bbl company

Conclusions report on the responses received on the summer 2018 consultation of the modifications to BBLC's GB Charging Methodology

19 December 2018

Introduction

From 23 July 2018 to 22 August 2018 BBLC consulted its proposed modifications to the GB Charging Methodology (CM). The modifications were proposed for the following reasons:

1. to demonstrate compliance with the EU network code on harmonised transmission tariff structures for gas (TAR NC), Regulation 2017/460/EC ;

2. as a response to changing market circumstances;

3. to make the CM applicable to both forward and reverse flow gas transport services when the BBL pipeline's physical reverse flow capability is realized;

4. and several textual changes, mostly for clarification purposes.

Stakeholders were invited to comment on the proposed modifications to the CM.

Condition 10(11) of BBLC's Gas Interconnector Standard License Conditions states that prior to submitting the proposed modifications to the Authority for approval the licensee shall 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.

Thereafter BBLC is required to furnish to the Authority 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 and the date from which the modifications are to take effect.

Three responses were received, all non-confidential, by the following parties:

Centrica Energy Limited
Gazprom Marketing & Trading Limited
RWE Supply and Trading GmbH

Detailed overview of the responses, BBLC answers and changes to the proposed GT&C modifications as compared to the consultation documents

In this paragraph an overview is given of the responses received and an answer is given to each of the comments. Furthermore, the changes to the implementation proposals compared to the consultation proposals as a result of the responses are provided.

The italicized text below contains the comments received from the respondents. All substantive commentary has been included in full. BBLC has not edited the content of the text of the responses in any way.

BBLC provides an answer to each italicized comment from respondents, where applicable, and indicates if any modifications to the CM are foreseen in respect of the comment compared to the original proposals.

Response from Centrica Energy Limited

- *We broadly support the proposals to offer an ex-post discount to shippers that buy capacity products of a multiple year duration and / or a combination of forwards and reverse flow. However, our support is conditional on the arrangements not leading to a situation whereby the same capacity is sold to new customers at cheaper rate than that already sold in the market. If the same circumstances arise where capacity is sold at a cheaper rate than that already in the market, any existing holders of the same product purchased for the same duration or longer should also receive a discount to ensure that they are not disadvantaged.*

  Response BBLC
  After careful consideration of the responses received on our proposed two discount incentives BBLC has decided to withdraw the proposal to incentivize long-term capacity bookings. BBLC has also decided to withdraw the proposal for a combination booking of firm forward flow and firm reverse flow capacity products. Both these ex-post discounts require more clarity about their methodology and procedure. BBLC is likely to return to these issues at later date and will take into account the shippers' comments.

  Changes to the CM modification proposals in relation to this response
  The Long-term booking incentive and the Combination discount proposals have been removed from the CM.

- *The consultation outlines different arrangements for claiming the discount, depending on whether the discount is being awarded for 1. having bought a capacity product with a longer duration than one year or 2. having bought a consecutive combination of forward flow capacity products and reverse flow capacity. For the former, capacity holders submit a request for the discount directly after the annual yearly capacity auction but for the latter the* *discount is obtained after the end of the calendar year for the capacity obtained during that year. From a shipper's point of view, we believe that the arrangements proposed for the first scenario are preferable and should also be applied the second scenario. At the very least, we would welcome clarity on why two different arrangements for obtaining the discount are being proposed.*

Response BBLC
Same response as above.

Changes to the CM modification proposals in relation to this response
Same response as above.

- *We would welcome more clarity on the methodology that will be used to calculate the discount. It is also important that the methodology is applied in the same way to all shippers; i.e. having bought the same product with the same duration, it should not be possible for one shipper to negotiate a better discount than another.*

  Response BBLC
  Same response as above.

  Changes to the CM modification proposals in relation to this response
  Same response as above.

- *For completion, we support the other proposals to comply with NC TAR, to make the charging methodology applicable to both forward and reverse flow gas transport services and the other minor changes being made for clarification purposes.*

  Response BBLC
  Centrica's comment supports BBLC's proposal and is noted

  Changes to the CM modification proposals in relation to this response
  None

Gazprom Marketing & Trading Limited

- *We welcome the opportunity to respond to this consultation on BBL's proposed GB charging methodology (GB CM). We note that BBLC seeks to not only apply the methodology to reverse flow, but use this as an opportunity to update its charging regime in light of recent market developments. GM&T welcomes modifications that aim to improve the liquidity of the NBP by incentive-based mechanisms to encourage utilisation of infrastructure. With this in mind we find that closer consideration is required in the following aspects of the GB CM.*

  Incentivising long term bookings
  Page 4 of the proposed GB CM states "To encourage longer term booking of capacity network users to book annual capacity products on a long term basis [...] reserve price may be discounted for future years" and Page 7 states "To encourage shippers to book annual capacity […] a long term booking incentive may be offered". Given the CM should be transparent and provide tariff predictability as addressed by BBLC on page 3 of the CM, we propose two key amendments to the document.
  We propose the removal of "may" and replacing these with "will" (or an equivalent modal verb) on pages 4, 7 and 8 where there are references to encouraging long term bookings or combination bookings as the price incentive for such capacity bookings should be firm in principle. If prospective shippers are uncertain whether these incentives will hold, the CM does not achieve its crucial objective in providing tariff predictability. Additionally, assurance of this would likely provide more revenue certainty for BBLC in the current market environment.

  Response BBLC
  After careful consideration of the responses received on our proposed two discount incentives BBLC has decided to withdraw the proposal to incentivize long-term capacity bookings. BBLC has also decided to withdraw the proposal for a combination booking of firm forward flow and firm reverse flow capacity products. BBLC is likely to return to these issues at later date and will take into account the shippers' comments.

  Changes to the CM modification proposals in relation to this response
  The Long-term booking incentive and the Combination discount have been removed from the proposed CM.

- *Secondly, further information is required on the discount request process briefly mentioned on pages 7 and 8. Currently it appears that shippers who wish to book capacity under the Long Term Booking Incentive (LTBI) or Combination Booking Incentive (CBI) may not have timely information on the applicable discounts ahead of committing to a commercial decision before the auction. We would advise that BBL reconsiders whether the post auction application for discounts is the best way to market these opportunities, and that lead times are outlined for this information.*

Response BBLC
Same response as above.

Changes to the CM modification proposals in relation to this response
Same response as above.

- ***Lead times for amended reserve prices***
  We find the minimum notice periods outlined in page 10 for quarterly, monthly and day-ahead products restrictive and not consistent with PRISMA's current schedule of notice for capacity auctions, we would propose that the lead times are amended as set out below. These lead times are consistent with Interconnector UK and would therefore help simplify processes for shippers that manage North West Europe transportation products.

Quarterly	*2 weeks' notice*
Monthly	*2 weeks' notice*
Day-ahead	*6 hours' notice*

Response BBLC
BBLC proposed the maximum reserve prices of the non-yearly capacity products to be published no less than thirty days prior the annual yearly capacity auction. Taking into account a minimum notice period these tariffs can be reduced in advance of the auction. The minimum notice period we proposed is 1 week for the quarterly and monthly capacity products, 3 hours for the day-ahead capacity product and 1 hour for the within-day capacity product.

The publication deadlines according to the ENTSOG auction calendar, and, therefore, the PRISMA schedule, are 2 weeks for the quarterly capacity product, 1 week for the monthly capacity product, and until the moment the auction starts for the day-ahead and within-day products. These deadlines apply to the publication of the available capacity as is required by the CAM NC. The CAM NC requirement does not apply to the publication of the reserve prices.

We believe that the yearly publication of our maximum reserve prices for all capacity products in combination with the lead times to reduce these tariffs in advance of the auction, lead to an appropriate balance between shippers' need for tariff predictability and BBLC's need to be able adjust prices to better reflect current market conditions.

The minimum notice period for the quarterly capacity product, however, will be amended to 2 weeks. Therefore, the minimum notice periods for every capacity product will always be before or at the latest on the ENTSOG publication date or time.

Changes to the CM modification proposals in relation to this response

The minimum notice period for the quarterly capacity product has been amended to 2 weeks.

- *General remarks*
  We have identified an error on page 4 of the CM states that for long term annual capacity bookings, discounts "will be reflected in the reserve price for relevant years" whilst page 7 states "capacity products that are longer in duration may be eligible for a discount […] This discount will not be reflected in the reserve prices." The prior requires updating for consistency with the remainder of the document.

  Response BBLC
  The discount referred to on page 4 is the discount factor for individual yearly reserve prices. This has been part of the CM since 2015. It allows BBLC to use different reserve prices for Y+1 to Y+15 in the annual yearly capacity auction instead of a flat reserve price. Shippers are able to book capacity for individual years. The discount will be reflected in the reserve price as will be published on the PRISMA platform. It is not be necessary to book consecutive years of capacity.

  The discount referred to on page 7 is an ex-post discount applicable to bookings of a number of consecutive years of capacity. We have decided to withdraw this proposal at this time.

  Changes to the CM modification proposals in relation to this response
  The Long-term booking incentive has been removed from the proposed CM.

- *The concept of a "lowest price guarantee" exists in the charging methodology for other merchant TSOs that ensure shippers that book annual products will be granted the lowest prevailing price for that contract year. With this in mind, BBLC may wish to consider applying this principle in its charging methodology for annual and quarterly products to further incentivise long term bookings.*

  Response BBLC
  We appreciate Gazprom's suggestion. If we decide to implement a lowest price guarantee this will be proposed as a modification to the CM in a future consultation.

  Changes to the CM modification proposals in relation to this response
  None

- *BBL has made considerable efforts to redesign its transportation model with the integration of BBL within the TTF market area and implementing physical reverse flow in 2019. The proposed GB CM has been designed on the basis that it is applicable at only the Bacton IP due to the removal of Julianadorp effective 1st January 2018. Now that the potential annulment of Julianadorp Exit point removal is under discussion within the context of the*

TAQA-GTS BAT tariff dispute, we seek clarity from BBL on what steps will be taken to mitigate the potential impact of this within its charging framework.

Response BBLC
Although this general remark is outside the scope of this consultation, we would like to point out that the discussion Gazprom refers to has not led to the annulment of the decision to remove the Julianadorp Interconnection Point.

Changes to the CM modification proposals in relation to this response
None

Response from RWE Supply & Trading GmbH (RWEST)

- *RWEST agrees that BBL should have more flexibility in price setting than currently allowed under EU Regulation 2017/460 (the TAR NC). Like Interconnector UK Limited (IUK), BBL is a merchant interconnector TSO with no captive customers. So it is appropriate that it be granted derogations from the TAR NC which have the same effect as those recently granted to IUK. Indeed it would be discriminatory were this not to be the case. Howeverm we do have concerns about some of the proposed changes and thinks there are other aspects that should be considerd. These are detailed below.*

  Firm quarterly prices
  BBLC correctly states that tariff predictability is judged as important by shippers and traders. Whilst we recognise the need for BBL to have more flexibility to price its capacity in response to market developments BBL shoud, as a minimum, publish fixed quarterly capacity reserve price multipliers thirty days prior to the annual yearly capacity auctions, in both directions, along with the range of reserve price multipliers that would apply for shorter duration capacity products. This would enable shippers to take informed decisions about whether to book annual capacity compared to a combination of quarters. It would also be consistent with the flexibility granted to IUK.

  Response BBLC
  We believe that the yearly publication of our maximum reserve prices for all capacity products in combination with the minimum lead times to reduce these tariffs in advance of the auction, creates an appropriate balance between shippers' need for tariff predictability and BBLC's need to adjust prices to better reflect current market conditions.

  We acknowledge IUK's preference for different minimum lead times, which after a market consultation have been approved by Ofgem. After considering its business model BBLC has made a different proposal to IUK.

  Changes to the CM modification proposals in relation to this response

None

- *Seasonal factors*
  Bearing in mind the flexibility BBL is seeking to change short term multipliers, we seriously question the need to keep seasonal factors within the pricing formula. In our view this compllicates price setting for no added value. BBL should have sufficient flexibility to incorporate seasonality within the proposed multiplier range, as it does not (seasonal factors are currently set at 1).

  To the extent that are still deemend necessary, seasonal factors must be determined based on credible forecasts of flows of contracted capacity, which will prove challinging for BBL as a merchant interconnector. They should also be fixed for the entire gas year and must not be adjusted within year (unlike mulitpliers), with publication taking place thirty days before the annual auctions.

  Whilst BBL states that "where seasonal factors are applied, the arithmetic mean over the gas year of the product of the multiplier….. and the relevant seasonal factor will be within the same range as for the level of the respective mulitplier" (in keeping with Article 13.2 of the TAR NC), this combined effect might conceivably result in a double digit multiplicative effect for day-ahead and within day capacity. This is unduly excessive and reinforced the case for removing seasonal factors altogether.

  <u>Response BBLC</u>
  We do not share RWEST's view on how the combined application of the multiplier and seasonal factor could lead to a double digit multiplicative effect on the reserve prices for the day-ahead and within-day capacity auctions. But even if this were the case it is not in BBLC's commercial interest to set day-ahead and within-day reserve prices at a level that would price these products out of the market.

  BBLC has, however, decided that the use of multipliers, in line with our proposals, in combination with the allowed values for the seasonal factors in line with Article 15 of the TAR NC provides for sufficient tariff flexibility. The seasonal factor will be published at least thirty days before the annual yearly capacity auction and will be fixed for the gas year. We would like to point out, however, that as an interconnector without any base line demand we are not in a position to forecast flows or capacity bookings as part of the calculation of the seasonal factors. The derogation requested from this calculation requirement remains unchanged.

  <u>Changes to the CM modification proposals in relation to this response</u>
  The seasonal factors will be published at least thirty days before the annual yearly capacity auction and will be fixed for the gas year.

- *Tariff publication notice period.*

As previously stated, we think quarterly multipliers should be fixed for the forth-coming gas year and not be subject to change at one week's notice. Monthly multipliers should also be subject to change at two weeks' notice, not one week's, which is consistent with the flexibility granted to IUK.

Also, the wording in this section implies that BBL will only reduce multipliers from the maximum (within the predefined range), subject to the relevant notive period. It is not clear whether having reduced a multiplier BBL could then subsequently increase it again (within the predefined range), so this should be clarified.

Response BBLC
The reduction of the maximum reserve price prior to the auction is decided for each auction independently. The default tariff is the maximum reserve price.

Changes to the CM modification proposals in relation to this response
None

- *Long-term and combination booking incentives*
  The description of how these two booking incentives will be applie is not clear. BBL shippers may submit requests for either of these discounts after the annual yearly capacity auctions. But it is not clear whether such requests will automatically be granted or whether they are at BBL's descretion. The basis on which shippers qualify for either of these discounts should be clearly defined ex-ante, such that they can factor this into their capacity booking decisions. BBL should not be allowed to decide ex-post whether to grant them, or not, as this lacks transparency and could lead to discrimination.

  Also, the long-term booking incentive appears to be serving the same discount as the reserve price discount factor, albeit by incentivising bookings over consequetive years rather than in individual years within a long-term period. We doubt whether both discounts are necessary and together they risk further complicating price setting. BBL should incentivise long-term booking via a single discount, with an ex-ante long-term booking incentive being preferable to a reserve price discount factor.

  Finally, the discription of the combination booking incentive refers to bookings in combination with storage. Booking a combination of six months summer reverse flow capacity and six months winter forward flow capacity may be logical fin combination with a continential storage booking, but shippers may have other reasons for combination products. So there should not be any requirement to provide evidence of a storage booking in order for shippers to receive an ex-ante defined combination booking incentive.

  Response BBLC
  After careful consideration of the responses received on our proposed two discount incentives BBLC has decided to withdraw the proposal to incentivize long-term capacity

bookings. BBLC has also decided to withdraw the proposal for a combination booking of firm forward flow and firm reverse flow capacity products. BBLC is likely to return to these issues at later date and will take into account the shippers' comments.

Changes to the CM modification proposals in relation to this response
The Long-term booking incentive and the Combination discount have been removed from the proposed CM.

- *Excess profit*
  As a merchant interconnector TSO with no captive customers, BBL has obvious commercial incentives to make its capacity attractive to market participants and competitive with other flexibility sources in GB and the Netherlands. Nevertheless, there will be occasions when BBL exercises market power. The mulitplier caps being proposed could be said to reasonably address this within the horizons of the short term capacity booking periods within year. However, over a sustained period excess profits could occur and, unlike IUK, BBL is not subject to an excess profit mechanism.

  Whilst a pre-emptory excess profit mechanism may nog appropriate at this point, Ofgem and ACM should monitor the revenues BBL earns from future capacity sales under this revised charging methodology. Should BBL appear to be earning excess profit that should investigate and consider introducing such mechanism, forthwith, or not re-approving the charging methodology when it comes up for annual review.

  Response BBLC
  The proposed modifications to the CM will lead to less tariff flexibility compared to the current situation. Expiring long-term capacity contracts have not been replaced by new long-term capacity commitments nor is there any indication that this will occur under current market conditions. It is, therefore, likely that capacity revenues will substantially less than before. Although BBLC is not subject to an excess profit mechanism as part of its regulatory framework the national competition laws are applicable to BBLC.

  Changes to the CM modification proposals in relation to this response
  None

Conclusion

BBLC is grateful to the companies who have taken the trouble to respond formally to the consultation. After careful consideration of all the comments that have been submitted BBLC has decided make several modifications to its initial proposals and these will be contained in the final report submitted to Ofgem:

- The Long-term booking incentive and the Combination booking incentive for consecutive forward and reverse flow products have been withdrawn. BBLC may decide to return to these issues at a later date in which event any new proposals will be the subject of a future CM modification consultation. In this event BBLC will take into account the comments received from shippers.

- Seasonal factors will be published at least thirty days before the annual yearly capacity auction and will be fixed for the gas year. The seasonal factors will have values in line with Article 15 of the TAR NC. As a merchant interconnector BBLC will not be able to calculate seasonal factors based on forecasted flows or forecasted contracted capacity. Our derogation application from this part of the calculation will remain unchanged.

- The minimum notice period for the quarterly capacity product has been amended from one week to two weeks.