two written responses to the letter (one of which asked not to be published). The verbal respondent was in agreement with the principles of reducing the regulatory burden through the approval by approval approach,

¹ The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

² BBL Gas Interconnector Expansion, 20 May 2008, Ofgem ref 66/08

but expressed concerns about the levels of transparency relating to the original approval by the MEA. A written response from an industrial user agreed with Ofgem's intention to approve the tariff, claiming that the proposed tariff was broadly cost reflective and transparent³. The other written response (which is available on Ofgem's website⁴) was focused on commenting on the approval by approval process, rather than the tariff itself. This respondent was concerned that since the licence does not explicitly oblige Ofgem to consult prior to granting such approvals, there is a risk that tariffs might be approved without interested parties having had the opportunity to make representations. Similarly, the respondent was concerned that future changes to tariffs did not need to be consulted on in this regulatory regime, which again could put interested parties at a significant disadvantage.

Ofgem's view

We note that one of the respondents was in favour of, and none were opposed to, Ofgem's intention to propose approval of the BBL tariff in this instance. On this basis, we conclude that our initial view to approve the tariff should be upheld.

We acknowledge the concerns of those respondents who considered that Ofgem should always consult when exercising its ability to approve tariffs under SLC 10(13) of the Interconnector Licence. Although the licence does not explicitly require Ofgem to consult, in this instance we felt it was appropriate for affected shippers to have the opportunity to comment. In keeping with the principles of better regulation, Ofgem is likely to consult whenever it is approached to approve a tariff under SLC 10(13).

Therefore, having considered the original submissions by BBL, the MEA's approval of BBL's tariff methodology and the responses to Ofgem's consultation on that approval, the Authority has decided that the approval of BBL's charging methodology by the MEA meets the requirements of SLC 10 of BBL's Gas Interconnector Licence.⁵

This notice constitutes approval of the charging methodology for the purposes of SLC 10 of BBL's Gas Interconnector Licence.



Stuart Cook
Director, Transmission

Signed on behalf of the Authority and authorise for that purpose

³ This respondent also commented that if the prices were not cost reflective, market forces would adjust prices as necessary; however, this approval fixes the tariff and it will only change if the tariffs on the existing contracts are also changed.

⁴ See the Gas transmission policy page of the Ofgem website

⁵ Specifically, that the charging methodology is objective, transparent and non-discriminatory.