



Making a positive difference
for energy consumers

Marcel Neef
Regulatory Affairs
BBL Company VOF
Postbus 225
9700 AE Groningen
The Netherlands

Direct Dial: 0203 263 9670
Email: Natasha.Zoe.Smith@Ofgem.gov.uk
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Dear Marcel,

Approval of modified access rules and charging methodology for the BBL interconnector pursuant to Standard Licence Conditions 10 and 11A of the gas interconnector licence

BBL Company (BBL)¹ submitted proposed modifications to its access rules and charging methodology to the Authority for approval on 22 November 2017. The proposed modifications were submitted pursuant to Standard Licence Condition (SLC) 10 and 11A of the gas interconnector licence ('the licence').²

In this letter, we approve BBL's proposed modifications on the basis that they meet the relevant access rules objectives and the relevant charging methodology objectives³. Attached to this letter, within Annex 1 and Annex 2, are directions to this effect.

Background

Amendment to the Capacity Allocation Mechanisms Network Code

The European Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems (CAM)⁴ entered into force on the 13 October 2013 and establishes common rules for Transmission System Operators (TSOs) to allocate capacity. As part of these rules, CAM requires TSOs to maximise the offer of bundled⁵ capacity products at interconnection points (IPs).

In its 2012 stakeholder engagement report⁶ on CAM development, the European Network of Transmission System operators (ENTSOG) noted that there was a high level of stakeholder

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

² The current version of the gas interconnector licence and SLCs can be found at epr.ofgem.gov.uk

³ The relevant access rules objectives are set out in SLC 11A(5) of the licence and the relevant charging methodology objectives are set out in SLC10(4) of the licence.

⁴ <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013R0984&from=EN>.

⁵ For the purposes of this letter, bundled capacity is defined as capacity products that are available on both sides of an interconnection point that are auctioned together. A shipper must hold capacity rights on either side of an interconnection point in order to flow gas through that point. For the avoidance of doubt, unbundled capacity is capacity that is associated with only one side of an interconnection point.

⁶ https://www.entsoe.eu/public/uploads/files/publications/CAM%20Network%20Code/2012/CAP242-12_120221_stakeholder%20support%20process%20report%20final%20for%20publication.pdf

concern with the requirement for mandatory bundling of capacity required by CAM. In particular, concerns were raised that network users that hold existing unbundled contracts on one side of an IP would not be able to purchase corresponding unbundled capacity on the other side of that IP. Therefore, the offer of only bundled capacity as required in CAM may create a capacity mismatch for these network users. CAM did not directly address these concerns when it came into force in 2013.

On 16 March 2017, an amendment to CAM⁷ entered into force repealing the existing 2013 CAM network code. Among other things, the amendment to CAM sought to address the aforementioned capacity mismatch issue by requiring TSOs to offer a capacity conversion service. This service gives network users the option to hand part of their allocated capacity back to the TSO that allocated it. The new version of CAM requires that TSOs have the capacity conversion service in place by 1 January 2018.

Proposed modifications

In order to comply with the 2017 CAM amendment, BBL has proposed modifications to its access rules and charging methodology that introduce a capacity conversion service. BBL submitted its proposed modifications to the Authority for approval on 22 November 2017 pursuant to SLC 10 and SLC11A of the licence.

BBL consulted on the proposed changes to its access rules and charging methodology. The public consultation opened on 23 October 2017 and closed after the mandatory 28 day consultation period on 21 November 2017. There were no responses to the consultation and no changes were made to the proposed modifications after the consultation.

Access Rules

Access rules set out the terms for access to BBL's interconnector for network users. BBL's proposed modifications to its access rules are summarised below.

- Conversion requests relate to and take place after yearly, quarterly and monthly auctions for bundled capacity.
- Conversion requests from shippers must meet certain criteria stipulated in the access rules and BBL will validate those requests and inform the shipper of the outcome.
- A shipper may convert any quantity of unbundled yearly, quarterly or monthly capacity providing it is less than or equal in duration to the bundled auction periods above.
- Following a successful conversion:
 - the bundled capacity will remain allocated to the shipper;
 - BBL will reduce the shippers capacity holdings by the quantity of unbundled capacity converted; and
 - BBL will make that capacity available in any subsequent auctions, prior to the sale of other types of equivalent capacity available.

Charging Methodology

The charging methodology sets out the methodologies for calculation of any charges imposed upon users for access to the interconnector, any charges imposed upon users for the provision of ancillary services, and any payments made to users for access to the interconnector.

BBL's proposed modifications to its charging methodology set out the payments made to and charges taken from shippers in relation to the capacity conversion as follows:

⁷ 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

- the shipper will be credited the reserve price component of the clearing price paid in the corresponding bundled auction;
- the shipper will be liable to pay the auction premium component of the clearing price in the corresponding bundled auction; and
- the shipper will be liable to pay both the reserve price and auction premium for any amount that was allocated in the bundled auction that is not part of the quantity that is converted.

Ofgem views

SLC10(4) and SLC 11A(5) set out the relevant charging methodology and access rules objectives, respectively. The access rules and charges (and the application of the underlying charging methodology) must be transparent, objective, non-discriminatory and compliant with any relevant legally binding decision of the European Commission and/or the Agency for Cooperation of Energy Regulators (ACER).

We note that the purpose of these modifications is to facilitate compliance with European law. Article 21.3 of CAM requires TSOs to offer networks users holding mismatched unbundled capacity at one side of an IP a free of charge capacity conversion service. BBL's proposed modifications introduce this service.

In the proposals, no charge is levied by BBL in order to carry out the conversion. BBL is offering the conversion for yearly, quarterly and monthly products, in line with the requirements of Article 21.3. In addition, BBL has not made any distinction between network users in its offer of the service, which facilitates a requirement in Article 21.3 to offer the service on a non-discriminatory basis. Article 21.3 also states that the service shall be based on the conversion model developed by ENTSOG.⁸ We view that BBL's proposals are in line with the conversion model for all provisions. In addition, BBL offers the service to all network users, not just those that hold unbundled capacity allocated prior to CAM implementation.

Decision on the proposed access rules

We approve the proposed modifications to BBL's access rules and charging methodology because they meet both the relevant access rules objectives and charging methodology objectives.

Next steps

The modified access rules and charging methodology will take effect from 1 January 2018.

Yours sincerely

Natasha Zoe Smith
Head of Gas Systems

⁸https://www.entsog.eu/public/uploads/files/publications/CAM%20Network%20Code/2017/CAP0717_170315_ENTSOG_Capacity-conversion-model-final.pdf

ANNEX 1 – Charging Methodology

Direction issued to BBL Company (BBL) pursuant to Standard Licence Condition 10 (approval of 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 BBL Company (“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. The charging methodology for the licensee was first approved on 19 December 2014.

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 11A 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 achieve the relevant charging methodology objectives.

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 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 charging methodology objectives, and a timetable for the implementation of the modifications.

6. In accordance with SLC 10 paragraph 11(b), on 22 November 2017 BBL furnished the Authority with such a report.

7. In accordance with SLC10 paragraph 2 and 11, on 22 November 2017 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. The Authority directs that the charging methodology must be published as soon as possible and in any event prior to the 1st January 2018.

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 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. 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. This direction shall supersede any previous directions relating to approval of BBL's charging methodology.

12. This direction constitutes notice of the Authority's reasons for the decision pursuant to section 38A of the Act.

Dated: 27 December 2017

Natasha Zoe Smith

Head of Gas Systems

Duly authorised on behalf of the Authority

ANNEX 2 – 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). The Access Rules for the Licensee were first approved on 19 December 2014.
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.
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 22 November 2017 BBL furnished the Authority with such a report.
7. In accordance with SLC11A paragraphs 2 and 11, on 22 November 2017 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. The Authority directs that the access rules must be published as soon as possible and any event prior to the 1st January 2018.
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 access rules meets 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. 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. This direction shall supersede any previous directions relating to approval of BBL's access rules.

12. This direction constitutes notice of the Authority's reasons for the decision pursuant to section 38A of the Act.

Dated: 27 December 2017

Natasha Zoe Smith

Head of Gas Systems

Duly authorised on behalf of the Authority