

Overview of how the Article 26 consultation requirements of the Network Code on Harmonised Transmission Tariff Structures for Gas, Regulation EU 2017/460 will be carried out.

21 February 2019

Introduction

Chapter VII of the EU network code on harmonised transmission tariff structures for gas (TAR NC)¹, Regulation (EU) 2017/460, requires the national regulatory authority or the transmission system operator to carry out a final consultation on the information in Article 26. Through this document BBL Company (BBLC) provides a detailed overview of the requested information in Article 26.

Most, but not all, information is part of BBLC's GB Charging Methodology (CM) and TAR NC derogation application which were consulted in 2018. Other information, such as technical schematics and parameters, is available on BBLC's website. This document's purpose is to provide the reader with a complete overview of all requested information through a single document and provide further information where appropriate.

Stakeholders are welcome to submit their comments on what we present in this document via consultations@bblcompany.com until 25 March 2019. However, we kindly ask stakeholders not to submit written representations on items that have already been consulted as part of our consultation on the proposed modifications to the CM for TAR NC compliance and for our TAR NC derogation application. BBLC will discuss any responses received with Ofgem. Subsequently, the process as described in TAR NC Article 27 will be followed.

This document will be updated and consulted on a yearly basis. For future consultations BBLC will combine the Article 26 requirements with its requirement under Ofgem's Interconnector Standard Licence Condition 10(9) to annually review the CM in order to ensure that the relevant licence objectives are met.

Process

From 23 July to 22 August 2018 BBLC consulted its proposed modifications to its CM to demonstrate compliance with the TAR NC. At the same time BBLC published our draft application to Ofgem for derogation from certain Articles of the TAR NC and invited interested parties to submit their view. Both documents were published on the BBLC website here:

<https://www.bblcompany.com/about-bbl/consultations-implementation-information>

On 4 October 2018 BBLC submitted its application for derogation from certain articles of the TAR NC to Ofgem.

On 19 December 2018 BBLC submitted its request for approval for the proposed modifications to the CM to Ofgem, taking into account the responses received on the consultation. A conclusions report on the consultation is available on our website here:

<https://www.bblcompany.com/about-bbl/consultations-implementation-information>

In this conclusions report we set out the terms originally proposed for the modifications, the representations made by interested persons and changes in the terms of the modifications intended as a consequence of such representations.

¹ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32017R0460>

On 18 January 2019 Ofgem published its decision to derogate BBLC from certain Articles of the TAR NC. Ofgem's decision is published on their website here:

https://www.ofgem.gov.uk/system/files/docs/2019/01/190118_ofgem_bbl_derogation_decision.pdf

At the time of the publication of this document Ofgem had not published its decision on BBLC's proposed modifications to the CM. In the absence of a network point in the Netherlands to apply the TAR NC to, ACM has no formal approval role in the TAR NC implementation process.

The remainder of this document provides an implementation overview of the required information in Article 26. For the most part the required consultations by Article 26 have been carried out through the CM consultation to achieve TAR NC compliance for those articles that are applicable to BBLC and are not part of the derogation. For those requirements where information has already been made available as part of the CM, we will refer to the CM consultation document. For Article 26 requirements that are not part of the CM we will provide detailed information.

Text in orange is copied from the TAR NC. Text in black is BBLC's response.

Article 26
Periodic consultation

1. One or more consultations shall be carried out by the national regulatory authority or the transmission system operator(s), as decided by the national regulatory authority. To the extent possible and in order to render more effective the consultation process, the consultation document should be published in the English language. The final consultation prior to the decision referred to in Article 27(4) shall comply with the requirements set out in this Article and Article 27, and shall include the following information:
 - (a) the description of the proposed reference price methodology as well as the following items:
 - (i) the indicative information set out in Article 30(1)(a), including:
 - (1) the justification of the parameters used that are related to the technical characteristics of the system;

Article 30.1 (a) requires publication of information of parameters used in the applied reference price methodology that are related to the technical characteristics of the transmission system, such as:

Article 30.1 (a)

- (i) The technical capacity at entry and exit points and associated assumptions.

As described in the CM BBLC's price methodology is not related to the technical characteristics of the transmission system. However, information about the technical capacity at BBLC's only network point is available on its website here:

<https://www.bblcompany.com/services/available-transmission-capacity>

- (ii) forecast contracted capacity at entry and exit points and associated assumptions. Derogation has been granted for 30.1 (a) (ii) for the reasons described in Ofgem's decision².
- (iii) the quantity and the direction of the gas flow for entry and exit points and associated assumptions, such as demand and supply scenarios for the gas flow under peak conditions. Derogation has been granted for 30.1 (a) (iii) for the reasons described in Ofgem's decision.
- (iv) The structural representation of the transmission network with an appropriate level of detail.

With the 2018 integration of the BBL-interconnector into the TTF-market area BBLC's only interconnection point is Bacton. BBLC owns a compressor station at Anna Paulowna

² https://www.ofgem.gov.uk/system/files/docs/2019/01/190118_ofgem_bbl_derogation_decision.pdf

and a receiving station at Bacton and of course the pipeline itself. Technical details and a structural representation are provided here: <https://www.bblcompany.com/about-bbl>

Continuation of Article 26.1 (a) (i):

- (2) the corresponding information on the respective values of such parameters and the assumptions applied.

The corresponding information on the respective values of such technical parameters related to the system and the assumptions applied are not used in BBLC's price methodology. Therefore, BBLC's capacity tariffs are not related to the technical characteristics of the system.

- (ii) the value of the proposed adjustments for capacity-based transmission tariffs pursuant to Article 9;

Article 9 is about adjustments of tariffs at entry points from and exit points to storage facilities and at entry points from LNG facilities and infrastructure ending isolation and, therefore, not applicable to BBLC.

- (iii) the indicative reference prices subject to consultation;

Derogation has been granted for 26.1 (a) (iii) for the reasons described in Ofgem's decision.

- (iv) the results, the components and the details of these components for the cost allocation assessments set out in Article 5;

Derogation has been granted for 26.1 (a) (iv) for the reasons described in Ofgem's decision.

- (v) the assessment of the proposed reference price methodology in accordance with Article 7;

Article 7 states that:

the RPM shall comply with Article 13 of of Regulation (EC) No 715/2009 and with the following requirements. It shall aim at:

- (a) enabling network users to reproduce the calculation of reference prices and their accurate forecast;

Derogation has been granted for article 7 (a) for the reasons described in Ofgem's decision. Further justification for requesting derogation from

this article is provided in BBLC's derogation application document on page 14³.

(b) taking into account the actual costs incurred for the provision of transmission services considering the level of complexity of the transmission network;

BBLC's tariffs are calculated taking into account a number of factors. The Base price component of the tariffs, as described in the CM, originated back in 2004 when the plans for the BBL-pipeline were being developed. It reflects the tariff which would justify the investment costs and actual costs incurred. Sufficient market interest was shown to enable a business case to be made for the construction of the pipeline.

With the expiration of the launch contracts, the first and largest one in 2016, BBLC operates the pipeline in an increasingly commercial and competitive market environment. BBLC has no captive customers and therefore there is no certainty of recovery of costs. As long as BBLC is operating in a competitive environment, it needs to be able to respond quickly to developments in the market such as actions by suppliers of comparable services and the TTF-NBP spread. The CM acknowledges this market environment through various factors described in the CM such as the competitive forces factor.

(c) ensuring non-discrimination and prevent undue cross-subsidisation including by taking into account the cost allocation assessments set out in Article 5;

Derogation has been granted for article 5 for the reasons described in Ofgem's decision. BBLC has a single network point, and so cross-subsidisation is not possible in the BBL-pipeline. Our derogation application document provides further information on this on page 10 and 11.

(d) ensuring that significant volume risk related particularly to transports across an entry-exit system is not assigned to final customers within that entry-exit system;

There is no volume risk assigned to final customers or BBL-shippers for that matter. BBLC has no captive customers and no allowed or target revenue.

(e) ensuring that the resulting reference prices do not distort cross-border trade.

We explain in our derogation application document that it is in BBLC's interest to set tariffs at an appropriate level. Being too expensive would not lead to any new capacity sales and could distort cross-border trade. However, setting tariffs below the operating costs and capital costs for

³ [https://www.bblcompany.com/about-bbl/consultations-implementation-information/\\$1560/\\$1564](https://www.bblcompany.com/about-bbl/consultations-implementation-information/$1560/$1564)

an enduring period of time would lead to financial uncertainty and possibly endanger the viability of the company. Because BBLC is not able to accurately predict gas demand and the price developments in the Dutch and GB wholesale gas markets, and is therefore unable to accurately forecast capacity bookings, it needs to be able to adjust prices to better reflect changing market circumstances.

Continuation of Article 26.1 (a):

- (vi) where the proposed reference price methodology is other than the capacity weighted distance reference price methodology detailed in Article 8, its comparison against the latter accompanied by the information set out in point (iii);

Derogation has been granted for article 26.1 (a) (vi) for the reasons described in Ofgem's decision. Further justification for requesting derogation from this article is provided in BBLC's derogation application document on pages 43-45.

Article 26.1 (b):

- (b) the indicative information set out in Article 30(1)(b)(i), (iv), (v);

Article 30.1 (b) is about the publication of the following information before the tariff period:

- i. the allowed or target revenue, or both, of the transmission system operator;
- iv. the transmission services revenue
- v. the following ratios for the revenue referred to in point (iv):
 - (1) capacity-commodity split, meaning the breakdown between the revenue from capacity-based transmission tariffs and the revenue from commodity-based transmission tariffs;
 - (2) entry-exit split, meaning the breakdown between the revenue from capacity-based transmission tariffs at all entry points and the revenue from capacity-based transmission tariffs at all exit points;
 - (3) intra-system/cross-system split, meaning the breakdown between the revenue from intra-system network use at both entry points and exit points and the revenue from cross-system network use at both entry points and exit points calculated as set out in Article 5.

Derogation has been granted for articles 30.1 (b) (i), (iv) and (v) for the reasons described in Ofgem's decision. Further justification for requesting derogation from this article is provided in BBLC's derogation application document on pages 54 and 55.

Article 26.1 (c):

(c) the following information on transmission and non-transmission tariffs:

(i) where commodity-based transmission tariffs referred to in Article 4(3) are proposed:

(1) the manner in which they are set;

Commodity-based transmission tariffs are applicable through the variable fee to cover the energy costs related to the electricity to drive the compressors at Anna Paulowna and the fuel gas to heat the gas at Bacton. More information about the methodology of the variable fee is available in the CM. The commodity-based tariffs are derived from actual incurred costs.

On the BBLC website we publish the variable costs and how these are calculated:

<https://www.bblcompany.com/services/tariffs/tariffs-forward-flow-2>

(2) the share of the allowed or target revenue forecasted to be recovered from such tariffs;

An allowed or target revenue is not applicable on the BBL.

(3) the indicative commodity-based transmission tariffs;

As published on our website, and in line with the methodology for the variable fee in the CM, this tariff is € 0.109/MWh for the period 1 December 2017 – 30 September 2019.

(ii) where non-transmission services provided to network users are proposed:

(1) the non-transmission service tariff methodology therefore;

(2) the share of the allowed or target revenue forecasted to be recovered from such tariffs;

(3) the manner in which the associated non-transmission services revenue is reconciled as referred to in Article 17(3);

(4) the indicative non-transmission tariffs for non-transmission services provided to network users;

Not applicable. No non-transmission services are offered by BBLC.

Article 26.1 (d):

(d) the indicative information set out in Article 30(2);

Article 30(2) requires the publication of the following:

Article 30(2): in addition, the following information shall be published with regard to transmission tariffs:

(a) explanation of the following:

- (i) the difference in the level of transmission tariffs for the same type of transmission service applicable for the prevailing tariff period and for the tariff period for which the information is published;
- (ii) the estimated difference in the level of transmission tariffs for the same type of transmission service applicable for the tariff period for which the information is published and

Derogation has been granted for article 30.2 for the reasons described in Ofgem's decision. Further justification for requesting derogation from this article is provided in BBLC's derogation application document on pages 54 and 55.

Article 26.1 (e):

(e) where the fixed payable price approach referred to in Article 24(b) is considered to be offered under a price cap regime for existing capacity:
A fixed payable price approach will continue to be applied. However, BBLC does not operate under a price cap regime.

(i) the proposed index;

With index is meant the ratio between the chosen index at the time of use and the same index at the time the product was auctioned.

The clearing price of the capacity that has been successfully allocated through the auction process will not change during the contract period: no indexation is applicable to these tariffs. An annual indexation is only applicable to the tariffs of available capacity. The index used is described in the CM: "For the annual indexation the consumer price index is used as published by the Dutch statistics office CBS (Centraal Bureau voor de Statistiek, series 'Total Expenditure, 20062015=100'). The applicable annual indexation to the reserve price is 25% of the CBS indexation".

(ii) the proposed calculation and how the revenue derived from the risk premium is used;

As part of the modifications to the CM the risk premium has been included in the tariff formula to comply with Article 24. It is BBLC's intention to apply an enduring risk premium of 1, which will, therefore, not affect the reserve price of any capacity product.

(iii) at which interconnection point(s) and for which tariff period(s) such approach is proposed;

BBLC does not have a tariff period. The only interconnection point is Bacton.

- (iv) the process of offering capacity at an interconnection point where both fixed and floating payable price approaches referred to in Article 24 are proposed
Not applicable.

Article 26.2:

- 2. The final consultation prior to the decision referred to in Article 27(4) shall be open for at least two months. Consultation documents for any of the consultations referred to in paragraph 1 may require that replies submitted in response to the consultation shall include a non-confidential version suitable for publication.

Derogation has been granted for article 26.2 for the reasons described in Ofgem's decision. Further justification for requesting derogation from this article is provided in BBLC's derogation application document on pages 43-45 .

Article 26.3

- 3. Within one month following the end of the consultation, the transmission system operator(s) or the national regulatory authority, depending on the entity that publishes the consultation document referred to in paragraph 1, shall publish the consultation responses received and their summary. To the extent possible and in order to render more effective the consultation process, the summary should be provided in the English language.

The summary is available by means of our Conclusions Report on the responses received on the consultation and is published on our website here:

[https://www.bblcompany.com/about-bbl/consultations-implementation-information/\\$1625/\\$1626](https://www.bblcompany.com/about-bbl/consultations-implementation-information/$1625/$1626)

We would like to take this opportunity to highlight a change to our CM proposal compared to our response in the Conclusions Report. Comments were received that our minimum notice periods for the reduction of the maximum reserve price in advance of the auction was not in line with PRISMA's current schedule of notice for capacity auctions. It was also suggested to align our minimum notice periods with those of IUK. As a response BBLC decided to align our minimum notice periods with PRISMA's schedule of notice for the Q and M products, and to retain our proposal to publish the tariffs for the DA and WD products even before this PRISMA deadline. Our amended minimum notice periods would then not fully align with the notice periods chosen by IUK, but they would be aligned with the PRISMA schedule or before. BBLC believes that alignment with the PRISMA schedule is preferable over any other notification schedule. Shippers would receive all relevant auction information as one single package at the same time.

However, after consulting Ofgem BBLC has decided to amend its CM modification proposal to align its notice periods with those of IUK. Although we are of the opinion that it would have been better if Ofgem had enabled IUK to adopt the same notice periods BBLC was suggesting.

Article 26.4:

4. The subsequent periodic consultations shall be conducted in accordance with Article 27(5).

The next consultation will be in accordance with article 27(5). From now on BBLC will combine this period consultation with its obligation under Interconnector Standard Licence Condition 10(9) to annually review the CM in order to ensure that it continues to meet the relevant Interconnector Standard Licence Conditions objectives.