

Jasper Stevens

Regulatory Affairs

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Dear Jasper,

Approval of modified Access Rules¹ for the BBL interconnector pursuant to Standard Licence Condition 11A of the Gas Interconnector Licence

Summary

BBL Company ("BBLC", "the Licensee"), which operates the BBL pipeline between the Netherlands and Great Britain, proposed modifications to its Access Rules on 28 October 2020 to the Authority² for approval. These were submitted pursuant to Standard Licence Condition ("SLC") 11A of the Gas Interconnector Licence (the "Licence"³) and were accompanied by a consultation report.

Our decision is to grant approval for BBLC's proposal. Attached to this letter is a direction to BBLC approving the proposed modified Access Rules on the basis that they meet the relevant Access Rules objectives.

¹ Access rules set out the terms of access to the licensee's interconnector. Referred to as General Terms and Conditions ("GT&C"). The BBLC Access Rules consist of a legal contractual framework which includes a main body of the GT&C together with a number of exhibits. One of these exhibits is the Operating Manual, Exhibit A to the General Terms and Conditions Forward Flow and Reverse Flow ("Operating Manual"). BBLC's Access Rules were last approved in June 2019 and can be accessed here: <https://www.bblcompany.com/news/ofgem-approves-proposed-modifications-to-bbl-companys-general-terms-conditions>.

² References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.

³ The current version of the Gas Interconnector Licence and SLCs can be found at epr.ofgem.gov.uk.

BBLC's proposal

BBLC proposed to modify its Access Rules, by adding new paragraph 2.3 - Netting of Nominations, to Article 2 of the Operating Manual of the General Terms and Conditions ("Operating Manual"). The Operating Manual describes the operational procedures which are in place and which are necessary for a BBL shipper to be able to make use of the BBL pipeline for transporting gas. Amongst these operational procedures is the nomination procedure by which shippers are able to utilise capacity that they have acquired through Prisma auctions and/or the Implicit Allocation Mechanism⁴.

The newly inserted paragraph 2.3 includes the relevant references to an operational tool, ie the Net Nomination Tool ("NNT"). BBLC proposes to apply the NNT once all commercial nominations of shippers have been finalised and when net nominations (ie the difference between nominations in the forward and nominations in reverse flow) are against the direction of the physical flow of the pipeline. BBLC notes that the NNT will help it guarantee all confirmed nominations in both directions⁵.

In its consultation report, BBLC states that it will bear the costs incurred in the use of the NNT.

Netting of Nominations and the use of the Net Nomination Tool

Since the completion of the Physical Reverse Flow (PRF) project in September 2019, the BBL pipeline has been capable of transporting gas bidirectionally between Great Britain and the Netherlands. The engineering works that enabled this included changes at the Anna Paulowna compressor station in the Netherlands but did not include the provision of compression at Bacton (GB). As a result, as noted by BBLC in its consultation report submitted to Ofgem, BBLC is not able to change the flow direction of the pipeline at short notice.⁶

⁴ Implicit Allocation Mechanism (IAM) is a method of selling unbundled transmission capacity which is combined with an equivalent quantity of gas outside the PRISMA auction calendar.

⁵ We understand from the consultation report that the capacity selling process is separate and unrelated to the use of the NNT tool. Shippers can book capacity on Prisma or by implicit allocations, pay for it and may choose to use the booked capacity or not. Based on their decisions whether or not to use their booked capacity, the NNT might be required. If a net nomination under the NNT is required, a separate process will run as previously described resulting in a matching net nomination after all commercial nominations of shippers have been finalised. Shippers nominations are not affected and cannot be altered nor influenced by such a NNT nomination.

⁶ Changing the flow direction of the pipeline is related to the quantity of gas that needs to be withdrawn from or injected into the BBL pipeline. The time within which the quantity withdrawn or injected can be realised is related to the capacity of the compressors and depending on the action (injection or withdrawal), is projected by BBLC to vary between 5 and 14 hours.

Currently, both forward flow and reverse flow products are being sold for the same time period. Consequently there are times when both forward and reverse flow nominations are received from shippers for the same time period with the possibility of net nominations being against the physical flow direction of the pipeline⁷. If this is the case, BBLC will apply the NNT through a third party to guarantee all nominations.

NNT provides for a third party to make the necessary nomination to balance the total of shippers' forward flow and reverse flow nominations to zero. This is expected to resolve the situation where the net nominations and the BBL flow direction are not in line with each other.

The NNT does not modify and cannot influence the contracted positions of BBLC shippers and/or nominations by BBLC or by the third party. Similarly, it does not change other detailed arrangements in BBLC's Access Rules, since the matching and confirmation process has already taken place. Nevertheless, BBLC decided to include the relevant references to the NNT in the Access Rules and consulted on the proposed changes to ensure transparency.

BBLC's Industry Consultation

BBLC consulted on the proposed changes to its Access Rules.⁸ The public consultation opened on 7 April 2020 and closed on 18 May 2020⁹.

BBLC received two non-confidential responses to the consultation. Both respondents were supportive of the proposed modification. One respondent requested that BBLC improves data transparency relating to the use of the NNT and the physical flow direction of the BBL pipeline, and suggested that BBLC publishes the physical pipeline flow direction and its transitions in real time on its website.

We note that to address these transparency concerns, BBLC decided to publish the information relating to the use of the NNT and the direction of the physical flow of the BBL pipeline¹⁰. In its consultation report, BBLC stated that it continued to improve data transparency. It did this by separating NNT nominations from other commercial

⁷ Shippers who have booked capacity with BBLC may choose to use it (in full or in part) or not. BBLC explained to us that the extent to which shippers make use of these bookings by making nominations and the flow direction of the BBL pipeline will determine whether the NNT is needed or not. If net nominations cannot be met because the pipeline is flowing in the other direction, the NNT will be required.

⁸ <https://www.bblcompany.com/news/consultation-of-proposed-modifications-to-the-general-terms-conditions---open>

⁹ The mandatory consultation period of 28 days as required by the Gas Interconnector Standard Licence Condition 11A(6) was extended by two additional weeks due to the COVID-19 pandemics.

¹⁰ See <https://www.bblcompany.com/operational-data/current-flow>, first published Mid-April 2020.

nominations on its website and when uploading the information onto European Network of Transmission System Operators for Gas' (ENTSOG) website. It also said it was committed to further improving data transparency with regard to the NNT.

Ofgem's View

SLC 11A (5) requires the Access Rules to be transparent, objective, non-discriminatory and compliant with Regulation (EC) No 715/2009¹¹ and any relevant legally binding decision of the European Commission and/or the Agency. Ofgem's analysis of the modified Access Rules has therefore been carried out against these four licence objectives.

We have not identified anything in the proposed modifications that would appear to raise an issue in relation to these objectives.

Transparency / objectivity / non-discrimination

We have carefully considered the proposed modification to the Access Rules with regard to the transparency criteria. We consider that the Operating Manual clearly sets out the process that will be followed, when the NNT will be used and how it will work in practice. We take note of the actions BBLC took to improve the visibility of the tool as a result of stakeholder feedback (see above), which has further improved data transparency and visibility of the NNT for all users.

The NNT will be used as described in the Operating Manual in situations when net shipper nominations are against the flow direction of the pipeline and BBLC could not otherwise honour shippers' confirmed nominations in both directions. We note that BBL shippers will not be negatively affected by the use of the NNT.

The NNT will enable BBLC to meet all shippers' nominations irrespective of the flow direction of the pipeline. The NNT will be applied in the same manner for all shipper nominations above net nominations against the flow direction of the pipeline. We conclude that there is nothing to suggest that some shippers may benefit from this tool more than others.

Compliance with relevant legislation

We have considered whether the proposed modification to the BBLC Access Rules is compliant with the relevant legislation.

¹¹ 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 NNT is an operational tool which is required to enable BBLC to ensure the maximum use of all booked bidirectional capacity when net nominations are against the flow direction of the BBL pipeline. The tool will be used once all nominations have been confirmed. As such, the NNT is not a capacity product available to BBL pipeline users that could affect or alter shipper nominations; it is not a product that is typically covered by the provisions of the existing capacity allocation mechanisms and congestion management procedures, specified by – among others - Regulation (EC) No 715/2009 and CAM NC¹².

The NNT does not interact with the network users (shippers) and it does not interfere with or reduce the maximum technical capacity that BBLC is required to offer to the market in accordance with EC 715/2009¹³, CAM NC¹⁴ and the SLCs. Taking into account BBLC's inability to change the flow direction of the pipeline at short notice, we consider the NNT to enable BBLC to guarantee all nominations made by shippers against the capacity they have acquired in both directions, but also to ensure an efficient and maximum use of the available technical capacity.

We note that BBLC expects the NNT to be used infrequently and volumes to be very limited¹⁵. Therefore, if the NNT were to be used, its costs are expected to be low. Nevertheless, in its consultation report BBLC states that it will bear the costs incurred in the use of the NNT. We understand that as a merchant asset that, in most current market conditions, competes with alternative providers of flexible gas supply (and demand), BBLC prices its products competitively, which is an additional incentive for it not to pass down the costs incurred in the use of the NNT to its users. Further, BBLC is required to follow the rules outlined in the TAR NC¹⁶ and in its Charging Methodology, which describes the factors that are part of the tariff structure and the use of the NNT is not one of them.

The Authority's decision

After careful consideration of the documents submitted on 28 October 2020 to Ofgem, the Authority considers the proposed modified Access Rules to be transparent, non-

¹² Commission Regulation (EU) 2017/459 of 16 March 2017 establishing a network code on capacity allocation mechanisms in gas transmission systems and repealing Regulation (EU) No 984/2013

¹³ Article 16 of EC 715/2009 describes the principles for capacity-allocation mechanisms and congestion management procedures. Article 16.1 obliges TSOs to make maximum capacity available to market participants. Article 16.2 obliges TSOs to ensure mechanisms for capacity allocation are non-discriminatory and transparent.

¹⁴ Article 6 of CAM NC requires BBLC to maximise the available interconnector capacity which in the case of BBLC is forward flow capacity of 21.6 GWh/h and reverse flow capacity of 7 GWh/h.

¹⁵ BBLC will not use the tool during system maintenance, incidents or in times of physical constraints. We understand from the consultation report, that in the event of a Security of Supply alert in the UK, BBLC will switch the direction of the flow if required to bring more gas into the country.

¹⁶ Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas.

discriminatory, objective and compliant with any relevant legally binding decision of the European Commission and/or the Agency.

We will monitor the use of the NNT. We expect BBLC to keep its Access Rules under review and to demonstrate a continued need for the NNT.

A Direction issued in accordance with SLC 11A(14) of the Licence to this effect can be found in Annex 1.

Publication of BBLC's Access Rules

In accordance with SLC11A(15) of the Licence, BBLC is required to publish the Access Rules 28 days prior to their coming into effect.

If you have any questions relating to this decision, please contact Lea.Slokar@ofgem.gov.uk .

Yours Sincerely

Bogdan Kowalewicz

Interim Head of Gas Markets and Systems

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 ("BBLC" or "the licensee").
2. 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. Following such a review and in accordance with SLC11A paragraph 11, on 28 October 2020 BBLC submitted its proposed modified Access Rules to the Authority for approval.
3. SLC 11A paragraph 5 requires that the Access Rules 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 the Agency (collectively the 'relevant Access Rules objectives').
4. 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 BBLC's proposed modified Access Rules meet the relevant Access Rules objectives.
5. The Authority hereby directs, pursuant to SLC 11A paragraph 14, that BBLC's proposed modified Access Rules are approved.
6. Pursuant to SLC 11A paragraph 15, the Authority directs that the Access Rules be published without undue delay and shall not come into effect earlier than 28 days after publication.
7. This Direction shall remain in effect until the Authority revokes or varies the Direction in writing upon reasonable notice.

Dated: 22 January 2021

Bogdan Kowalewicz

Interim Head of Gas Markets and Systems

Duly authorised on behalf of the Authority

The Office of Gas and Electricity Markets

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