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Date: 28 September 2017

Dear Marcel,

**Approval of the modified access rules proposed by BBL Company including directions of approval pursuant to Standard Licence Condition 11A of the gas interconnector licence.**

BBL Company (BBL)<sup>1</sup> proposed modifications to its access rules on 21 July 2017 to the Authority for approval. These were submitted pursuant to Standard Licence Condition (SLC) 11A of the gas interconnector licence ('licence').<sup>2</sup>

This letter and the annexed directions set out our approval of the submitted proposals. Attached to this letter is a direction to BBL approving the proposed modified access rules on the basis that they meet the relevant access rules objectives.<sup>3</sup>

**Background**

Current Regime

Gasunie Transport Services ('GTS') owns and operates the Dutch gas transmission network. GTS's gas transmission network is an entry-exit system with a wholesale trading market known as the Title Transfer Facility ('TTF').

National Grid Gas ('NGG') own and operate the national transmission system ('NTS') in Great Britain ('GB'). Similar to GTS, the NTS is an entry-exit system with its own wholesale trading market known as the National Balancing point ('NBP').

BBL Company owns the gas interconnector between Balgzand, in the Netherlands ('NL'), and Bacton, in the UK. BBL is a unidirectional interconnector which is the primary route for transporting gas between the TTF and NBP markets.

In order to transport gas from NL to GB via BBL, a shipper who has gas on the Dutch system, is required to buy capacity at a series of Interconnection points (IP) between NL and GB, set out below:

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<sup>1</sup> BBL is certified Transmissions System Operator (TSO) and holder of a 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 current version of the gas interconnector licence and SLCs can be found at [epr.ofgem.gov.uk](http://epr.ofgem.gov.uk).

<sup>3</sup> The 'relevant access rules objectives' are set out in SLC 11A(5) of the licence.

- exit capacity from GTS at the Julianadorp IP (that links GTS and BBL), in order to flow out of the Dutch system.
- entry capacity onto BBL at the Julianadorp IP to flow gas onto BBL.
- exit capacity from BBL at the Bacton IP (that links BBL and NGG).
- entry capacity onto the NTS at Bacton, in order to flow gas onto the GB system.

## Proposed Modifications

The access rules set rules for obtaining access to the BBL interconnector between Julianadorp and Bacton. The changes proposed by BBL mostly relate to its interconnection with the Dutch system at Julianadorp. For the purposes of this decision, and having regard to our principle objectives and duties under the Gas Act 1986,<sup>4</sup> we have only considered the effects on energy consumers in Great Britain.

In order to reduce the amount of transactions required to ship gas from NL to GB, BBL and GTS have agreed on a set of commercial proposals that will create a single entry-exit zone across BBL and GTS's networks.

To create a single entry-exit zone, GTS and BBL have proposed that their connection at Julianadorp is no longer an interconnection point (as defined in European law), where capacity is required to be booked. Considering the series of capacity purchases mentioned above, without Julianadorp as an interconnection point, a shipper who has gas on the Dutch system will only be required to purchase exit capacity from BBL at Bacton and entry capacity from NGG at Bacton in order to flow gas from the Dutch system to GB.

In order to implement these new commercial arrangements, BBL have proposed modifications to its access rules to the authority for approval.

BBL submitted proposed modifications to its access rules to Ofgem for approval in the form of changes to its General Terms and Conditions for forward flow and interruptible virtual reverse flow. The main features of the proposed changes are summarised below.

- BBL is entitled to postpone a shipper's status as a "BBL-shipper" as an alternative to terminating a shipper's status where one or more of the following occurs (amongst other things):
  - the shipper in question has been declared bankrupt or in a similar legal status,
  - the shipper has not accepted the conditions of the access rules,
  - the shipper has not provided a valid balancing portfolio.
- Rules regarding entry quality and pressure standards required to flow gas on to BBL at Julianadorp are removed.
- A shipper no longer sends nominations for scheduled flows of gas into BBL at Julianadorp.
- Procedures for sending nominations of scheduled gas flows on the TTF are included.
  - Nominations to the TTF are referred to as 'TTF trading messages'.
  - The Trading Zone Manager ('TZM'), the operator of the TTF will perform operations relevant to the management of gas flows on GTS.
- Procedures detailing how differences between scheduled flows and actual flows (i.e. the measurement difference) on BBL at Julianadorp are managed by BBL are removed.

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<sup>4</sup> The Authority's principle objective is to protect the interests of existing and future consumers in relation to gas conveyance in transmission systems by, among other things, promoting effective competition between persons engaged in or connected with shipping or transportation of gas. Provisions in the Gas Act 1986 give effect to these objectives.

- References to the relevant adjacent Transmission System Operator ('TSO') for the purposes of bundling capacity at interconnection points are replaced by National Grid Gas (NGG).
- References to Bacton and Julianadorp for the purposes of booking capacity at interconnection points are replaced with 'interconnection point' in reference to Bacton only.
- References to auction timetables are referred to as being published by ENTSOG<sup>5</sup> rather than PRISMA.<sup>6</sup>
- References to Bacton and Julianadorp are replaced with 'interconnection point'.
- Remaining references to BBL's entry point (Julianadorp) are referred to as connection point (not an interconnection point).
- Descriptions of a Virtual Transfer Point (VTP), that administers any transfer of gas between the gas balancing portfolios of BBL and GTS shippers, is added.

## Industry Consultation

BBL published proposed modifications to its access rules on 9 May 2017 for industry consultation pursuant to SLC11A(11) for a period of 30 days.

During this period BBL received twelve written responses, of which three were confidential and eight of which were supportive to the proposals. All comments that were not in support came from Dutch parties and have been summarised below.

- Parties noted that charges will be higher at other points on the GTS system as a result of the proposals. Some parties argued that the GTS exit charges at Julianadorp should be included in BBL Bacton charges instead.
- One party argued that Dutch consumers should not cross subsidise BBL (GTS is a revenue regulated asset)
- One party noted that UK trading does not depend on BBL and therefore questioned why BBL should be cross-subsidised by GTS users.

As mentioned previously for the purposes of BBL's access rules, we have only considered the effects on the energy consumers in Great Britain.

## Ofgem Views

Ofgem's analysis of BBL's modified access rules have been set out below against the four licence objectives.<sup>7</sup>

### Requirement to be objective, non-discriminatory and transparent

As indicated above, for the purposes of this decision, and having regard to our principle objectives and duties under the Gas Act 1986, we have only considered the effects on the energy consumers in Great Britain.

<sup>5</sup>ENTSOG is the European Network of Transmission System Operators for Gas.

<sup>6</sup>PRISMA is a gas capacity trading platform used by BBL and other members of ENTSOG.

<sup>7</sup> SLC11A(5) states that the Access Rules shall be transparent, objective, non-discriminatory and compliant with the Regulation and any relevant legally binding decision of the European Commission and/or Agency (collectively 'the relevant access rules objectives').

We note that as part of its access rules submission, BBL indicated that its charges associated with BBL entry capacity at Julianadorp will be added to BBL exit capacity charges at Bacton.<sup>8</sup>

Other things being equal we consider that shipping gas from NL to GB will become marginally cheaper and therefore a favourable result for shippers using BBL to flow gas to GB.

We also view that the proposed changes appear to be clear and have had no comments from industry parties to suggest otherwise.

In addition to the above, the provisions in the modified access rules proposed by BBL apply equally to all shippers using BBL.

Therefore, upon review of the submitted proposals and considering the reasoning above, we consider the modified access rules as transparent, objective and non-discriminatory.

### Compliance with European Law

European network codes (ENCs) on Capacity Allocation Mechanisms,<sup>9</sup> Harmonised Tariff Structures<sup>10</sup> and Interoperability<sup>11</sup> and Guidelines on Congestion Management Procedures,<sup>12,13</sup> all set rules that must be applied by BBL at interconnection points. As there are no changes proposed to BBL's access rules in respect to Bacton, BBL access rules continue apply as approved by us in 2015.

The ENC on Balancing of Transmission Networks (BAL) was published on 27 March 2014 and came into force on 1 October 2015.<sup>14</sup> BBL operates on an "in equals out" basis meaning that confirmed entry flows necessarily equal confirmed exit flows. As such imbalances on BBL do not occur. As part of the proposed modifications, GTS and BBL will retain separate balancing rules and BBL will continue an 'in equals out' policy. A shipper intending to flow on BBL will require a gas portfolio for the purpose of balancing with BBL as well as being linked with a counter-party shipper that has a gas balancing portfolio on GTS. Under the proposals, shippers no longer need to nominate flows out of GTS or into BBL at Julianadorp as it no longer exists as an interconnection point.

Under the proposals, a BBL shipper nominates a quantity of gas to flow out of BBL at Bacton and the counter party shipper nominates a quantity of gas to flow into Dutch system to GTS. If those two quantities are:

- the same then both the BBL and GTS portfolios are in balance.
- different, then the BBL shipper can trade gas on the TTF to balance their position.

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<sup>8</sup> The charges associated with GTS exit capacity at Julianadorp will be spread around GTS's other bookable points after the removal of Julianadorp as an IP.

<sup>9</sup> Commission Regulation (EU) 2017/459 [http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L\\_.2017.072.01.0001.01.ENG&toc=OJ:L:2017:072:TOC](http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2017.072.01.0001.01.ENG&toc=OJ:L:2017:072:TOC)

<sup>10</sup> Commission Regulation (EU) 2017/460 [http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L\\_.2017.072.01.0029.01.ENG&toc=OJ:L:2017:072:TOC](http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2017.072.01.0029.01.ENG&toc=OJ:L:2017:072:TOC)

<sup>11</sup> Commission Regulation (EU) 2015/703 [http://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1430734293842&uri=OJ:JOL\\_2015\\_113\\_R\\_0003](http://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1430734293842&uri=OJ:JOL_2015_113_R_0003)

<sup>12</sup> Annex I to Regulation (EC) No 715/2009 <http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32012D0490>

<sup>13</sup> CMP is a Guideline and not a separate network code; formally, it is an amendment to the guidelines on congestion management procedures which form part of Annex I of the Gas Regulation. However we have referred to it using the same abbreviation of 'ENCs' throughout this letter for brevity.

<sup>14</sup> Commission Regulation (EU) No 312/2014 <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014R0312>

- different and the BBL shipper has not made any trades on the TTF to balance their position then, in order to maintain the 'in equals out' principle on BBL, the TZM passes the imbalance to the GTS portfolio and the BBL portfolio is deemed as balanced.

Provisions for nominating intended gas flows is outlined in Chapter IV of BAL. We note that those proposals do not change way that shippers send nominations at Bacton.

Considering there are no changes to the provisions of balancing in respect to Bacton, and that shippers are still able to manage their position of gas balance under the rules described in the existing arrangements described above, we consider that the proposed modified access rules are compliant with BAL.

### **Decision on the proposed access rules**

Upon review of the documents submitted on 21 July to Ofgem for approval with the main features as summarised above, the authority considers the proposed modified access rules to be transparent, non-discriminatory, objective and compliant with any relevant legally binding decision of the European Commission and/or Agency.

Directions issued in accordance with SLC 11A(14) of the licence to this effect can be found in the annex of this letter.

Yours sincerely



Chris Brown  
**Head of Gas Systems**

## ANNEX 1 – Access Rules

### **Direction issued to BBL Company (BBL) pursuant to Standard Licence Condition 11A (approval of terms for access to the licensee’s interconnector) paragraphs 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). The Access Rules for the licensee were first approved on 2 November 2015.
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 achieve the relevant access rules objectives.
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 to the Access Rules 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 21 July 2017 BBL furnished the Authority with a report.
7. 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 Access Rules meet the relevant access rules objectives.
9. The Authority hereby directs, pursuant to SLC 11A paragraph 14, that BBL’s proposed modified Access Rules are approved.
10. SLC 11A 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.
11. This direction shall supersede any previous directions issued to BBL in respect to approval of its access rules.
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: 28 September 2017

Chris Brown

**Head of Gas Systems**

Duly authorised on behalf of the Authority