

**Consultation document regarding BBL Interruptible Reverse Flow services,  
16 February 2010****1 Introduction**

The Balgzand-Bacton Line ("BBL") is an interconnector pipeline which conveys gas from the Netherlands to the United Kingdom (UK). The BBL started operations on 1 December 2006. The firm forward capacity is approximately 1.75 mcm per hour (35.17 MJ/m<sup>3</sup>) from the Netherlands to the UK. A project to expand the firm forward capacity by approximately 20% is underway. BBL Company V.O.F. ("BBL Company"), the operator of the pipeline, was granted a Gas Interconnector License under Section 7ZA of the Gas Act 1986 on 8 April 2005.

Before introducing the Interruptible Reverse Flow ("IRF") services BBL Company is required to obtain approval to the charging methodology from the regulatory authorities in both the UK and the Netherlands. BBL Company intends to introduce IRF services directly after approval of the charging methodology by the regulatory authorities, provided the necessary arrangements with third parties are in place.

BBL Company's initial proposal for an IRF services charging methodology was rejected by Ofgem at the end of October 2008. Ofgem indicated that the methodology did not meet its criteria. Ofgem gave three suggestions for a new market-based solution. BBL Company's second proposal for a new charging methodology for IRF services was based on one of the three suggestions put forward by Ofgem with IUK as a prime comparator. The responses to this second consultation (held between 18 May 2009 and 15 June 2009) as well as the subsequent discussions with all authorities involved have given rise to an amended proposal. BBL Company would like to consult the market regarding the proposal to make use of an auction methodology specifically for its IRF services.

**2 Approval by Ofgem of charging methodology related to Interruptible Reverse Flow services**

Standard Licence Condition ("SLC") 10.1 provides that, unless otherwise determined by the Gas and Electricity Markets Authority ("Ofgem"), the licensee can only enter into agreements for access to the interconnector on the basis of the charging methodology last approved by the Authority either before the licensee enters into the agreement or before the tariffs under the agreement fall due.

BBL Company will submit its proposed charging methodology related to IRF services to Ofgem for approval in accordance with SLC 10. To this end, in accordance with SLC 10.4, BBL Company is required to "take all reasonable steps to ensure that all persons who may have a direct interest in the charging methodology are consulted and allow them a period of no less than 28 days within which to make written representations".

### 3 Description of proposed charging methodology related to Interruptible Reverse Flow services

From 18 to 25 January BBL Company held an informal market consultation regarding the type of IRF services market parties would like to be auctioned. All market parties that submitted a reaction during the previous formal consultations received a direct email. In addition, an item was placed on BBL Company's website. A total of 6 parties responded to the informal consultation. BBL Company has considered all the comments received as a result of this informal consultation and has developed the following proposal for the charging methodology specifically for its IRF services.

#### a) Available capacity and capacity tranches

The available IRF capacity for sale will equal 100% of the sold forward capacity at that time. Capacity can be bought in tranches of 120,000 kWh/hour. If a party requires more than one tranche, multiple bids will have to be placed in the auction process.

#### b) Type of products and frequency of auction process

BBL Company is considering offering three products by auction and will make a final proposal to the regulatory authorities taking into account the comments from interested parties, the costs related to the types of product, the frequency of the auction process and comments made earlier by regulatory authorities. For each of the products a different auction frequency and different lead time is being considered. It is proposed that a defined amount of capacity will be available for each of the products. An overview of the proposed auctions to be organised is as follows:

Type of product ('block')	Amount of capacity available for IRF services ('IRF capacity')	Frequency of auction	Schedule
quarterly	X % (For example ~6,35% <sup>1</sup> =1.080.000 kWh/hour)	Every quarter of the calendar year for the quarter ahead	1 <sup>st</sup> business day of the month preceding the the quarter for which is IRF capacity for sale
monthly	Y % (For example ~6,35% =1.080.000 kWh/hour)  (if the X % of the quarterly block is not fully sold, the remaining capacity will be added to this category)	Every month for the month ahead	11 <sup>th</sup> business day of the month preceding the month for which is IRF capacity for sale

<sup>1</sup> Based on the current forward flow of approximately 17.000.000 kWh / hour

daily	All remaining IRF capacity (and any of the IRF capacity unsold in the quarterly and monthly auctions)	Every week for the days of the following week <sup>2</sup>	Every Monday, except for bank holidays, in which case it will be on the first business day following
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### c) Auction process

The auction will be organised as a single round auction on a pay-as-bid basis.

### d) Interruption

If the reverse flow is interrupted, the shorter capacity blocks will be interrupted first. Within a block, the highest bidder will be interrupted last. In case of identical bids within the same block the time stamp will determine the priority of interruption. There will be no reimbursement of fees in the event of an interruption.

### e) Subscription fee

Any party wishing to participate in the auction process will be required to pay a monthly upfront subscription fee with a minimum period of 12 months. The subscription fee will have to be paid prior to the first auction in which the party wishes to participate. Only creditworthy parties can be accepted as participants cf. the Terms and Conditions BBL Company submitted during the last formal consultation. These Terms and Conditions will be amended to align them with the fact that IRF services will be based on an auction process. The subscription fee will cover the costs incurred by BBL Company in facilitating the auction process for the IRF services and related to the organisation of the auctions which will be carried out under the rulebook of a qualified external party. An estimate of the total initial set up costs is €100.000 and an estimate of the total annual costs is €100.000. The costs, with an initial estimate of €200.000, will be divided among the subscribing parties. If, for example 10 market parties subscribe the estimate of the annual upfront fee is €20.000 per shipper for the first year.

### f) Reserve price

The reserve price for each of the three products offered will be zero.

### g) Transparency

BBL Company already publishes sold and available capacities regarding the forward flow on its website. The same will be done for the IRF capacity so market parties can see at all times how much capacity in each of the different product categories has been sold and how much capacity is still available in each tranche or the shorter term tranche following it. After each auction BBL Company will inform each participating party of the amount of capacity that it has acquired and its specific place in the interruption order.

<sup>2</sup> Based on the current IT set-up as well as the organisation of the operations of BBL Company it is not possible to organise daily auctions at the moment. BBL Company will however keep this option under review with the intention of implementing a daily-ahead service as soon as reasonably practicable.

**h) Entry and exit requirements**

It should be noted that it is the responsibility of any party participating in the auction process to make appropriate arrangements with both NGG and GTS in respect of the necessary exit and entry requirements.

**i) Timeframe**

The auctions will be run on a quarterly, monthly and weekly basis for the quarterly, monthly and daily products respectively. If, for example, the IRF services are introduced on 1 July 2010 the first quarterly auction will take place on 1 June 2010; the first monthly auction will take place on 15 June 2010 with the first daily auction taking place on 21 June 2010 and the second daily auction on 28 June 2010.

**4 Approval by Dutch authorities**

As indicated, BBL Company is subject to regulatory regimes both in the Netherlands and in the UK. The Dutch regulatory authority has required that: *"Regarding the non-physical 'reverse flow' BBL Company should also offer services on interruptible basis by means of a market oriented, non-discriminatory and transparent mechanism. DTe shall, in consultation with Ofgem, assess in advance whether the mechanism for allocating capacity complies with the requirements for transparency, market orientation and non-discrimination. The mechanism, the tariffs and the conditions will be published in advance by BBL Company"*.

BBL Company believes that this proposed charging methodology meets these requirements. It is anticipated that following approval from Ofgem the Dutch authorities will give their agreement based on the 'approval by approval' mechanism.

**5 Next steps**

BBL Company would be interested in receiving comments from interested parties on the proposed charging methodology for IRF services through the BBL, in particular regarding the following questions:

- What is the indicative demand of the interested party with respect to the IRF service expressed in kWh/h for each product block?
- Would the interested party pay the subscription fee in order to secure a zero reserve price?
- What amount of IRF capacity should be available on a Quarterly basis (percentage X) and on a Monthly basis (percentage Y)?

This consultation document was launched on the website of BBL Company on 16 February 2010. Taking into account a minimum of twenty-eight (28) days consultation BBL Company is asking for responses by 16 March 2010. Any respondent who does not wish their response to be made public should clearly mark the response as not for publication.

Following the consultation, BBL Company will furnish to Ofgem a report setting out the terms originally proposed in the charging methodology, the representations, if any, made

by interested persons and any change in the terms of the methodology intended as a consequence of such representations.

Responses should be submitted to BBL Company, P.O. Box 225, 9700 AE Groningen, the Netherlands. Parties are requested to send a copy of the response to the following email address [d.bakker@gasunie.nl](mailto:d.bakker@gasunie.nl)

If you have any queries on this consultation, please contact Mr Arjan Leeuwerke on phone number +31 50 521 32 12.

Yours sincerely,



Willem Faber  
Director BBL Company V.O.F.