

To:

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Date
12 December 2013

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Our reference
BBL V.O.F. 13.062

Your reference

Subject
RE: Options surrounding GB's implementation of the EU NC
on CAM (Reg 984/2013) at the Bacton entry point

Dear Rob,

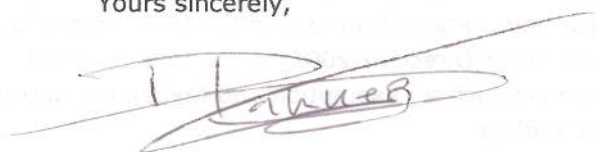
BBL Company V.O.F. (BBLC) welcomes the opportunity of responding to your consultation document on the above subject.

In this response BBLC will present its views on the two specific issues related to the Bacton entry point: implementing bundled capacity products (2 TSO or 3 TSO bundle) under the CAM NC and the future mechanism for managing and selling entry capacity at Bacton.

In summary, BBLC agrees with Ofgem that both a 2 TSO and a 3 TSO bundle would be CAM compliant and that both interconnector operators should propose which option they will implement, taking into account their individual business models and, where possible, shipper preferences. With regard to the future treatment of the Bacton entry point, BBLC fully supports Ofgem's view that the entry capacity made available at Bacton for both interconnectors should be equal to the sum of the declared technical capacities of the BBL and the Interconnector UK (IUK) pipelines and that remaining entry capacity at Bacton should then be assigned to UKCS production.

Should you require any further details following this response, please do not hesitate to contact me as I would be happy to discuss matters further with you.

Yours sincerely,



David Bakker
Manager Regulatory Affairs
BBL Company V.O.F.

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Implementing bundled capacity products: 2 TSO versus 3 TSO bundle

Before elaborating on 2 versus 3 TSO bundling, BBLC believes it would be helpful to clarify which part of the capacity of the BBL interconnector falls under the scope of the CAM NC with regard to the bundling requirement.

Introduction: exempted capacity

The BBL interconnector provides services to flow gas physically from the Netherlands to the UK and non-physical reverse flow services from the UK to the Netherlands. The initial forward flow capacity of the BBL interconnector (1.75 million cubic metres per hour, mcm/h) is exempted from regulations on tariffs and access rules, subject to the capacity and time limits given:

- Until 2 December 2016 with respect to approximately 1.15 mcm/h of capacity for the physical forward flow of gas from the Netherlands to the UK;
- Until 2 December 2022 with respect to approximately 0.6 mcm/h of capacity for the physical forward flow of gas from the Netherlands to the UK.

Additionally, in order to prevent potential problems in running parallel regulated and exempted regimes on the same pipeline, it was decided that after the expiration of the first initial contract (i.e. 2 December 2016) the capacity yielded by that expiration would be regulated until 2 December 2022 as follows: BBLC has to develop a market oriented, non-discriminatory and transparent mechanism (approved by the Dutch and UK authorities) for the allocation of the available capacity, in which BBLC, in setting its tariffs, is entitled to take into account the tariffs and conditions that are applied to the initial contracts.

Scope of CAM: non-exempted capacity

After the installation of an additional fourth compressor, the total forward capacity of BBLC as of 15th April 2011 was increased to 2.11 mcm/h. This additional capacity (0.36 mcm/h) does not fall under the exemption. It was decided by all relevant authorities (Dutch, UK and EU) that the regulatory regime which would become effective after the expiration of the first initial contract, should similarly be applicable to the additional capacity that became available following the installation of the fourth compressor. Therefore, a regime was established in which the tariffs and conditions that apply to the two longest running initial contracts were to be taken into account, resulting in a uniform regulatory regime applicable to the total forward flow capacity until 2022.

However, recital (6) of the CAM NC states: '...This Regulation does apply to non-exempted capacities in major new infrastructures which have received an exemption from Article 32 of Directive 2009/73/EC or from former Article 18 of Directive 2003/55/EC to the extent the application of this Regulation does not undermine such an exemption and taking into account the specific nature of interconnectors when bundling'.

Furthermore, it is stated in Article 3.4 of the CAM NC that: 'bundled capacity means a standard capacity product offered on a firm basis which consists of corresponding entry and exit capacity at both sides of every interconnection point'. Since the non-physical reverse flow services of BBLC are interruptible by definition, BBLC is not required to bundle this (virtual) capacity.

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This means that BBLC has to implement the bundling requirement as set out in the CAM NC not later than 1st November 2015 for the available part of its additional capacity (0.36 mcm/h) and, in addition, from 2 December 2016 for the available part of the capacity yielded by the expiration of the first initial contract (1.15 mcm/h). As indicated earlier it has been agreed that until 2 December 2022 such implementation should not undermine the initial, exempted contracts. Please see our website for an updated overview of available firm forward flow capacity:

<http://www.bblcompany.com/operations/available-transmission-capacity>.

Current operational principles: 2 versus 3 TSO bundling

As explained in Ofgem's open letter, the text of the CAM NC does not provide clear guidance on whether a bundled product in case of an interconnector should incorporate 2 TSOs or 3 TSOs.

Current practice suggests that IUK, which provides bi-directional physical flow services and already sells separate entry and exit capacity, will opt for a 2 TSO bundle. BBLC however, provides one-directional services on a physical basis and does not sell separate entry and exit capacity. Shippers holding BBL-capacity in fact hold both BBL-entry and BBL-exit capacity. With regard to nominations and allocations an 'in equals out'-principle is applied. Therefore, a 3 TSO bundle would be more in line with the current operations for BBLC.

However, BBLC is investigating in what way the market will be best facilitated in a bundled world. Consequently, shippers views will be taken into account when developing a proposal for implementation of CAM on the BBL pipeline. The interaction with other NCs, such as the NC on Balancing and the NC on Tariffs (which still needs to be developed), will also be taken into account.

BBLC agrees with Ofgem that both a 2 TSO and a 3 TSO bundle would be CAM compliant and that both interconnector operators, after consulting their shippers and adjacent TSOs, should propose which option they will implement, taking into account their individual business models and the possible interaction with other relevant Regulations.

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Future mechanism for managing and selling entry capacity at Bacton

Currently, gas enters the UK at the Bacton entry point from three sources: UKCS, IUK and BBL. Since Bacton is a single aggregated entry point, National Grid Gas (NGG) makes no distinction when allocating entry capacity for gas coming from UKCS, IUK or BBL. Under the CAM NC, this has to change since entry capacity that enables gas to enter the UK from both interconnectors lies within the scope of CAM, while entry capacity that enables production from the UKCS to enter the UK does not fall under the scope of the CAM NC. In short, a division has to be made in the single entry point Bacton, dedicating certain amounts of entry capacity to the different sources.

It is stated Article 6 of the CAM NC that:

'1. The maximum technical capacity shall be made available to network users (...)

(a) In order to maximize the offer of bundled capacity through the optimization of the technical capacity (...)'

BBLC fully supports Ofgem's interpretation that this means that the entry capacity made available at Bacton for both interconnectors should be equal to the sum of the declared technical capacities of the BBL and the IUK pipelines and that remaining entry capacity at Bacton should then be assigned to UKCS production.

Please note that total Bacton entry capacity is set at 1783.4 GWh/day, while the sum of the declared technical capacities of BBL and IUK (ie 494.4 GWh/day plus 807.6 GWh/day) is 1302 GWh/day. BBLC believes that NGG at all times should be obliged to dedicate to BBL that amount of Bacton entry capacity matching BBL's exit capacity. The same should be true for IUK. Therefore, reducing the amount of Bacton entry capacity available for both interconnectors below the level of the sum of total exit capacity of both interconnectors would result in non-compliance with the CAM NC.

Hence, BBLC would like to point out that it is assumed in NGG's documents on the 'Entry Capacity Substitution Methodology Statement' that 740.8 GWh/day of the total baseline capacity of the Bacton terminals of 1783.4 GWh/day is substitutable capacity as of 01-10-2017.¹ This would result in an amount of available non-substitutable capacity of 1042.6 GWh/day, well below the 1302 GWh/day which is needed for both interconnectors.

BBLC believes it is inappropriate for NGG to suggest that substitutable capacity at Bacton can exceed the total Bacton entry capacity minus the total exit capacity of the BBL and IUK pipelines as this would result in non-compliance with the CAM NC.

Therefore, BBLC fully supports Ofgem's view that the entry capacity made available by NGG at Bacton for both interconnectors should at all times be equal to the sum of the exit capacities of BBL and IUK (ie 1302 GWh/day).

¹ Please see Appendix 1 of the proposed ECS, v4.1.