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Dear Gerard

### **Approval of BBL Company's proposed charging methodology and access rules for a non-physical interruptible reverse flow (IRF) product**

On 07 October 2015, BBL Company (BBL)<sup>1</sup> submitted a modified set of access rules to the Authority<sup>2</sup> for approval, and on 30 October 2015, BBL submitted a modified charging methodology. These were submitted pursuant to Standard Licence Condition SLC 11A(14) and SLC 10(14) respectively of BBL's licence.<sup>3</sup>

This letter and the annexed directions set out our approval of the submitted proposals. Attached to this letter are two directions to BBL, approving the proposed changes on the basis that they meet the relevant charging methodology and access rules objectives,<sup>4,5</sup> and are compliant with the relevant aspects of the European Network Code (ENC) on Capacity Allocation Mechanisms (CAM).

### **Background**

BBL conveys gas from the Netherlands to Great Britain (GB). It provides physical flow products (both firm and interruptible) in the direction from the Netherlands to GB but does not currently provide any physical flow from GB to the Netherlands.

Under the terms set by the European Commission in relation to the exemption from certain requirements for third party access (TPA) to the BBL interconnector, BBL has an obligation to offer IFR services from GB to the Netherlands. However, given that BBL is uni-directional, it must instead provide a non-physical IRF product. This is a virtual, administrative product which nets off contractual flows in the reverse direction against the physical forward flows. As it is dependent on there being a forward physical flow to net off against, the product is by its nature interruptible.

Ofgem, in its role as National Regulatory Authority (NRA) for GB, is responsible for overseeing implementation of the legally binding 'Guidelines' and ENCs established under

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<sup>1</sup> BBL is certified Transmissions System Operator (TSO) and holder of the GB gas interconnector licence. It operates a uni-directional gas interconnector that links the UK and Dutch gas markets. It can only flow physically in one direction (from the Netherlands to GB).

<sup>2</sup> The Gas and Electricity Markets Authority. Ofgem is the Office of the Authority's. The terms "Ofgem", "the Authority", "we" and "us" are used interchangeably in this letter.

<sup>3</sup> The current version of the gas interconnector licence can be found at:  
[https://epr.ofgem.gov.uk/Content/Documents/Gas\\_Interconnector\\_SLCs\\_Consolidated%20-%20Current%20Version.pdf](https://epr.ofgem.gov.uk/Content/Documents/Gas_Interconnector_SLCs_Consolidated%20-%20Current%20Version.pdf)

<sup>4</sup> The relevant charging methodology objectives are set out in SLC 10(4) of the licence.

<sup>5</sup> The relevant access rules objectives are set out in SLC 11A(5) of the licence.

the suite of European Union (EU) legislation on European electricity and gas markets, referred to as the 'Third Package'.<sup>6</sup>

The Authority has a duty to monitor BBL's compliance with the Guidelines and ENCs and per the terms of its licence to ensure it remains compliant with the relevant requirements as circumstances develop. Part of these responsibilities includes ensuring BBL compliance with obligations under the ENC on CAM for the non-exempt capacity.<sup>7</sup>

The CAM ENC<sup>8</sup> was published in the Official Journal of the European Union (OJEU) on 15 October 2013 and applies from 1 November 2015. CAM aims to facilitate equal and transparent access to transmission capacity, achieve effective competition on the wholesale gas market and facilitate a more transparent, efficient and non-discriminatory system of capacity allocation. It does this by introducing standard-duration capacity products, auctions of bundled capacity products at interconnection points (IPs) via a cross-border web-based booking system and coordination of maintenance and communication procedures by Transmission System Operators (TSOs).<sup>9</sup>

## Proposed Modifications

### 1. *Modifications to the access rules for IRF capacity products*

CAM requires a number of modifications to be made to BBL's access rules for its IRF product. In particular, these relate to how IRF capacity is allocated to users. The key changes being proposed in BBL's General Terms and Conditions (GT&Cs) for IRF capacity in order to comply with the CAM provisions are set out below:

- BBL will offer quarterly, monthly and daily IRF products via auction on the PRISMA<sup>10</sup> booking platform. The 2-days-ahead auctions for the daily product will cease and will be replaced with daily capacity auctions.
- Ascending clock auction algorithms will be used for the quarterly and monthly products, and a uniform price auction algorithm will be used for daily products.<sup>11</sup>
- Under PRISMA functionality, the minimum amount of capacity available for purchase at each auction will be 1kWh/h. This represents a change from previously, whereby under BBL's booking platform tranches of 30,000kWh/h were offered.
- For quarterly capacity, there will be 1,080,000 tranches of 1kWh/h; for monthly capacity, there will be 1,080,000 tranches of 1kWh/h; the remaining daily capacity will be sold in tranches of 1kWh/h. The total amount of IRF capacity available will remain unchanged.
- Where interruptions are necessary, time stamps result in shorter period products being interrupted first (ie daily capacity gets interrupted first, then monthly, then quarterly). Reductions are applied pro rata and there is no reimbursement to users.

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<sup>6</sup> In relation to gas, the Third Package includes Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC (the "Gas Directive") and Regulation (EC) No 715/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the natural gas transmission networks and repealing Regulation (EC) no 1775/2005 (the "Gas Regulation").

<sup>7</sup> Roughly 80% of BBL capacity is currently exempt from Article 18 of the Directive 2003/55/EC, regarding regulations on charging methodologies and access rules.

<sup>8</sup> Commission Regulation (EU) No 984/2013 of 14 October 2013 establishing a Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems: <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013R0984&from=EN>.

<sup>9</sup> References to TSOs in this letter include interconnectors.

<sup>10</sup> PRISMA is a pan-European booking platform operator and will be used by National Grid Gas, BBL, Gasunie Transport Services and many other European TSOs. PRISMA GT&Cs cover most of the CAM rules on how to run CAM auctions.

<sup>11</sup> Details of ascending clock and uniform price auctions are set out in articles 18 and 19 of CAM respectively.

## 2. Modifications to the charging methodology for IRF capacity

BBL's proposed charging methodology sets out how charges will be derived for all future sales of IRF capacity under the provisions set out in BBL's IRF GT&Cs. Other than some minor adjustments, it remains largely unchanged from last year. The key components are summarised below:

- All IRF capacity products will be offered at a zero reserve price. This represents no change from last year.
- In order to participate in an auction, shippers must pay an annual subscription fee of €15,000. This represents no change from last year. However, any subscription fee revenues above a 'ceiling' of €75,000 will be proportionally reimbursed to shippers that have subscribed to that auction year. This revenue ceiling has been reduced down from €120,000 in 2014.<sup>12</sup>
- Under PRISMA's uniform price algorithm auction, price increments of €/kWh/h 0.00001 will be available. This represents a change from last year, when price increments of 0.001 €/kWh/h were available on BBL's booking platform.

### **Ofgem decision on the proposed modified charging methodology and access rules**

In advance of submitting its proposals to Ofgem for approval, BBL ran two consultations:

- The first was on the charging methodology, running from 21 July to 18 August 2015. No formal responses were received, though one user enquired as to whether BBL would offer a within-day IRF product in addition to its daily, monthly and quarterly IRF products. BBL responded that it had no intentions of offering such a product in the foreseeable future.
- The second consultation was on its access rules – both forward flow and reverse flow – running from 2 September to 1 October 2015.<sup>13</sup> Two responses were received, one of which was confidential. However, neither of these made any reference to BBL's revised IRF proposals.

Upon review of the documents submitted on 7 October and 30 October 2015 to Ofgem for approval, with the main features as summarised above, the Authority considers the proposed modified access rules and charging methodology to be transparent, non-discriminatory, objective and compliant with the relevant legally binding decisions of the European Commission and/or ACER. This includes the CAM network code.

The Authority has therefore decided to approve the proposed modified charging methodology and access rules on the basis that they better meet the relevant access rules objectives set out in SLCs 10(4) and 11A(5) of the licence.

Directions issued in accordance with SLCs 10(4) and 11A(14) of the licence to this effect can be found in the Annex 1 to this letter. As soon as practicable after approval, and in any event, prior to 1 November 2015 CAM implementation date, BBL is required to publish (at least on its website) the charging methodology and access rules, as modified.

Yours sincerely,



Rob Mills

**Head of Gas Transmission, Gas Networks**  
Duly Authorised on behalf of the Authority

<sup>12</sup> The subscription fee ceiling in 2013 was set at €75,000. This was raised to €120,000 in 2014 in order to cover the costs of an IT investment which reduced auction lead times.

<sup>13</sup> See <http://www.bblcompany.com/about-bbl/consultations-implementation-information>

## **ANNEX 1 – Access Rules**

### **Direction issued to BBL Company pursuant to Standard Licence Condition 11A (approval of terms for access to the licensee’s interconnector) paragraph 14 of its gas interconnector licence**

1. This Direction is issued by the Gas and Electricity Markets Authority (the “Authority”) pursuant to Standard Licence Condition 11A (SLC 11A) paragraph 14 of the gas interconnector licence (“the Licence”) granted or treated as granted under section 7ZA of the Gas Act 1986 (“the Act”) to BBL Company (“BBL” or “the licensee”).
2. SLC 11A paragraph 2 provides that the licensee shall prepare and submit for approval by the Authority a statement setting out the Access Rules (as defined in the Licence).
3. SLC 11A paragraph 5 requires that the Access Rules be transparent, objective, non-discriminatory and compliant with the Regulation (Regulation (EC) No 715/2009 on conditions for access to the national gas transmission networks) and any relevant legally binding decision of the European Commission and/or Agency (collectively the ‘relevant access rules objectives’).
4. SLC 11A paragraph 9 requires the Licensee to review its Access Rules at least once in each calendar year and make such modifications to the Access Rules as may be requisite for the purpose of ensuring that the Access Rules better achieve the relevant access rules objectives. The Access Rules for the Licensee were first approved on 19 December 2014.
5. SLC 11A paragraph 11 requires the licensee to take all reasonable steps to ensure that all persons, including those in other Member States who may have a direct interest in the Access Rules, are consulted on the proposed modifications and allow them a period of not less than 28 days within which to make written representations. The licensee must also furnish the Authority with a report setting out the terms originally proposed for the modifications, the representations, if any, made by interested persons, any change in the terms of the modifications intended as a consequence of such representations, how the intended modifications better achieve the relevant access rules objectives, and a timetable for the implementation of the modifications.
6. In accordance with SLC 11A paragraph 11(b), on 8 May 2015 BBL furnished the Authority with a report.
7. In accordance with SLC11A paragraphs 2 and 11, on 8 May 2015 BBL submitted its proposed modified Access Rules to the Authority for approval.
8. SLC11A paragraph 15 requires the licensee to publish (at least on its website) the Access Rules as soon as practicable after the Access Rules, as modified, have been approved by the Authority. The Access Rules must be published 28 days prior to coming into effect, unless the Authority directs otherwise.
9. Having regard to the relevant access rules objectives set out in SLC 11A paragraph 5, and to our principal objective and statutory duties, the Authority considers that BBL’s proposed modified charging methodology better meet the relevant access rules objectives.
10. The Authority hereby directs, pursuant to SLC 11A paragraph 14, that BBL’s proposed modified Access Rules are approved.

11. The Authority hereby directs, pursuant to SLC 11A paragraph 15 that the Access Rules may be published less than 28 days before coming into effect and, in any event, prior to CAM implementation on 1 November 2015.
12. This Direction shall have immediate effect. It shall remain in effect until such time as the Authority may revoke or vary the Direction in writing upon reasonable notice.
13. This direction constitutes notice of the Authority's reasons for the decision pursuant to section 38A of the Act.

Dated: 30 October 2015



Rob Mills

**Head of Gas Transmission, Gas Networks**  
Duly Authorised on behalf of the Authority

## **ANNEX 2 – Charging Methodology**

### **Direction issued to BBL Company (BBL) pursuant to Standard Licence Condition 10 (charging methodology to apply to third party access to the licensee’s interconnector) paragraph 14 of its gas interconnector licence**

1. This Direction is issued by the Gas and Electricity Markets Authority (the “Authority”) pursuant to Standard Licence Condition 10 (“SLC 10”) paragraph 14 of the gas interconnector licence (“the Licence”) granted or treated as granted under section 7ZA of the Gas Act 1986 (“the Act”) to Interconnector (UK) Ltd (“BBL” or “the licensee”).
2. SLC 10 paragraph 2 provides that the licensee shall prepare and submit for approval by the Authority a charging methodology for access to (including use of) the licensee’s interconnector.
3. SLC 10 paragraph 4 requires that the charges and application of the underlying charging methodology be objective, transparent, non-discriminatory and compliant with the Regulation (Regulation (EC) No 715/2009 on conditions for access to the national gas transmission networks) and any relevant legally binding decision of the European Commission and/or Agency (collectively the ‘relevant charging methodology objectives’).
4. SLC 10 paragraph 9 requires the Licensee to review its charging methodology at least once in each calendar year and make such modifications to the charging methodology as may be requisite for the purpose of ensuring that the charging methodology better achieves the relevant charging methodology objectives. The charging methodology for the Licensee was first approved on 19 December 2014.
5. SLC 10 paragraph 11 requires the licensee to take all reasonable steps to ensure that all persons, including those in other Member States who may have a direct interest in the charging methodology, are consulted on the proposed modification and allow them a period of not less than 28 days within which to make written representations. The licensee must also furnish the Authority with a report setting out the terms originally proposed for the modification, the representations, if any, made by interested persons, any change in the terms of the methodology intended as a consequence of such representations, how the intended modifications better achieve the relevant charging methodology objectives, and a timetable for the implementation of the modification.
6. In accordance with SLC 10 paragraph 11(b), on 26 June 2015 BBL furnished the Authority with a report.
7. In accordance with SLC10 paragraph 2 and 11, on 26 June 2015 BBL submitted its proposed modified charging methodology to the Authority for approval.
8. SLC10 paragraph 15 requires the licensee to publish (at least on its website) a charging methodology statement that sets out the prevailing charges for access to the licensee’s interconnector and how the charges have been derived in accordance with its charging methodology as soon as practicable after the charging methodology, as modified, has been approved by the Authority. The charging methodology statement must be published 28 days prior to it coming into effect, unless the Authority directs otherwise.
9. Having regard to the relevant charging methodology objectives set out in SLC 10 paragraph 4, and to our principal objective and statutory duties, the Authority considers that BBL’s proposed modified charging methodology better meets the relevant charging methodology objectives.

10. The Authority hereby directs, pursuant to SLC 10 paragraph 14, that BBL's proposed modified charging methodology is approved.
11. The Authority hereby directs, pursuant to SLC 10 paragraph 15 that the charging methodology may be published less than 28 days before coming into effect and, in any event, prior to CAM implementation on 1 November 2015.
12. This Direction shall have immediate effect. It shall remain in effect until such time as the Authority may revoke or vary the Direction in writing upon reasonable notice.
13. This direction constitutes notice of the Authority's reasons for the decision pursuant to section 38A of the Act.

Dated: 30 October 2015



Rob Mills

**Head of Gas Transmission, Gas Networks**  
Duly Authorised on behalf of the Authority